



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

July 11, 2003

Contact: Andy Nielsen  
515/281-5515

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 revenues of \$33,742,252 for the year ended June 30, 2002, including interest income on loans of \$9,073,907 and investment income of \$9,099,762, net of rebate expense of \$478,085. The Drinking Water Program reported revenues of \$23,895,678, including interest income on loans of \$1,122,011 and investment income of \$2,417,656, net of rebate expense of \$446,053.

Expenses of the Clean Water Program for the year ended June 30, 2002 totaled \$11,993,396, including \$9,902,738 for bond interest expense, \$995,077 for general and administrative expenses, and \$1,095,581 for loss on bond redemption. The Program loaned \$27,629,856 to municipalities and waste water systems and collected loan repayments of \$15,214,000 during the year. At June 30, 2002, the Clean Water Program had loans receivable from municipalities and waste water systems totaling \$215,819,064.

Expenses of the Drinking Water Program for the year ended June 30, 2002 totaled \$3,010,997, consisting of \$2,389,288 for bond interest expense, \$203,737 for general and administrative expenses, \$248,801 for source water protection, and \$169,171 for small community technical assistance. The Program loaned \$24,755,941 to drinking water systems and collected loan repayments of \$1,437,000 during the year. At June 30, 2002, the Drinking Water Program had loans receivable from drinking water systems totaling \$43,727,665.

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

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**IOWA WATER POLLUTION CONTROL WORKS AND  
DRINKING WATER FACILITIES FINANCING PROGRAMS  
(JOINT PROGRAMS OF THE IOWA FINANCE AUTHORITY  
AND THE IOWA DEPARTMENT OF NATURAL RESOURCES)**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2002**

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

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

**Iowa Finance Authority Board**

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

**Environmental Protection Commission**

Kathryn Murphy	Chairperson
Gary C. Priebe	Vice Chairperson
Rita Venner	Secretary
James Braun	Member
Lisa Davis Cook	Member
Lori Glanzman	Member
Darrell Hanson	Member
Kelly Tobin	Member
Terrance Townsend	Member

**Iowa Finance Authority**

Michael Tramontina	Executive Director
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**Iowa Department of Natural Resources**

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



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs, as of and for the year ended June 20, 2002, as 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities and each major fund of the State of Iowa that is attributable to the transactions of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted auditing standards.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2002, and the changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 8 to the financial statements, during the year ended June 30, 2002, the Iowa Finance Authority and the Iowa Department of Natural Resources adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement Number 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; and Statement Number 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our reports dated February 21, 2003 on our consideration of Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2001 (none of which are presented herein) and expressed unqualified opinions on those 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 aforementioned 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

February 21, 2003



Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2002

	Clean Water Program Funds	Drinking Water Program Funds	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (note 2)	\$ 108,805,252	7,366,164	116,171,416
Investments (note 2)	20,755,012	3,263,053	24,018,065
Loans receivable (note 3)	11,755,000	1,890,000	13,645,000
Accrued interest receivable	3,466,345	1,613,513	5,079,858
Other assets	24,460	8,180	32,640
<b>Total current assets</b>	<b>144,806,069</b>	<b>14,140,910</b>	<b>158,946,979</b>
Noncurrent assets:			
Investments (note 2)	75,010,049	44,089,120	119,099,169
Loans receivable (note 3)	204,064,064	41,837,665	245,901,729
<b>Total noncurrent assets</b>	<b>279,074,113</b>	<b>85,926,785</b>	<b>365,000,898</b>
<b>Total assets</b>	<b>423,880,182</b>	<b>100,067,695</b>	<b>523,947,877</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	380,055	206,957	587,012
Accrued interest payable	4,723,854	1,567,367	6,291,221
Rebates owed	326,218	-	326,218
Deferred initiation fees	163,633	34,891	198,524
Due to Iowa Finance Authority	129,548	36,585	166,133
Bonds payable, net (note 4)	15,203,969	1,633,507	16,837,476
<b>Total current liabilities</b>	<b>20,927,277</b>	<b>3,479,307</b>	<b>24,406,584</b>
Noncurrent liabilities:			
Rebates owed	2,864,182	1,198,457	4,062,639
Deferred initiation fees	2,072,261	623,744	2,696,005
Bonds payable, net (note 4)	160,014,073	56,205,551	216,219,624
<b>Total noncurrent liabilities</b>	<b>164,950,516</b>	<b>58,027,752</b>	<b>222,978,268</b>
<b>Total liabilities</b>	<b>185,877,793</b>	<b>61,507,059</b>	<b>247,384,852</b>
<b>Net Assets</b>			
Restricted net assets:			
Per bond resolution	136,064,053	32,364,609	168,428,662
Per other agreements	101,938,336	6,196,027	108,134,363
<b>Total net assets</b>	<b>\$ 238,002,389</b>	<b>38,560,636</b>	<b>276,563,025</b>

