



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

July 6, 2007

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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 \$18,136,703 for the year ended June 30, 2006, including interest income of \$9,806,562 on loans and investment income of \$7,280,323. Non operating revenue consisted of \$28,374,816 in federal grants and \$526,648 in state grants. The Drinking Water Program reported operating revenues of \$8,223,284, including interest income of \$4,563,893 on loans and investment income of \$3,583,719, net of rebate expense of \$412,372. Non operating revenue consisted of \$14,481,045 in federal grants.

Operating expenses of the Clean Water Program for the year ended June 30, 2006 totaled \$8,707,140, including \$5,990,842 for bond interest expense, \$1,665,510 for general and administrative expenses and \$1,050,788 for amortization of loss on bond redemption. The Program loaned \$45,742,348 to municipalities and water systems and collected loan repayments of \$16,304,000 during the year. At June 30, 2006, the Clean Water Program had loans receivable from municipalities and waste water systems totaling \$288,806,969.

Operating expenses of the Drinking Water Program for the year ended June 30, 2006 totaled \$7,373,387, including \$4,675,278 for bond interest expense, \$1,716,112 for general and administrative expenses, \$319,943 for small community technical assistance and \$567,218 for source water protection. The Program loaned \$37,698,684 to drinking water systems and collected loan repayments of \$6,329,935 during the year. At June 30, 2006, the Drinking Water Program had loans receivable from drinking water systems totaling \$159,025,246.

A copy of the report is available for review at the Iowa Finance Authority, at the Iowa Department of Natural Resources, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/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, 2006

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Basic Financial Statements:	<u>Exhibit</u>	
Statements of Net Assets	A	9
Statements of Revenues, Expenses and Changes in Fund Net Assets	B	10
Statements of Cash Flows	C	11-12
Notes to Financial Statements		13-23
Supplementary Information:	<u>Schedule</u>	
Schedule of Loan Activity – Clean Water Program	1	26-30
Schedule of Loan Activity – Drinking Water Program	2	31-33
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 <u>Government Auditing Standards</u>		35-36
Independent Auditor's Report on Compliance with Requirements Applicable to Environmental Protection Agency's State Revolving Fund Programs in Accordance with the <u>Environmental Protection Agency Clean Water State Revolving Fund - Audit Guide and Drinking Water State Revolving Fund Program Guidelines</u>		37-38
Schedule of Findings		39
Staff		40

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

Officials

Governor

Honorable Thomas J. Vilsack
(Ended during January 2007)

Honorable Chester J. Culver
(Began during January 2007)

Director, Department of Management

Michael L. Tramontina
(Ended during January 2007)

Charles J. Krogmeier
(Began during January 2007)

Director, Legislative Services Agency

Dennis C. Prouty

Iowa Finance Authority Board

Vincent Lintz
Kay Anderson
Carmela Brown
Steven Adams
Virginia Bordwell
Roger Caudron
Heather Kramer
Douglas Walter
Richard Wright

Chairperson
Vice Chairperson
Treasurer
Member
Member
Member
Member
Member
Member

Environmental Protection Commission

Jerry Peckumn
Francis Thicke
Lisa Davis Cook
Donna Buell
Darrell Hanson
Henry Marquard
Suzanne Morrow
David Perry
Mary Gail Scott

Chairperson
Vice Chairperson
Secretary
Member
Member
Member
Member
Member
Member

Iowa Finance Authority

Bret Mills

Executive Director

Iowa Department of Natural Resources

Jeffrey R. Vonk, Director
(Ended during January 2007)

Richard Leopold, Director
(Began during January 2007)

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



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2006, 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.

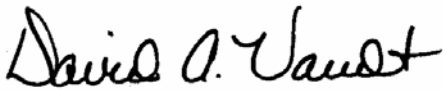
As discussed in Note 1, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business type activities and each 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, 2006, 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, 2006, 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 April 5, 2007 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 supplementary 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

April 5, 2007

Basic Financial Statements

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

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2006

	Clean Water Program Funds	Drinking Water Program Funds	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 122,004,629	87,829,954	209,834,583
Restricted cash	415,267	-	415,267
Investments	55,023,484	-	55,023,484
Loans receivable	17,572,000	7,499,000	25,071,000
Accrued interest receivable	2,491,149	1,564,727	4,055,876
Other assets	308,934	295,685	604,619
Total current assets	197,815,463	97,189,366	295,004,829
Noncurrent assets:			
Restricted cash	1,609,403	-	1,609,403
Investments	7,675,317	-	7,675,317
Loans receivable	271,234,969	151,526,246	422,761,215
Total assets	478,335,152	248,715,612	727,050,764
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	171,716	298,817	470,533
Accrued bond interest payable	2,896,743	2,032,690	4,929,433
Rebates payable	139,510	1,681,006	1,820,516
Deferred initiation fees	222,210	100,448	322,658
Due to Iowa Finance Authority	24,473	20,725	45,198
Bonds payable, net	15,650,000	5,300,000	20,950,000
Total current liabilities	19,104,652	9,433,686	28,538,338
Noncurrent liabilities:			
Rebates payable	58,399	248,262	306,661
Deferred initiation fees	2,870,477	1,587,388	4,457,865
Bonds payable, net	121,269,287	101,259,991	222,529,278
Total noncurrent liabilities	124,198,163	103,095,641	227,293,804
Total liabilities	143,302,815	112,529,327	255,832,142
Net Assets			
Restricted net assets:			
Per bond resolutions	129,025,000	46,970,000	175,995,000
Per other agreements	206,007,337	89,216,285	295,223,622
Total net assets	\$ 335,032,337	136,186,285	471,218,622

