



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

October 17, 2006

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 \$16,166,969 for the year ended June 30, 2005, including interest income on loans of \$9,634,956 and investment income of \$5,836,617. Non operating revenue consisted of \$12,154,252 in federal grants. The Drinking Water Program reported operating revenues of \$7,119,001, including interest income on loans of \$3,821,726 and investment income of \$3,006,906, net of rebate expense of \$101,491. Non operating revenue consisted of \$5,033,913 in federal grants.

Operating expenses of the Clean Water Program for the year ended June 30, 2005 totaled \$8,700,813, including \$6,222,502 for bond interest expense, \$1,305,045 for general and administrative expenses and \$1,173,266 for amortization of loss on bond redemption. The Program loaned \$45,733,448 to municipalities and water systems and collected loan repayments of \$27,400,281 during the year. At June 30, 2005, the Clean Water Program had loans receivable from municipalities and waste water systems totaling \$260,916,916.

Operating expenses of the Drinking Water Program for the year ended June 30, 2005 totaled \$6,201,650, including \$4,681,015 for bond interest expense, \$825,549 for general and administrative expenses, \$350,261 for small community technical assistance and \$239,600 for source water protection. The Program loaned \$24,528,900 to drinking water systems and collected loan repayments of \$5,419,000 during the year. At June 30, 2005, the Drinking Water Program had loans receivable from drinking water systems totaling \$127,656,496.

A copy of the report is available for review at the Iowa Finance Authority, 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/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
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

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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
Carmela Brown	Treasurer
Steven Adams	Member
Virginia Bordwell	Member
Roger Caudron	Member
Heather Kramer	Member
Douglas Walter	Member
Richard Wright	Member

Environmental Protection Commission

Kathryn Murphy (resigned Apr 2005)	Chairperson
Darrell Hanson	Chairperson
Jerry Peckumn	Vice Chairperson
Heidi Vittetoe (resigned Apr 2005)	Secretary
Donna Buell	Member
Lisa Davis Cook	Member
Lori Glanzman (resigned Apr 2005)	Member
Henry Marquard	Member
Suzanne Morrow	Member
David Perry	Member
Mary Gail Scott	Member
Francis Thicke	Member
Terrance Townsend (resigned Apr 2005)	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
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**Iowa Water Pollution Control Works
and Drinking Water Facilities Financing Programs**



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Auditor of State

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

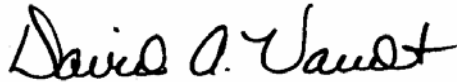
As discussed in Note 1, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business type activities and each major fund of the State of Iowa that is attributable to the transactions of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2005, 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, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

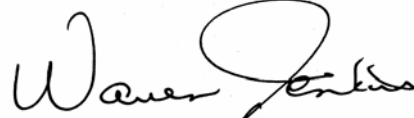
In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2006 on our consideration of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Authority and the Department have not presented Management's Discussion and Analysis to introduce the basic financial statements by presenting certain financial information and management's analytical insights on information the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 28, 2006

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2005

	Clean Water Program Funds	Drinking Water Program Funds	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 132,966,279	90,915,314	223,881,593
Investments	55,491,191	-	55,491,191
Loans receivable	15,726,949	6,302,000	22,028,949
Accrued interest receivable	2,538,418	1,470,785	4,009,203
Accounts Receivable	75,000	-	75,000
Other assets	259,566	260,797	520,363
Total current assets	<u>207,057,403</u>	<u>98,948,896</u>	<u>306,006,299</u>
Noncurrent assets:			
Loans receivable	245,189,967	121,354,496	366,544,463
Total assets	<u>452,247,370</u>	<u>220,303,392</u>	<u>672,550,762</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	189,584	143,675	333,259
Accrued bond interest payable	2,979,787	1,992,432	4,972,219
Rebates payable	-	1,526,412	1,526,412
Deferred initiation fees	199,343	91,262	290,605
Due to Iowa Finance Authority	42,644	28,908	71,552
Bonds payable, net	13,180,000	4,380,000	17,560,000
Total current liabilities	<u>16,591,358</u>	<u>8,162,689</u>	<u>24,754,047</u>
Noncurrent liabilities:			
Rebates payable	751,908	-	751,908
Deferred initiation fees	2,528,560	1,509,819	4,038,379
Bonds payable, net	125,608,003	99,841,772	225,449,775
Total noncurrent liabilities	<u>128,888,471</u>	<u>101,351,591</u>	<u>230,240,062</u>
Total liabilities	<u>145,479,829</u>	<u>109,514,280</u>	<u>254,994,109</u>
Net Assets			
Restricted net assets:			
Per bond resolutions	137,960,008	54,043,040	192,003,048
Per other agreements	168,807,533	56,746,072	225,553,605
Total net assets	<u>\$ 306,767,541</u>	<u>110,789,112</u>	<u>417,556,653</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, 2005