See notes to financial statements.

**Exhibit B**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2002

	Clean Water Program Funds	Drinking Water Program Funds	Total
Operating revenues:			
Interest on loans	\$ 9,073,907	1,122,011	10,195,918
Investment income	9,099,762	2,417,656	11,517,418
Rebate expense	(478,085)	(446,053)	(924,138)
Federal grants	15,733,935	20,746,748	36,480,683
Initiation fees	184,245	21,944	206,189
Other income and fees	128,488	33,372	161,860
Total operating revenues	<u>33,742,252</u>	<u>23,895,678</u>	<u>57,637,930</u>
Operating expenses:			
Bond interest expense	9,902,738	2,389,288	12,292,026
Loss on bond redemption	1,095,581	-	1,095,581
General and administrative	995,077	203,737	1,198,814
Source water protection	-	248,801	248,801
Small community technical assistance	-	169,171	169,171
Total operating expenses	<u>11,993,396</u>	<u>3,010,997</u>	<u>15,004,393</u>
Operating income	21,748,856	20,884,681	42,633,537
Net assets beginning of year	<u>216,253,533</u>	<u>17,675,955</u>	<u>233,929,488</u>
Net assets end of year	<u>\$ 238,002,389</u>	<u>38,560,636</u>	<u>276,563,025</u>

See notes to financial statements.

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2002

	Clean Water Program Funds	Drinking Water Program Funds	Total
Cash flows from operating activities:			
Initiation and service fees received	\$ 442,110	399,156	841,266
Interest received on loans to municipalities and waste water systems	9,011,751	1,036,710	10,048,461
Collection of principal on loans to municipalities and waste water systems	15,214,000	1,437,000	16,651,000
Loans disbursed to municipalities and waste water systems	(27,629,856)	(24,755,941)	(52,385,797)
Draws on capitalization grants from EPA	15,733,935	20,746,748	36,480,683
Cash payments to suppliers and grantees	(806,857)	(524,321)	(1,331,178)
Net cash provided by (used for) operating activities	11,965,083	(1,660,648)	10,304,435
Cash flows from non-capital financing activities:			
Proceeds from issuance of debt	185,214,163	59,201,172	244,415,335
Payment of interest on debt	(6,581,915)	(1,556,414)	(8,138,329)
Payment of debt issuance costs	(383,593)	(124,290)	(507,883)
Repayment of debt	(203,963,653)	(37,583,747)	(241,547,400)
Net cash provided by (used for) non-capital financing activities	(25,714,998)	19,936,721	(5,778,277)
Cash flows from investing activities:			
Sales/maturities of investments	242,772,465	53,482,631	296,255,096
Purchases of investments	(145,598,230)	(67,068,139)	(212,666,369)
Interest received on investments	8,517,980	1,824,776	10,342,756
Payments of rebates owed	(1,520,854)	-	(1,520,854)
Net cash provided by (used for) investing activities	104,171,361	(11,760,732)	92,410,629
Net increase in cash and cash equivalents	90,421,446	6,515,341	96,936,787
Cash and cash equivalents at the beginning of year	18,383,806	850,823	19,234,629
Cash and cash equivalents at the end of year	\$ 108,805,252	7,366,164	116,171,416