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, 2006

	Clean Water Program Funds	Drinking Water Program Funds	Total
Operating revenues:			
Interest on loans	\$ 9,806,562	4,563,893	14,370,455
Investment income	7,280,323	3,583,719	10,864,042
Rebate expense	361,438	(412,372)	(50,934)
Initiation fees	688,380	488,044	1,176,424
Total operating revenues	18,136,703	8,223,284	26,359,987
Operating expenses:			
Bond interest expense	5,990,842	4,675,278	10,666,120
Amortization of loss on bond redemption	1,050,788	94,836	1,145,624
General and administrative	1,665,510	1,716,112	3,381,622
Source water protection	-	567,218	567,218
Small community technical assistance	-	319,943	319,943
Total operating expenses	8,707,140	7,373,387	16,080,527
Operating income	9,429,563	849,897	10,279,460
Non operating revenue:			
State grants	526,648	-	526,648
Federal grants	28,374,816	14,481,045	42,855,861
Total non operating revenue	28,901,464	14,481,045	43,382,509
Income before transfers	38,331,027	15,330,942	53,661,969
Transfers between funds	(10,066,231)	10,066,231	-
Change in net assets	28,264,796	25,397,173	53,661,969
Net assets beginning of year	306,767,541	110,789,112	417,556,653
Net assets end of year	\$ 335,032,337	136,186,285	471,218,622

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2006

	Clean Water Program Funds	Drinking Water Program Funds	Total
Cash flows from operating activities:			
Initiation and service fees received	\$ 1,032,010	560,255	1,592,265
Interest received on investments	7,334,319	3,566,382	10,900,701
Interest received on loans to municipalities and waste water systems	9,784,785	4,487,288	14,272,073
Principal received on loans to municipalities and waste water systems	16,304,000	6,329,935	22,633,935
Loans disbursed to municipalities and waste water systems	(45,742,348)	(37,698,685)	(83,441,033)
Interest on debt paid	(7,041,259)	(4,796,034)	(11,837,293)
Rebates paid	(192,561)	(9,516)	(202,077)
Cash paid to suppliers and grantees	(1,701,549)	(2,456,313)	(4,157,862)
Net cash used for operating activities	(20,222,603)	(30,016,688)	(50,239,291)
Cash flows from non-capital financing activities:			
Draws on capitalization grants from EPA	28,449,816	14,481,045	42,930,861
State appropriation	526,648	-	526,648
Issuance of debt	11,090,000	6,685,000	17,775,000
Premium	200,122	133,585	333,707
Bond issue costs	(90,467)	(54,533)	(145,000)
Transfers between funds	(10,066,231)	10,066,231	-
Repayment of debt principal	(13,180,000)	(4,380,000)	(17,560,000)
Net cash provided by non-capital financing activities	16,929,888	26,931,328	43,861,216
Cash flows from investing activities:			
Sale of investments	158,508,958	-	158,508,958
Investments purchased	(165,701,518)	-	(165,701,518)
Net cash used for investing activities	(7,192,560)	-	(7,192,560)
Net decrease in cash and cash equivalents	(10,485,275)	(3,085,360)	(13,570,635)
Cash and cash equivalents beginning of year, as restated	134,514,574	90,915,314	225,429,888
Cash and cash equivalents end of year	\$ 124,029,299	87,829,954	211,859,253

Exhibit C

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2006

	Clean Water Program Funds	Drinking Water Program Funds	Total
Reconciliation of operating income to net cash used for operating activities:			
Operating income	\$ 9,429,563	849,897	10,279,460
Adjustments to reconcile operating income to net cash used for operating activities:			
Amortization of loss on bond redemption	1,050,788	94,836	1,145,624
Amortization of bond issue costs	62,253	34,188	96,441
Amortization of bond issuance discount/premium	(1,029,626)	(195,202)	(1,224,828)
Change in fair market value of investments	(15,050)	-	(15,050)
(Increase) in notes receivable	(29,438,348)	(31,368,750)	(60,807,098)
(Increase) decrease in accrued interest receivable	47,269	(93,942)	(46,673)
(Increase) in other assets	(21,154)	(14,543)	(35,697)
Increase (decrease) in bond interest payable	(83,044)	40,258	(42,786)
Increase (decrease) Increase in deferred rebates	(553,999)	402,856	(151,143)
(Decrease) in due to Iowa Finance Authority	(18,171)	(8,183)	(26,354)
Increase in deferred revenue	364,784	86,755	451,539
(Decrease) increase in accounts payable and accrued expenses	(17,868)	155,142	137,274
Total adjustments	(29,652,166)	(30,866,585)	(60,518,751)
Net cash used for operating activities	\$ (20,222,603)	(30,016,688)	(50,239,291)

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Description of the 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 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.