	Clean Water Program Funds	Drinking Water Program Funds	Total
Operating revenues:			
Interest on loans	\$ 9,634,956	3,821,726	13,456,682
Investment income	5,836,617	3,006,906	8,843,523
Rebate expense	-	(101,491)	(101,491)
Initiation fees	687,975	391,860	1,079,835
Other income and fees	7,421	-	7,421
Total operating revenues	16,166,969	7,119,001	23,285,970
Operating expenses:			
Bond interest expense	6,222,502	4,681,015	10,903,517
Amortization of loss on bond redemption	1,173,266	105,225	1,278,491
General and administrative	1,305,045	825,549	2,130,594
Source water protection	-	239,600	239,600
Small community technical assistance	-	350,261	350,261
Total operating expenses	8,700,813	6,201,650	14,902,463
Operating income	7,466,156	917,351	8,383,507
Non operating revenue:			
Federal grants	12,154,252	5,033,913	17,188,165
Income before transfers	19,620,408	5,951,264	25,571,672
Transfers between funds	(4,849,581)	4,849,581	-
Change in net assets	14,770,827	10,800,845	25,571,672
Net assets beginning of year	291,996,714	99,988,267	391,984,981
Net assets end of year	\$ 306,767,541	110,789,112	417,556,653

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2005

	Clean Water Program Funds	Drinking Water Program Funds	Total
Cash flows from operating activities:			
Initiation and service fees received	\$ 851,681	643,198	1,494,879
Interest received on investments	5,631,630	3,105,994	8,737,624
Interest received on loans to municipalities and waste water systems	9,605,711	3,764,533	13,370,244
Principal received on loans to municipalities and waste water systems	27,400,281	5,419,000	32,819,281
Loans disbursed to municipalities and waste water systems	(45,733,448)	(24,528,900)	(70,262,348)
Interest on debt paid	(7,526,728)	(4,834,938)	(12,361,666)
Rebates paid	(124,565)	(663,601)	(788,166)
Cash paid to suppliers and grantees	(1,421,021)	(1,421,398)	(2,842,419)
Net cash used for operating activities	<u>(11,316,459)</u>	<u>(18,516,112)</u>	<u>(29,832,571)</u>
Cash flows from non-capital financing activities:			
Draws on capitalization grants from EPA	12,017,373	5,095,792	17,113,165
Transfers between funds	(4,849,581)	4,849,581	-
Repayment of debt principal	(12,755,000)	(3,145,000)	(15,900,000)
Net cash provided by (used for) non-capital financing activities	<u>(5,587,208)</u>	<u>6,800,373</u>	<u>1,213,165</u>
Cash flows from investing activities:			
Sale of investments	123,786,810	-	123,786,810
Investments purchased	(139,320,000)	-	(139,320,000)
Net cash used for investing activities	<u>(15,533,190)</u>	<u>-</u>	<u>(15,533,190)</u>
Net decrease in cash and cash equivalents	(32,436,857)	(11,715,739)	(44,152,596)
Cash and cash equivalents beginning of year	165,403,136	102,631,053	268,034,189
Cash and cash equivalents end of year	<u>\$ 132,966,279</u>	<u>90,915,314</u>	<u>223,881,593</u>
Reconciliation of operating income to net cash used for operating activities:			
Operating income	\$ 7,466,156	917,351	8,383,507
Adjustments to reconcile operating income to net cash used for operating activities:			
Amortization of loss on bond redemption	1,173,266	105,225	1,278,491
Amortization of bond issue costs	48,960	55,509	104,469
Amortization of bond issuance discount/premium	(1,093,628)	(152,807)	(1,246,435)
Change in fair market value of investments	24,706	-	24,706
(Increase) in notes receivable	(18,333,167)	(19,109,900)	(37,443,067)
(Increase) decrease in accrued interest receivable	(110,850)	1,759	(109,091)
(Increase) in other assets	(5,308)	(6,257)	(11,565)
(Decrease) in bond interest payable	(259,558)	(56,625)	(316,183)
(Decrease) in deferred rebates	(272,653)	(521,974)	(794,627)
(Decrease) in due to Iowa Finance Authority	(92,151)	(20,786)	(112,937)
Increase in deferred revenue	171,061	257,595	428,656
(Decrease) increase in accounts payable and accrued expenses	(33,293)	14,798	(18,495)
Total adjustments	<u>(18,782,615)</u>	<u>(19,433,463)</u>	<u>(38,216,078)</u>
Net cash used for operating activities	<u>\$ (11,316,459)</u>	<u>(18,516,112)</u>	<u>(29,832,571)</u>

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2005

(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 of the State or of the Authority, and neither is liable for any repayments.

During the year ended June 30, 2003, the DNR was awarded an On-Site Septic System Grant under the Clean Water Program. This grant provides for loans to individuals to make improvements to old septic systems. Individuals apply for this program through participating lending institutions. The loans may not exceed a maximum of \$10,000. The lending institution is responsible for the repayment of the loan if the individual defaults on the loan. The DNR contracted with Williams and Company, CPA, P.C. to be the fiscal agent for this portion of the Clean Water Program.