The Clean Water Program also provides funds to various lending institutions to buy down the interest rate on loans made by these institutions to individuals. The funds are deposited at the various institutions in non interest bearing certificates of deposit.

During the year ended June 30, 2003, the DNR was awarded an On-Site Septic System Grant under the Clean Water Program. This program provides funding to various lending institutions to provide 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. Funds are deposited at various institutions in non interest bearing savings accounts. 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.

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, 2006, the Clean Water and Drinking Water Programs' investments include \$54.5 million in federal government agency notes and \$8.2 million in certificates of deposit at Iowa banks. The certificates of deposits are considered linked deposits. Linked deposits are defined as a deposit in an account with a financial institution to induce that institution's support for one or more projects (loans). 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	\$ 103,191	37%	N/A
Guaranteed investment contracts	108,668	40	>1 year
Agency notes	54,521	20	1.3 years
Certificates of deposit	8,178	3	8.6 years
Total	<u>\$ 274,558</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, 2006 total \$211.9 million and include \$103.2 million invested in money market funds in collateralized trust accounts and \$108.7 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, 2006.

Provider	Money Market	Investment Contract	% of Total
IXIS Funding Corp	\$ -	25,735	12%
Societe Generale	-	82,933	39
Wells Fargo Trust	101,105	-	48
Various financial institutions	2,086	-	1
Total	<u>\$ 103,191</u>	<u>108,668</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.

Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2006:

	Loan Commitment	Funds Disbursed	Loans Receivable
Completed projects	\$ 301,041,000	285,306,196	158,496,195
Projects in progress	210,232,400	157,431,773	130,310,774
Total	<u>\$ 511,273,400</u>	<u>442,737,969</u>	<u>288,806,969</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, 2006:

	Loan Commitment	Funds Disbursed	Loans Receivable
Completed projects	\$ 144,631,000	135,585,680	116,201,744
Projects in progress	57,210,710	43,591,501	42,823,502
Total	<u>\$ 201,841,710</u>	<u>179,177,181</u>	<u>159,025,246</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, 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 5.25%; \$5,995,000 of term bonds due August 1, 2016 at 5.50%; \$6,230,000 of term bonds due August 1, 2018 at 5.50%; \$6,525,000 of term bonds due August 1, 2020 at 5.00%; and \$4,080,000 of term bonds due August 1, 2023 at 5.00%. Iowa State Revolving Fund Revenue Bonds, Series 2003, 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%. Iowa State Revolving Fund Revenue Bonds, Series 2005, of \$17,775,000 were issued on September 28, 2005, and are due serially from August 1, 2006 to 2012 at interest rates of 3.25% to 5.00%.

Clean Water Program Portion	\$ 137,040,000
Add unamortized discount/premium	3,871,388
Less unamortized loss on defeasance of refunded bonds	<u>(3,992,101)</u>
Total Clean Water Program revenue bonds	<u>\$ 136,919,287</u>
Drinking Water Program Portion	\$ 105,905,000
Add unamortized discount/premium	1,363,353
Less unamortized loss on defeasance of refunded bonds	<u>(708,362)</u>
Total Drinking Water Program revenue bonds	<u>\$ 106,559,991</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	
2007	\$ 15,650,000	6,283,915	5,300,000	4,556,761	31,790,676
2008	16,005,000	5,545,896	5,585,000	4,366,812	31,502,708
2009	16,590,000	4,785,565	6,230,000	4,173,292	31,778,857
2010	16,925,000	4,012,046	6,330,000	3,952,905	31,219,951
2011	17,375,000	3,335,596	6,400,000	3,817,271	30,927,867
2012-2016	53,840,000	4,935,877	30,560,000	14,674,872	104,010,749
2017-2021	555,000	78,187	30,300,000	7,552,284	38,485,471
2022-2025	100,000	4,207	15,200,000	1,171,761	16,475,968
Total	\$ 137,040,000	28,981,289	105,905,000	44,265,958	316,192,247

(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, 2006, the EPA has awarded capitalization grants of \$315,857,091 to the State for the Clean Water Program, of which \$293,608,621 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$63,171,418 through bond issuances for the Clean Water Program. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2006 and balances available for future loans or administrative expenses for the Clean Water Program.