Description of the Iowa Drinking Water Facilities Financing Program

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

Loans are made to municipalities and drinking water facilities from the Drinking Water Program for eligible project costs as defined in Chapter 567, section 44, of the Iowa Administrative Code. The DNR administers the aspects of the Drinking Water Program relating to project selection, loan eligibility and monitoring of construction progress. The Authority administers the aspects of the Drinking Water Program relating to arranging financing and accounting for the loans, their repayments and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and drinking water facilities to finance all or part of the construction of drinking water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues 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 as Enterprise Funds. The operations of the funds are accounted for with separate sets of self-balancing accounts which comprise their assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

The Programs account for the proceeds of the revenue bonds, the debt service requirements on the bonds, the investment of monies held within the bond funds and accounts and the equity account, receipt of EPA capitalization grants, the Clean Water Program loans to municipalities and 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 statements of cash flows, all highly liquid investments that can be converted to cash within three months or less are considered to be cash equivalents. These investments include the monies deposited in the State's interest-bearing pooled money funds, investment agreements associated with bond issues and various money market funds.

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 reported as rebates payable on the statements of net assets and are offset against investment income on the statements 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, 2005, the Clean Water and Drinking Water Programs' investments include \$54.8 million in federal government agency notes and \$.7 million in certificates of deposit

at Iowa banks. 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	\$ 91,391	33%	N/A
Guaranteed investment contracts	132,491	47	29.4 years
Agency notes	54,771	20	.17 years
Certificates of deposit	720	-	7.8 years
Total	<u>\$ 279,373</u>	<u>100%</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 bond 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 five percent (5.00%) of the Authority's General Fund's total asset balance at the time such investment is made.
- Qualified investments allowed under the Clean Water and Drinking Water Programs indentures include direct general obligations of the United States Treasury and agencies, general obligations of any state within the United States or political subdivision of Iowa rated AA or higher, repurchase agreements, certificates of deposit fully insured by the FDIC, money market funds, guaranteed investment contracts issued by rated corporations and financial institutions, obligations of insurance companies rated in the highest category, and other permitted investments that does 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's investments are unregistered and unrated.

Cash and cash equivalents at June 30, 2005 total \$223.9 million and include \$91.4 million invested in money market funds in collateralized trust accounts and \$132.5 million in investment agreements associated with bond indentures.

Concentration Risk

Concentration of risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The tables below (expressed in thousands) list the money market accounts and guaranteed investment contracts by provider at June 30, 2005.

Provider	Money Market	Investment Contract	% of Total
CDC Funding Corp	\$ -	34,251	15%
Societe Generale	-	98,241	44
Wells Fargo Trust	91,387	-	41
Northwest Federal Savings Bank	4	-	-
Total	<u>\$ 91,391</u>	<u>132,492</u>	<u>100%</u>

Interest Rate Risk

Interest rate risk is the risk changes in interest rates may adversely affect the fair value of the portfolio. The Authority does not have a formal investment policy which limits investment maturities as a means of managing its exposure to changing interest rates. It is the intent and practice of the Authority to hold investments to maturity which mitigates interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates will adversely impact the fair value of an investment. The Authority has no positions in foreign currency or any foreign currency denominated investments.

(3) Loans Receivable

The Clean Water and Drinking Water Programs make loans to municipalities, 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 % and 5.02 % 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 \$1,845,272 in loans to individuals as of June 30, 2005.

Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2005:

	Loan Commitment	Funds Disbursed	Loans Receivable
Completed projects	\$ 244,530,000	230,069,566	138,294,566
Projects in progress	208,433,000	166,926,055	121,074,055
On-site septic system loans	1,845,272	1,845,272	1,548,295
Total	<u>\$ 454,808,272</u>	<u>398,840,893</u>	<u>260,916,916</u>

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, 2005:

	Loan Commitment	Funds Disbursed	Loans Receivable
Completed projects	\$ 92,451,000	88,740,648	77,890,648
Projects in progress	89,651,000	52,737,848	49,765,848
Total	<u>\$ 182,102,000</u>	<u>141,478,496</u>	<u>127,656,496</u>

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%.

Bonds payable at June 30, 2005 consisted of the following:

Clean Water Program Portion	\$ 139,130,000
Add unamortized discount/premium	4,700,892
Less unamortized loss on defeasance of refunded bonds	(5,042,889)
Total Clean Water Program revenue bonds	<u>\$ 138,788,003</u>
Drinking Water Program Portion	\$ 103,600,000
Add unamortized discount/premium	1,424,969
Less unamortized loss on defeasance of refunded bonds	(803,197)
Total Drinking Water Program revenue bonds	<u>\$ 104,221,772</u>

A portion of the proceeds from the issuance of the 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%, were used to refund and defease previously issued State Revolving Fund Revenue Bonds. Funds were deposited in an irrevocable trust with an escrow agent to provide for the February 1, 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	Interest	Principal	Interest	
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	15,300,000	3,985,640	5,230,000	3,935,030	28,450,670
2011-2015	66,385,000	8,146,475	28,040,000	16,023,913	118,595,388
2016-2020	630,000	103,681	26,440,000	9,067,054	36,240,735
2021-2025	180,000	10,702	24,780,000	2,061,530	27,032,232
Total	\$ 139,130,000	35,665,983	103,600,000	48,845,584	327,241,567

(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, 2005, the EPA has awarded capitalization grants of \$265,410,773 to the State for the Clean Water Program, of which \$265,191,215 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, 2005 and balances available for future loans or administrative expenses for the Clean Water Program.