Grant Award Year	EPA Grant	Total Draws Beginning of Year	Total Draws		Remaining Grant Available at June 30, 2006
			2006 Draws	Total Draws End of Year	
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	17,865,932	176,968	18,042,900	-
2003	17,925,732	-	17,925,732	17,925,732	-
2004	17,936,500	-	10,272,116	10,272,116	7,664,384
2005	14,584,086	-	-	-	14,584,086
Total	\$ 315,857,091	265,233,805	28,374,816	293,608,621	22,248,470

At June 30, 2006, the EPA has awarded capitalization grants of \$124,347,500 to the State for the Drinking Water Program, of which \$103,750,286 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$24,869,500. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2006 and balances available for future loans or administrative expenses for the Drinking Water Program.

Grant Award Year	EPA Grant	Total Draws		Total Draws End of Year	Remaining Grant Available at June 30, 2006
		Beginning of Year Restated	2006 Draws		
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	11,829,301	144,451	11,973,752	318,948
2002	14,784,600	14,193,774	-	14,193,774	590,826
2003	14,695,700	11,128,766	2,894,884	14,023,650	672,050
2004	15,244,700	-	11,441,710	11,441,710	3,802,990
2005	15,212,400	-	-	-	15,212,400
Totals	\$ 124,347,500	89,269,241	14,481,045	103,750,286	20,597,214

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2005	\$ 265,233,805	89,269,241
Federal capitalization draws from EPA	28,374,816	14,481,045
Balance at June 30, 2006	\$ 293,608,621	103,750,286

(6) Commitments

The Clean Water Program has loan agreements with municipalities, waste water systems and individuals totaling \$511,273,400, of which \$442,737,969 had been disbursed at June 30, 2006. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 320,366,000	303,213,086
Series 2003	18,564,098	16,586,148
Equity Fund	170,912,902	122,369,107
Planning and Design	1,430,400	569,628
Balance at June 30, 2006	\$ 511,273,400	442,737,969

The Drinking Water Program has loan agreements with drinking water systems totaling \$201,841,710, of which \$179,177,181 had been disbursed at June 30, 2006. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 64,422,460	61,134,520
Series 2003	52,813,540	49,242,685
Equity Fund	83,489,000	68,341,072
Planning and Design	1,116,710	458,904
Balance at June 30, 2006	\$ 201,841,710	179,177,181

(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.

(8) Restatement

The On-site Waste Water Treatment Loans were previously included as current and long term loans receivable. However, it was determined during the year ended June 30, 2006 these are not actual loans to individuals. The funds are deposited in non interest bearing savings accounts in the financial institutions making the loans. As a result, the Clean Water Program Funds cash and cash equivalents beginning of year balance was restated from \$132,966,279 to \$134,514,574.

In addition, during the year ended June 30, 2006, the EPA required a change in reporting of the Federal Capitalization Grants related to the Drinking Water Program (Note 5). This change reallocated the draws from a first-in first-out method to accounting for the draws on a grant basis. The total amount drawn did not change.

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

Supplementary Information

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

Schedule of Loan Activity – Clean Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Adair	\$ 1,058,000	923,582	122,000	801,582
Adel	1,000,000	309,000	163,000	146,000
Afton	515,000	462,000	188,000	274,000
Agency	234,000	224,000	140,000	84,000
Anita	225,000	225,000	135,000	90,000
Ankeny	7,054,000	7,054,000	2,249,000	4,805,000
Arcadia	243,000	176,824	-	176,824
Armstrong	500,000	455,000	192,000	263,000
Asbury	3,800,000	1,860,945	-	1,860,945
Audubon	2,666,000	2,595,000	304,000	2,291,000
Aurelia	900,000	721,000	206,000	515,000
Avoca	415,000	219,000	150,000	69,000
Battle Creek	338,000	170,000	33,000	137,000
Beacon	600,000	546,000	86,000	460,000
Blencoe	73,000	73,000	26,000	47,000
Bondurant	800,000	575,000	159,000	416,000
Boone	8,170,000	8,151,000	3,578,000	4,573,000
Boyden	196,000	188,000	21,000	167,000
Breda	686,000	686,000	194,000	492,000
Bronson	361,000	230,000	46,000	184,000
Brooklyn	1,325,000	1,315,000	234,000	1,081,000
Burt	656,000	650,000	101,000	549,000
Calmar	2,300,000	2,054,000	164,000	1,890,000
Camanche	336,000	323,000	230,000	93,000
Cambridge	448,000	374,000	78,000	296,000
Cantril	452,000	200,729	-	200,729
Carroll	11,000,000	10,998,000	410,000	10,588,000
Carson	750,000	265,177	28,000	237,177
Charles City	3,000,000	2,909,776	227,000	2,682,776
Cherokee	6,463,000	5,560,000	843,000	4,717,000
Clarence	477,000	468,000	183,000	285,000
Clear Lake	11,100,000	11,100,000	7,292,000	3,808,000
Clinton	2,755,000	2,564,000	1,360,000	1,204,000
Coleburg	140,000	-	-	-
Colfax	1,984,000	1,984,000	310,000	1,674,000
Columbus City	232,000	232,000	42,000	190,000
Columbus Junction	606,000	606,000	109,000	497,000
Conrad	1,461,000	1,461,000	389,000	1,072,000
Coralville	3,775,000	3,034,000	442,000	2,592,000
Corning	3,075,000	3,032,000	228,000	2,804,000
Correctionville	1,000,000	850,000	195,000	655,000
Corydon	910,000	882,000	117,000	765,000
Cresco	1,000,000	853,000	155,000	698,000
Creston	4,022,000	4,020,000	1,426,000	2,594,000

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Dallas Center	1,000,000	857,000	173,000	684,000
Dayton	765,000	744,000	116,000	628,000
Decorah	825,000	825,000	90,000	735,000
Denmark	500,000	500,000	249,000	251,000
Des Moines	27,302,000	25,375,303	8,019,000	17,356,303
Dewitt	5,599,000	4,903,766	1,724,000	3,179,766
DNR State Parks	3,918,000	3,227,920	875,000	2,352,920
Dows	310,000	310,000	185,000	125,000
Durant	2,113,000	2,113,000	713,000	1,400,000
Dyersville	2,269,000	2,267,000	323,000	1,944,000
Eagle Grove	2,604,000	2,468,000	260,000	2,208,000
Earlham	1,450,000	1,370,000	220,000	1,150,000
Earling	133,000	129,000	62,000	67,000
Eldora	7,202,751	5,813,751	394,751	5,419,000
Elkader	100,500	95,425	-	95,425
Emmetsburg	1,160,000	1,158,000	198,000	960,000
Exira	425,000	425,000	66,000	359,000
Farley	2,270,000	2,061,928	86,000	1,975,928
Fort Dodge	16,922,000	16,722,180	3,099,000	13,623,180
Fort Madison	1,120,000	1,120,000	285,000	835,000
Fredonia	196,000	196,000	36,000	160,000
Fremont	601,000	601,000	207,000	394,000
Gladbrook	706,000	481,000	119,000	362,000
Gowrie	700,000	96,071	-	96,071
Graettinger	705,000	699,000	163,000	536,000
Grand Mound	130,000	130,000	85,000	45,000
Grandview	300,000	300,000	23,000	277,000
Granger	665,000	655,000	176,000	479,000
Grimes	5,372,000	5,372,000	952,000	4,420,000
Griswold	750,000	750,000	167,000	583,000
Hamburg	369,000	358,246	73,000	285,246
Hartley	1,732,000	1,730,000	64,000	1,666,000
Hazelton	730,000	618,000	171,000	447,000
Holstein	1,041,000	1,036,000	316,000	720,000
Hudson	500,000	5,000	-	5,000
Humeston	168,000	13,085	6,000	7,085
Hull	750,000	750,000	167,000	583,000
Humboldt	4,847,000	4,619,000	1,046,000	3,573,000
Indianola	383,000	383,000	167,000	216,000
Inwood	529,000	529,000	104,000	425,000
Iowa Falls	5,045,000	3,709,000	1,524,000	2,185,000
Irwin	243,000	99,792	9,000	90,792
Jefferson	4,951,000	4,589,000	374,000	4,215,000

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

Schedule of Loan Activity – Clean Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Johnston	6,335,000	4,505,316	132,000	4,373,316
Kalona	1,093,000	992,000	255,000	737,000
Kanawha	338,000	338,000	185,000	153,000
Keystone	600,000	504,000	89,000	415,000
Lake Park	1,740,000	1,700,000	350,000	1,350,000
Lake View	1,138,000	1,138,000	249,000	889,000
Lamoni	1,108,000	1,108,000	172,000	936,000
Lamotte	319,000	265,266	12,000	253,266
Lansing	205,900	204,400	-	204,400
Larchwood	700,000	633,614	110,000	523,614
Laurens	972,000	711,214	36,000	675,214
Le Grand	500,000	455,000	279,000	176,000
Le Mars	7,900,000	7,898,000	325,000	7,573,000
Lester	50,000	-	-	-
Lisbon	1,200,000	1,198,000	91,000	1,107,000
Logan	1,257,000	1,210,000	217,000	993,000
Lone Tree	1,021,000	786,000	232,000	554,000
Lovillia	554,000	554,000	64,000	490,000
Malvern	799,000	778,000	60,000	718,000
Manning	800,000	140,076	30,000	110,076
Manson	1,813,000	1,813,000	118,000	1,695,000
Mapleton	25,000	-	-	-
Maquoketa	4,546,000	4,487,687	1,801,000	2,686,687
Marcus	1,375,000	1,339,000	420,000	919,000
Marengo	360,000	360,000	217,000	143,000
Marshalltown	4,349,000	4,349,000	2,000	4,347,000
Martensdale	210,000	176,000	99,000	77,000
Mason City	4,237,000	4,237,000	2,752,000	1,485,000
Mc Causland	90,000	67,962	-	67,962
Melbourne	682,000	562,231	25,000	537,231
Melcher-Dallas	405,000	382,000	99,000	283,000
Minburn	657,000	653,000	325,000	328,000
Minden	700,000	524,462	-	524,462
Missouri Valley	337,000	329,000	198,000	131,000
Mitchellville	1,200,000	1,200,000	45,000	1,155,000
Monroe	520,000	446,360	92,000	354,360
Montour	149,000	96,000	52,000	44,000
Morning Sun	242,000	242,000	95,000	147,000
Moulton	400,000	400,000	122,000	278,000
Mount Ayr	2,825,000	2,078,079	-	2,078,079
Moville	500,000	500,000	78,000	422,000
Mt. Pleasant	12,767,000	12,767,000	2,103,000	10,664,000
Nevada	1,114,000	1,114,000	549,000	565,000
New London	727,000	608,335	27,000	581,335