Grant Award Year	EPA Grant	Total Draws Beginning of Year	2005 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2005
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	5,669,090	12,154,252	17,823,342	219,558
Total	\$ 265,410,773	253,036,963	12,154,252	265,191,215	219,558

At June 30, 2005, the EPA has awarded capitalization grants of \$93,890,400 to the State for the Drinking Water Program, of which \$89,269,241 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, 2005 and balances available for future loans or administrative expenses for the Drinking Water Program.

Grant Award Year	EPA Grant	Total Draws Beginning of Year	2005 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2005
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	5,040,628	5,033,913	10,074,541	4,621,159
Totals	\$ 93,890,400	84,235,328	5,033,913	89,269,241	4,621,159

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2004	\$ 253,036,963	84,235,328
On-site septic system program	644,323	-
Federal capitalization draws from EPA	11,509,929	5,033,913
Balance at June 30, 2005	\$ 265,191,215	89,269,241

(6) Commitments

The Clean Water Program has loan agreements with municipalities, waste water systems and individuals totaling \$454,808,272, of which \$398,840,896 had been disbursed at June 30, 2005. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 320,047,000	299,175,917
Series 2003	17,455,098	16,122,456
Equity Fund	115,460,902	81,697,248
On-site septic system	1,845,272	1,845,272
Balance at June 30, 2005	\$ 454,808,272	398,840,893

The Drinking Water Program has loan agreements with drinking water systems totaling \$182,102,000, of which \$141,478,496 had been disbursed at June 30, 2005. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 64,172,460	61,105,531
Series 2003	52,371,540	48,477,229
Equity Fund	65,558,000	31,895,736
Balance at June 30, 2005	\$ 182,102,000	141,478,496

(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.

Supplementary Information

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

Schedule of Loan Activity – Clean Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Adair	\$ 1,058,000	923,582	80,000	843,582
Adel	2,056,000	1,365,000	1,208,000	157,000
Afton	515,000	462,000	167,000	295,000
Agency	234,000	224,000	127,000	97,000
Albia	630,000	630,000	630,000	-
Anita	225,000	225,000	122,000	103,000
Ankeny	7,054,000	7,054,000	1,409,000	5,645,000
Armstrong	500,000	455,000	169,000	286,000
Audubon	2,666,000	2,593,000	201,000	2,392,000
Aurelia	900,000	721,000	176,000	545,000
Avoca	415,000	219,000	138,000	81,000
Battle Creek	338,000	170,000	26,000	144,000
Beacon	600,000	546,000	64,000	482,000
Blencoe	73,000	73,000	23,000	50,000
Bondurant	800,000	575,000	135,000	440,000
Boone	8,170,000	8,151,000	3,176,000	4,975,000
Boyden	196,000	188,000	14,000	174,000
Breda	686,000	686,000	164,000	522,000
Bronson	361,000	230,000	37,000	193,000
Brooklyn	1,325,000	1,313,000	183,000	1,130,000
Burt	656,000	650,000	75,000	575,000
Calmar	2,300,000	2,002,380	86,000	1,916,380
Camanche	336,000	323,000	210,000	113,000
Cambridge	448,000	374,000	62,000	312,000
Carlisle	2,084,000	1,583,000	1,583,000	-
Carroll	11,000,000	10,594,396	-	10,594,396
Carson	750,000	237,537	-	237,537
Charles City	3,000,000	2,818,294	112,000	2,706,294
Cherokee	6,463,000	5,559,701	628,000	4,931,701
Clarence	477,000	468,000	161,000	307,000
Clear Lake	16,631,000	16,631,000	12,550,000	4,081,000
Clinton	2,755,000	2,564,000	1,217,000	1,347,000
Colfax	1,984,000	1,984,000	229,000	1,755,000
Columbus City	232,000	232,000	33,000	199,000
Columbus Junction	606,000	606,000	85,000	521,000
Conrad	1,461,000	1,461,000	327,000	1,134,000
Coralville	11,475,000	10,698,000	7,995,000	2,703,000
Corning	3,075,000	3,032,000	112,000	2,920,000
Correctionville	1,000,000	850,000	160,000	690,000
Corydon	910,000	503,491	82,000	421,491
Cresco	1,000,000	853,000	122,000	731,000
Creston	4,022,000	4,020,000	1,242,000	2,778,000