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
New Sharon	546,000	388,000	74,000	314,000
New Vienna	500,000	240,030	-	240,030
Newton	2,261,000	2,261,000	260,000	2,001,000
North Liberty	5,572,000	5,093,000	1,425,000	3,668,000
Norwalk	2,903,000	2,903,000	692,000	2,211,000
Oelwein	8,954,000	6,784,674	-	6,784,674
Ogden	2,000,000	1,776,592	74,000	1,702,592
Osceola	4,550,000	4,522,000	981,000	3,541,000
Oskaloosa	8,203,000	7,670,728	1,913,000	5,757,728
Ottumwa	15,330,000	15,151,043	6,528,000	8,623,043
Oxford	266,000	262,000	117,000	145,000
Oxford Junction	50,000	40,806	-	40,806
Panora	265,000	265,000	10,000	255,000
Parkersburg	1,176,000	900,060	258,000	642,060
Paullina	612,000	424,859	320,000	104,859
Pella	6,515,000	5,045,000	999,000	4,046,000
Perry	2,682,000	2,682,000	1,003,000	1,679,000
Pleasantville	876,000	744,000	200,000	544,000
Pocahontas	1,200,000	519,801	45,000	474,801
Preston	715,000	715,000	460,000	255,000
Primghar	1,133,000	488,884	86,000	402,884
Quasqueton	650,000	614,000	96,000	518,000
Radcliffe	783,000	583,069	29,000	554,069
Reinbeck	2,990,000	2,958,000	111,000	2,847,000
Rockwell City	1,766,000	1,766,000	459,000	1,307,000
Rolfe	635,000	514,616	24,000	490,616
Russell	350,000	334,000	26,000	308,000
Ryan	510,000	327,050	41,000	286,050
Sanborn	916,000	916,000	34,000	882,000
Scranton	773,000	684,890	29,000	655,890
Sheldon	875,000	814,000	189,000	625,000
Shellsburg	1,982,000	1,948,000	230,000	1,718,000
Sibley	294,000	274,000	11,000	263,000
Sigourney	1,546,000	1,393,000	406,000	987,000
Sioux Center	2,164,000	2,164,000	764,000	1,400,000
Sioux City	41,785,000	11,093,000	2,106,000	8,987,000
Slater	1,500,000	1,410,000	168,000	1,242,000
Solon	250,000	217,826	29,000	188,826
Springbrook	283,000	283,000	21,000	262,000
Stanley	50,000	50,000	4,000	46,000
Stanton	275,000	275,000	165,000	110,000
Stanwood	294,000	294,000	222,000	72,000
Stratford	350,000	350,000	209,000	141,000
Strawberry Point	1,500,000	689,442	-	689,442
Sully	607,000	607,000	230,000	377,000
Sumner	3,100,000	2,857,233	234,000	2,623,233

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

Schedule of Loan Activity – Clean Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Sutherland	670,000	594,000	25,000	569,000
Tabor	1,000,000	950,000	441,000	509,000
Tama	1,828,000	1,784,000	812,000	972,000
Tiffin	1,600,000	1,570,000	419,000	1,151,000
Tipton	3,200,000	3,128,000	239,000	2,889,000
Traer	858,000	858,000	118,000	740,000
Tripoli	825,000	716,000	72,000	644,000
Truro	213,000	176,301	16,000	160,301
Urbandale Ssd	3,400,000	3,400,000	1,676,000	1,724,000
Van Horne	1,750,000	1,725,000	254,000	1,471,000
Van Meter	559,000	457,000	278,000	179,000
Victor	1,000,000	10,000	-	10,000
Walford	2,505,000	2,430,000	266,000	2,164,000
Wapello	503,000	364,967	-	364,967
Warren	94,000	3,133	-	3,133
Waukee	2,579,000	2,568,000	791,000	1,777,000
Wayland	400,000	346,371	126,000	220,371
Webster City	3,900,000	3,900,000	874,000	3,026,000
Wellman	1,339,000	1,317,000	300,000	1,017,000
West Bend	825,000	699,000	215,000	484,000
West Des Moines	6,558,000	6,558,000	2,949,000	3,609,000
West/High Amana	715,000	715,000	31,000	684,000
West Point	665,000	569,000	264,000	305,000
Whiting	398,000	366,000	29,000	337,000
Williams	659,000	659,000	45,000	614,000
Williamsburg	1,200,000	1,074,843	44,000	1,030,843
Wilton	1,794,000	1,794,000	402,000	1,392,000
Winterset	1,100,000	1,100,000	246,000	854,000
Woodward	600,000	500,000	64,000	436,000
Worthington	350,000	304,000	75,000	229,000
Wyoming	404,000	396,000	55,000	341,000
	443,390,151	378,963,720	90,156,751	288,806,969
Projects completed and paid in full	67,883,249	63,774,249	63,774,249	-
Total	\$ 511,273,400	442,737,969	153,931,000	288,806,969

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, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Ainsworth	\$ 530,000	417,660	40,000	377,660
Albia	1,250,000	695,118	5,000	690,118
Alden	850,000	476,000	78,000	398,000
Alleman	693,000	680,349	21,000	659,349
Alton	125,000	125,000	15,000	110,000
Andrew	552,000	527,000	110,000	417,000
Ankeny	925,000	908,000	180,000	728,000
Asbury	3,081,000	3,079,000	361,000	2,718,000
Bancroft	783,000	705,487	83,000	622,487
Bayard	99,200	85,067	-	85,067
Blairstown	1,344,000	1,344,000	249,000	1,095,000
Bondurant	972,000	972,000	205,000	767,000
Boyden	700,000	700,000	102,000	598,000
Breda	555,000	539,611	42,000	497,611
Brooklyn	300,000	3,000	-	3,000
Burlington	205,000	196,037	-	196,037
Calamus	460,000	144,948	-	144,948
Cambridge	685,000	649,639	46,000	603,639
Charlotte	200,000	158,548	12,000	146,548
Clarinda	6,500,000	1,793,567	-	1,793,567
Collins	550,000	276,082	-	276,082
Corning	4,008,000	4,008,000	624,000	3,384,000
Corydon	1,193,000	1,173,614	45,000	1,128,614
Crescent	400,000	20,831	-	20,831
Delhi	116,000	116,000	8,000	108,000
Delta	560,000	163,420	43,935	119,485
De Soto	190,000	178,000	41,000	137,000
Denison	4,808,000	4,808,000	949,000	3,859,000
Des Moines	2,492,000	2,403,000	280,000	2,123,000
Dewitt	1,200,000	1,200,000	184,000	1,016,000
Donahue	70,000	-	-	-
Dow City	144,000	144,000	27,000	117,000
Dyersville	849,000	847,000	132,000	715,000
Edge wood	250,000	173,948	10,000	163,948
Elkader	2,033,000	1,649,477	76,000	1,573,477
Elk Horn	950,000	753,819	85,000	668,819
Emmetsburg	2,750,000	2,635,731	-	2,635,731
Fairfield	5,900,000	5,796,319	439,000	5,357,319
Farmersburg	560,000	416,000	21,000	395,000
Farmington	360,000	358,000	13,000	345,000
Farragut	475,000	470,000	36,000	434,000
Fort Dodge	8,633,000	7,947,988	263,000	7,684,988
Glidden	870,000	802,000	32,000	770,000