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Dallas Center	1,000,000	857,000	138,000	719,000
Dayton	765,000	744,000	86,000	658,000
Decorah	825,000	823,000	44,000	779,000
Denmark	500,000	500,000	223,000	277,000
Des Moines	56,071,000	46,343,890	34,247,000	12,096,890
Dewitt	4,000,000	3,854,000	1,570,000	2,284,000
DNR State Parks	3,918,000	3,225,432	716,000	2,509,432
Dows	310,000	310,000	170,000	140,000
Dumont	196,000	150,000	133,000	17,000
Durant	2,450,000	2,117,000	614,000	1,503,000
Dyersville	2,269,000	2,267,000	237,000	2,030,000
Dysart	384,000	345,000	345,000	-
Eagle Grove	2,604,000	2,441,224	164,000	2,277,224
Earlham	1,450,000	1,370,000	164,000	1,206,000
Earling	133,000	129,000	55,000	74,000
Edgewood	450,000	420,000	420,000	-
Eldora	8,277,000	3,006,368	458,000	2,548,368
Emmetsburg	1,160,000	941,247	153,000	788,247
Exira	425,000	425,000	49,000	376,000
Farley	2,270,000	938,569	-	938,569
Fort Dodge	16,922,000	16,679,837	2,415,000	14,264,837
Fort Madison	1,120,000	1,072,305	215,000	857,305
Fredonia	196,000	196,000	28,000	168,000
Fremont	601,000	601,000	177,000	424,000
Gladbrook	706,000	481,000	100,000	381,000
Graettinger	705,000	482,927	144,000	338,927
Grand Mound	310,000	269,000	216,000	53,000
Grandview	300,000	298,000	11,000	287,000
Granger	665,000	655,000	148,000	507,000
Grimes	5,372,000	5,368,637	745,000	4,623,637
Grinnell	5,855,000	5,411,000	5,411,000	-
Griswold	750,000	750,000	136,000	614,000
Hamburg	369,000	358,246	58,000	300,246
Hartley	1,732,000	1,365,177	-	1,365,177
Hazelton	730,000	618,000	144,000	474,000
Holstein	1,041,000	1,036,000	271,000	765,000
Hull	750,000	750,000	136,000	614,000
Humboldt	4,847,000	4,619,000	858,000	3,761,000
Independence	1,336,000	1,097,000	1,097,000	-
Indianola	1,736,000	1,682,000	1,447,000	235,000
Inwood	529,000	529,000	82,000	447,000

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

Schedule of Loan Activity – Clean Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Iowa Falls	4,745,000	3,709,000	1,351,000	2,358,000
Irwin	243,000	2,430	-	2,430
Jefferson	4,951,000	4,589,000	184,000	4,405,000
Johnston	5,894,000	2,359,000	2,359,000	-
Kalona	1,093,000	990,000	212,000	778,000
Kanawha	338,000	338,000	167,000	171,000
Keystone	600,000	504,000	65,000	439,000
Knoxville	1,592,000	1,592,000	1,592,000	-
Lake Park	1,740,000	1,676,744	292,000	1,384,744
Lake View	1,138,000	1,138,000	203,000	935,000
Lamoni	1,108,000	1,108,000	127,000	981,000
Larchwood	700,000	633,614	81,000	552,614
Le Grand	500,000	455,000	254,000	201,000
Le Mars	7,900,000	7,031,026	155,000	6,876,026
Lisbon	1,200,000	1,198,000	45,000	1,153,000
Logan	1,257,000	1,210,000	170,000	1,040,000
Lone Tree	1,021,000	786,000	196,000	590,000
Lovillia	554,000	554,000	42,000	512,000
Lowden	145,000	145,000	145,000	-
Macbride	175,000	168,000	168,000	-
Malvern	799,000	778,000	30,000	748,000
Manning	800,000	113,562	-	113,562
Manson	1,813,000	1,626,105	49,000	1,577,105
Maquoketa	4,546,000	4,487,687	893,000	3,594,687
Marcus	1,375,000	1,339,000	361,000	978,000
Marengo	360,000	360,000	197,000	163,000
Marshalltown	4,349,000	4,349,000	1,000	4,348,000
Martensdale	210,000	176,000	90,000	86,000
Mason City	4,237,000	4,237,000	2,492,000	1,745,000
Melbourne	682,000	116,438	-	116,438
Melcher-Dallas	405,000	382,000	83,000	299,000
Minburn	657,000	653,000	290,000	363,000
Missouri Valley	337,000	329,000	179,000	150,000
Mitchellville	1,200,000	1,043,332	-	1,043,332
Monroe	520,000	446,360	72,000	374,360
Montour	149,000	96,000	48,000	48,000
Morning Sun	242,000	242,000	83,000	159,000
Moulton	400,000	400,000	104,000	296,000
Moville	500,000	500,000	58,000	442,000
Mt. Pleasant	7,657,000	7,657,000	1,676,000	5,981,000
Nevada	1,114,000	1,114,000	489,000	625,000
New London	727,000	101,177	-	101,177