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

Schedule of Loan Activity – Drinking Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Gooselake	564,000	530,000	41,000	489,000
Gowrie	695,000	589,000	48,000	541,000
Grand Mound	480,000	418,577	18,000	400,577
Grimes	5,976,000	5,970,000	1,127,000	4,843,000
Griswold	110,000	109,000	64,000	45,000
Humboldt	317,300	50,768	-	50,768
Hancock	195,000	178,000	42,000	136,000
Hartford	538,000	446,000	102,000	344,000
Hudson	630,000	6,300	-	6,300
Huxley	2,316,000	2,314,000	362,000	1,952,000
Iowa Amer Water	2,265,000	2,265,000	427,000	1,838,000
Janesville	225,000	225,000	62,000	163,000
Jewell	1,223,000	457,692	46,000	411,692
Kalona	1,067,000	1,067,000	81,000	986,000
Keota	1,244,000	983,164	122,000	861,164
Lake View	590,000	529,000	101,000	428,000
Lamoni	300,000	298,000	59,000	239,000
Lansing	550,000	64,622	-	64,622
Latimer	435,000	435,000	99,000	336,000
Laurens	356,000	69,268	13,000	56,268
Lemars	9,400,000	8,238,000	1,146,000	7,092,000
Lenox	69,000	17,950	-	17,950
Leon	998,000	889,622	37,000	852,622
Lockridge	135,000	134,000	5,000	129,000
Lone Tree	700,000	700,000	116,000	584,000
Lorhville	390,000	343,000	50,000	293,000
Maquoketa	2,500,000	2,498,000	-	2,498,000
Mason City	17,565,000	15,606,178	2,020,000	13,586,178
Maynard	414,000	331,195	-	331,195
Mechanicsville	595,000	397,000	105,000	292,000
Melcher - Dallas	475,000	196,529	-	196,529
Morning Sun	365,000	365,000	84,000	281,000
Mitchellville	3,280,000	2,642,727	-	2,642,727
Mt.Pleasant	5,934,000	5,934,000	1,371,000	4,563,000
Neola	350,000	348,000	26,000	322,000
Nevada	8,438,000	8,169,850	-	8,169,850
Newhall	1,054,000	743,000	158,000	585,000
Newton	1,200,000	1,156,000	263,000	893,000
North English	590,000	562,000	63,000	499,000
Northwood	1,690,000	1,690,000	391,000	1,299,000
Norwalk	1,175,000	1,175,000	272,000	903,000
Norway	125,000	95,000	16,000	79,000

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Drinking Water Program

June 30, 2006

Loan Recipient	Total Loan Commitment	Cummulative Amount Disbursed	Cummulative Loan Payments Received	June 30, 2006 Outstanding Loan Balance
Odebolt	688,000	504,000	128,000	376,000
Osceola	4,066,000	3,267,914	468,000	2,799,914
Ossian	600,000	585,684	52,000	533,684
Ottumwa	4,000,000	3,994,294	-	3,994,294
Oxford	495,000	495,000	115,000	380,000
Panora	405,000	393,000	105,000	288,000
Perry	625,000	600,000	166,000	434,000
Pocahontas	1,615,000	1,477,331	122,000	1,355,331
Polk County	800,000	800,000	184,000	616,000
Prairie City	1,175,000	1,175,000	216,000	959,000
Rockwell City	466,000	458,000	35,000	423,000
Scranton	861,000	861,000	199,000	662,000
Shelby	800,000	800,000	152,000	648,000
Sigourney	440,000	440,000	87,000	353,000
Sioux City	25,000,000	22,681,713	2,431,000	20,250,713
Somers	56,000	56,000	10,000	46,000
Spencer	1,525,000	1,500,000	281,000	1,219,000
Spirit Lake	3,764,000	3,501,000	421,000	3,080,000
Stanton	420,000	420,000	97,000	323,000
Storm Lake	7,500,000	7,497,228	567,000	6,930,228
Sully	550,000	550,000	151,000	399,000
Tiffin	1,650,000	1,648,000	190,000	1,458,000
Treynor	300,000	228,000	28,000	200,000
Van Horne	420,000	374,000	30,000	344,000
Vinton	40,000	40,000	7,000	33,000
Wahpeton	1,536,000	1,513,000	115,000	1,398,000
Welton	85,000	69,442	-	69,442
West Branch	2,600,000	2,166,698	-	2,166,698
Winfield	1,475,000	1,302,175	-	1,302,175
Winterset	196,210	-	-	-
Total	\$ 201,841,710	179,177,181	20,151,935	159,025,246

See accompanying independent auditor's report.

**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

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, 2006, and have issued our report thereon dated April 5, 2007. 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

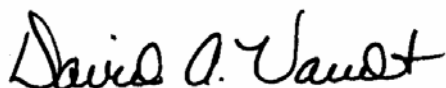
In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and 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 including federal awarding agencies. 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

April 5, 2007



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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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:

Compliance

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.

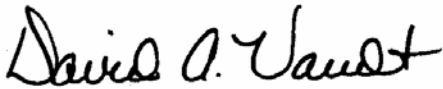
In our opinion, the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs complied, in all material respects, with the requirements referred to above that are applicable to its federal financial assistance programs for the year ended June 30, 2006.

Internal Control Over Compliance

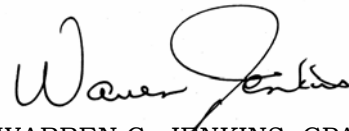
The management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving internal control over compliance and its operations 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, 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

April 5, 2007

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

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

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings for Federal Programs:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over compliance were noted.

Findings Related to Required Statutory Reporting:

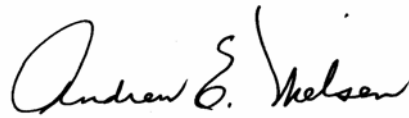
No matters were noted.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

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