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
New Sharon	546,000	388,000	59,000	329,000
Newton	2,261,000	2,261,000	171,000	2,090,000
North Liberty	5,572,000	5,093,000	1,208,000	3,885,000
Norwalk	2,903,000	2,903,000	572,000	2,331,000
Oelwein	8,954,000	1,052,353	-	1,052,353
Ogden	2,000,000	1,495,005	-	1,495,005
Osceola	4,550,000	4,522,000	755,000	3,767,000
Oskaloosa	11,183,000	9,702,399	4,542,000	5,160,399
Ottumwa	15,000,000	15,000,000	5,777,000	9,223,000
Oxford	266,000	262,000	104,000	158,000
Panora	265,000	263,000	-	263,000
Parkersburg	1,176,000	900,060	210,000	690,060
Paullina	567,000	418,000	274,000	144,000
Pella	6,515,000	5,045,000	805,000	4,240,000
Perry	6,021,000	6,021,000	4,230,000	1,791,000
Pleasantville	876,000	744,000	170,000	574,000
Pocahontas	1,200,000	12,000	-	12,000
Preston	715,000	715,000	417,000	298,000
Pringhar	613,000	441,000	54,000	387,000
Quasqueton	650,000	614,000	71,000	543,000
Radcliffe	783,000	7,830	-	7,830
Reinbeck	2,990,000	2,700,840	-	2,700,840
Rockwell City	1,766,000	1,766,000	385,000	1,381,000
Russell	350,000	334,000	13,000	321,000
Ryan	195,000	187,000	34,000	153,000
Sanborn	916,000	914,000	-	914,000
Scranton	773,000	7,730	-	7,730
Sheldon	1,167,000	1,106,000	448,000	658,000
Shellsburg	1,982,000	1,948,000	153,000	1,795,000
Sigourney	1,546,000	1,393,000	341,000	1,052,000
Sioux Center	2,164,000	2,164,000	665,000	1,499,000
Sioux City	10,785,000	10,440,774	1,654,000	8,786,774
Slater	1,500,000	1,408,000	113,000	1,295,000
Solon	250,000	217,826	19,000	198,826
Springbrook	283,000	281,500	10,000	271,500
Stanley	50,000	46,170	2,000	44,170
Stanton	275,000	275,000	149,000	126,000
Stanwood	294,000	294,000	207,000	87,000
Stratford	350,000	350,000	189,000	161,000
Sully	607,000	607,000	200,000	407,000
Sumner	3,100,000	2,857,233	115,000	2,742,233

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

Schedule of Loan Activity – Clean Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Tabor	1,000,000	950,000	394,000	556,000
Tama	1,828,000	1,784,000	712,000	1,072,000
Tiffin	1,600,000	1,570,000	352,000	1,218,000
Tipton	3,200,000	3,126,334	119,000	3,007,334
Traer	858,000	858,000	86,000	772,000
Tripoli	825,000	716,000	27,000	689,000
Truro	213,000	176,301	8,000	168,301
Urbandale Ssd	3,400,000	3,400,000	1,494,000	1,906,000
Van Horne	1,750,000	1,725,000	188,000	1,537,000
Van Meter	559,000	457,000	253,000	204,000
Walford	2,505,000	2,273,556	170,000	2,103,556
Wapello	530,000	31,448	-	31,448
Waukee	2,579,000	2,568,000	679,000	1,889,000
Wayland	466,000	387,692	158,000	229,692
Webster City	3,900,000	3,900,000	714,000	3,186,000
Wellman	1,339,000	1,317,000	245,000	1,072,000
West Bend	825,000	699,000	185,000	514,000
West Des Moines	6,558,000	6,558,000	2,626,000	3,932,000
West/High Amana	715,000	715,000	6,000	709,000
West Point	665,000	569,000	235,000	334,000
Whiting	398,000	363,418	15,000	348,418
Williams	524,000	481,884	20,000	461,884
Williamsburg	1,050,000	10,500	-	10,500
Wilton	1,794,000	1,794,000	328,000	1,466,000
Winterset	1,100,000	1,100,000	201,000	899,000
Woodward	600,000	498,309	45,000	453,309
Worthington	350,000	303,744	63,000	240,744
Wyoming	404,000	396,000	40,000	356,000
	452,963,000	396,995,621	137,627,000	259,368,621
On-Site Septic System Loans	1,845,272	1,845,272	296,977	1,548,295
Total	\$ 454,808,272	398,840,893	137,923,977	260,916,916

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, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Ainsworth	\$ 530,000	405,519	20,000	385,519
Alden	600,000	476,000	59,000	417,000
Alleman	693,000	680,349	-	680,349
Alton	125,000	125,000	10,000	115,000
Andrew	552,000	527,000	88,000	439,000
Ankeny	925,000	908,000	142,000	766,000
Asbury	2,481,000	2,481,000	226,000	2,255,000
Bancroft	783,000	705,487	52,000	653,487
Blairstown	1,344,000	1,344,000	195,000	1,149,000
Bondurant	972,000	972,000	138,000	834,000
Boyden	700,000	700,000	75,000	625,000
Breda	555,000	539,611	21,000	518,611
Cambridge	610,000	608,000	23,000	585,000
Charlotte	100,000	96,368	4,000	92,368
Corning	4,008,000	4,008,000	461,000	3,547,000
Corydon	1,193,000	528,329	-	528,329
Delhi	116,000	114,000	4,000	110,000
Delta	218,000	133,375	-	133,375
De Soto	190,000	178,000	34,000	144,000
Denison	4,808,000	4,808,000	748,000	4,060,000
Des Moines	2,492,000	2,403,000	185,000	2,218,000
Dewitt	1,200,000	1,198,000	135,000	1,063,000
Dow City	144,000	144,000	21,000	123,000
Dyersville	849,000	847,000	97,000	750,000
Elkader	2,033,000	646,592	-	646,592
Elk Horn	450,000	450,000	67,000	383,000
Emmetsburg	2,750,000	27,500	-	27,500
Fairfield	5,900,000	5,796,319	292,000	5,504,319
Farmersburg	560,000	271,172	-	271,172
Farmington	360,000	140,051	-	140,051
Farragut	475,000	470,000	18,000	452,000
Fort Dodge	8,633,000	6,221,835	-	6,221,835
Glidden	870,000	8,700	-	8,700
Gooselake	564,000	522,424	21,000	501,424
Gowrie	695,000	499,228	26,000	473,228
Grand Mound	480,000	4,800	-	4,800
Grimes	5,976,000	5,970,000	886,000	5,084,000
Griswold	110,000	109,000	42,000	67,000
Hancock	195,000	178,000	35,000	143,000
Hartford	538,000	446,000	84,000	362,000
Huxley	2,316,000	2,314,000	268,000	2,046,000
Iowa Amer Water	2,265,000	2,265,000	336,000	1,929,000
Janesville	225,000	225,000	52,000	173,000
Jewell	1,223,000	12,230	-	12,230
Kalona	1,067,000	1,064,112	40,000	1,024,112
Keota	780,000	780,000	90,000	690,000
Lake View	590,000	529,000	80,000	449,000
Lamoni	300,000	298,000	46,000	252,000
Latimer	435,000	435,000	81,000	354,000

Schedule 2

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Drinking Water Program

June 30, 2005

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2005 Outstanding Loan Balance
Lemars	9,400,000	8,238,000	829,000	7,409,000
Leon	998,000	659,701	-	659,701
Lockridge	135,000	82,641	-	82,641
Lone Tree	700,000	477,086	76,000	401,086
Lorhville	390,000	343,000	37,000	306,000
Maquoketa	2,500,000	601,848	-	601,848
Mason City	17,565,000	15,356,778	1,327,000	14,029,778
Maynard	414,000	139,429	-	139,429
Mechanicsville	595,000	397,000	89,000	308,000
Morning Sun	365,000	365,000	68,000	297,000
Mt.Pleasant	5,934,000	5,934,000	1,122,000	4,812,000
Neola	350,000	348,000	13,000	335,000
Nevada	8,438,000	84,380	-	84,380
Newhall	1,054,000	725,425	107,000	618,425
Newton	1,200,000	1,156,000	215,000	941,000
North English	590,000	559,405	32,000	527,405
Northwood	1,690,000	1,690,000	320,000	1,370,000
Norwalk	1,175,000	1,175,000	223,000	952,000
Norway	125,000	95,000	12,000	83,000
Odebolt	688,000	504,000	107,000	397,000
Osceola	4,066,000	3,267,914	307,000	2,960,914
Ottumwa	4,000,000	40,000	-	40,000
Oxford	495,000	495,000	94,000	401,000
Panora	405,000	393,000	78,000	315,000
Perry	625,000	600,000	140,000	460,000
Pocahontas	1,615,000	1,418,582	60,000	1,358,582
Polk County	800,000	800,000	150,000	650,000
Prairie City	1,175,000	1,175,000	170,000	1,005,000
Rockwell City	466,000	445,151	17,000	428,151
Scranton	861,000	861,000	163,000	698,000
Shelby	800,000	800,000	120,000	680,000
Sigourney	440,000	440,000	69,000	371,000
Sioux City	25,000,000	19,730,084	1,456,000	18,274,084
Somers	56,000	56,000	8,000	48,000
Spencer	1,525,000	1,500,000	220,000	1,280,000
Spirit Lake	3,764,000	3,500,093	284,000	3,216,093
Stanton	420,000	420,000	79,000	341,000
Storm Lake	7,500,000	7,497,228	279,000	7,218,228
Sully	550,000	550,000	127,000	423,000
Tiffin	1,650,000	1,648,000	125,000	1,523,000
Treynor	300,000	228,000	19,000	209,000
Van Horne	420,000	373,272	16,000	357,272
Vinton	40,000	40,000	5,000	35,000
Wahpeton	1,536,000	1,513,000	57,000	1,456,000
West Branch	2,600,000	70,535	-	70,535
Winfield	709,000	70,943	-	70,943
Total	\$ 182,102,000	141,478,496	13,822,000	127,656,496

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

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

We have audited the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2005, and have issued our report thereon dated March 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

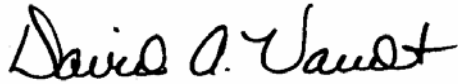
In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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.

Compliance and Other Matters

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

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa Finance Authority 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 28, 2006



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance with Requirements
Applicable to Environmental Protection Agency's State Revolving Fund
Programs and on Internal Control over Compliance in Accordance with
the Environmental Protection Agency Clean Water State Revolving Fund -
Audit Guide and Drinking Water State Revolving Fund Program Guidelines

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

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

In our opinion, the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs complied, in all material respects, with the requirements referred to above that are applicable to its federal financial assistance programs for the year ended June 30, 2005.

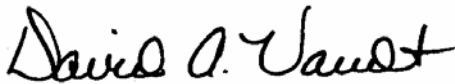
Internal Control Over Compliance

The management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over compliance with requirements that could have a direct and material effect on federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines.

We noted matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' ability to administer federal programs in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions are 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, 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 28, 2006

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

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

Findings for Federal Programs:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number: 66.458 – Capitalization Grants for Clean Water State Revolving Funds
Agency Number: CS190001 03
Federal Award Year: 2003
State of Iowa Single Audit Comment 05-III-EPA-542-1

- (1) Subrecipient monitoring – OMB Circular A-133 requires a pass-through entity to monitor the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant. As part of this system, OMB Circular A-133 Compliance Supplement requires Departments to review subrecipient audit reports within six months after receipt of the audit report to ensure appropriate corrective action is taken.

The Department monitors subrecipients through audits performed at the subrecipient level for the Clean Water State Revolving Fund (CWSRF) program. The Department requires subrecipients to submit an audit report if expenditures or disbursements exceed \$500,000 during the fiscal year. The Department notifies the recipients of the audit requirement at the time the recipient receives the funds and again when Department records indicate the recipient has drawn down close to \$500,000 in a fiscal year.

Three of twenty-three subrecipient audit reports for the CWSRF program were not reviewed within six months of the Department receiving the report.

Recommendation – The Department should implement procedures to ensure subrecipient audit reports are reviewed in a timely manner.

Response and Corrective Action Planned – The Department currently has a good system of procedures in place to monitor subrecipients, ensure they submit the required audit reports and review them after receipt. Due to our limited resources, we do not plan to change our current procedures for collecting and reviewing these audit reports.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2005

We will continue to make every effort to review these audit reports within the designated time frame as we have in the past. However, to ensure every report is reviewed within this time frame, it would require additional resources be directed toward this effort. We do not feel the additional costs related to this would be a beneficial use of funding, as late review of subrecipient audit reports has no real impact on these programs.

All three of the subrecipient audit reports noted in the audit finding have now been reviewed.

Conclusion – Response acknowledged. The Department should comply with OMB Circular A-133.

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

Agency Number: FS997593 33

Federal Award Year: 2003

- (2) Subrecipient monitoring – OMB Circular A-133 requires a pass-through entity to monitor the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant. As part of this system, OMB Circular A-133 Compliance Supplement requires Departments to review subrecipient audit reports within six months after receipt of the audit report to ensure appropriate corrective action is taken.

The Department monitors subrecipients through audits performed at the subrecipient level for the Drinking Water State Revolving Fund (DWSRF) program. The Department requires subrecipients to submit an audit report if expenditures or disbursements exceed \$500,000 during the fiscal year. The Department notifies the recipients of the audit requirement at the time the recipient receives the funds and again when Department records indicate the recipient has drawn down close to \$500,000 in a fiscal year.

One of twelve subrecipient audit reports for the DWSRF program was not reviewed within six months of the Department receiving the report.

Recommendation – The Department should implement procedures to ensure subrecipient audit reports are reviewed in a timely manner.

Response and Corrective Action Planned – The Department currently has a good system of procedures in place to monitor subrecipients, ensure they submit the required audit reports and review them after receipt. Due to our limited resources, we do not plan to change our current procedures for collecting and reviewing these audit reports.

We will continue to make every effort to review these audit reports within the designated time frame as we have in the past. However, to ensure every report is reviewed within this time frame, it would require additional resources be directed toward this effort. We do not feel the additional costs related to this would be a beneficial use of funding, as late review of subrecipient audit reports has no real impact on these programs.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2005

The subrecipient audit report noted in the audit finding has now been reviewed.

Conclusion – Response acknowledged. The Department should comply with OMB Circular A-133.

Findings Related to Required Statutory Reporting:

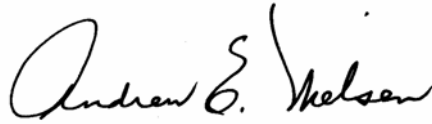
No matters were noted.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
James S. Cunningham, CPA, Senior Auditor II
Jennifer R. Edgar, CPA, Staff Auditor
Philip J. Cloos, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State