**Exhibit C**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2002

	Clean Water Program Funds	Drinking Water Program Funds	Total
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income	\$ 21,748,856	20,884,681	42,633,537
Adjustment to reconcile operating income to net cash provided by (used for) operating activities:			
Investment income	(9,099,762)	(2,417,656)	(11,517,418)
Rebate expense	478,085	446,053	924,138
Bond interest expense	9,902,738	2,389,288	12,292,026
Loss on bond redemption	1,095,581	-	1,095,581
Amortization of initiation fees	(184,245)	(21,944)	(206,189)
Initiation fees received	318,530	370,900	689,430
Collection of principal on loans to municipalities and waste water systems	15,214,000	1,437,000	16,651,000
Loans disbursed to municipalities and waste water systems	(27,629,856)	(24,755,941)	(52,385,797)
(Increase) in accrued interest receivable on loans	(62,155)	(85,302)	(147,457)
Increase in other assets and due to Iowa Finance Authority	32,848	9,467	42,315
Increase in accounts payable and accrued expenses	150,463	82,806	233,269
Total adjustments	(9,783,773)	(22,545,329)	(32,329,102)
Net cash provided by (used for) operating activities	\$ 11,965,083	(1,660,648)	10,304,435

See notes to financial statements.

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2002

**(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 the construction progress. The Authority administers the aspects of the Clean Water Program relating to arranging financing and accounting for the loans, their repayments, and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and waste water systems to finance all or part of the construction of waste water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues of the Clean Water Program. The obligations do not constitute a debt of the state nor of the Authority, and neither is liable for any repayments.

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 the construction progress. The Authority administers the aspects of the Drinking Water Program relating to arranging financing and accounting for the loans, their repayments, and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and drinking water facilities to finance all or part of the construction of drinking water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues of the Drinking Water Program. The obligations do not constitute a debt of the state nor of the Authority, and neither is liable for any repayment.

The Clean Water and Drinking Water Programs' financial statements are included in the State of Iowa's comprehensive annual financial report.

The financial statements of the Clean Water and Drinking Water Programs have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Programs' accounting policies are described below:

A. Reporting Entity

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

B. Fund Accounting

The accounts of the Clean Water Program and the Drinking Water Program are treated as enterprise funds, proprietary fund types. The operations of the funds are accounted for with separate sets of self-balancing accounts which comprise their assets, liabilities, net assets, revenues and expenses.

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

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

#### C. Measurement Focus

Proprietary Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their balance sheets. Their reported fund equity, net total assets, is reported as net assets. Proprietary Fund type operating statements present increases (revenue) and decreases (expenses) in net total assets.

In reporting the financial activity of their proprietary 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.

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

#### E. Assets, Liabilities and Net Assets

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

### Cash Equivalents

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

### Investments

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

### Loans to Municipalities, Waste Water Systems and Drinking Water Systems

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

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

### Bond Issuance Costs and Discounts

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

### Rebates Owed

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

### Deferred Initiation Fees

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



### Net Assets

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

### Revenue and Expense Recognition

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

### F. Use of Estimates

Management of the Programs have made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

### G. Totals

The "total" columns contain the totals of the similar accounts of the various funds. Due to restrictions created by federal and Iowa law and the various bond resolutions and agreements, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided by Federal and Iowa law and the bond resolutions or agreements.

## **(2) Cash, Cash Equivalents and Investments**

At June 30, 2002, cash and cash equivalents consisted of co-mingled funds of \$116,171,416 invested in open-end mutual funds.

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

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

Investments at June 30, 2002 were comprised of the following:

	Clean Water Program	Drinking Water Program	Total
Repurchase agreements secured by United States government and agency obligations under repurchase agreements due:			
Within 12 months	\$ 20,755,012	3,263,053	24,018,065
Beyond 12 months but within 5 years	22,446,549	16,331,620	38,778,169
Beyond 5 years	52,563,500	27,757,500	80,321,000
Total	\$ 95,765,061	47,352,173	143,117,234

**(3) Loans Receivable**

The Clean Water and Drinking Water Programs make loans to municipalities, waste water systems and drinking water systems for projects that meet the eligibility requirements of the Clean Water Act and the Safe Drinking Water Act. Loans are financed by capitalization grants, bond proceeds, the state match, and revolving funds. Effective interest rates on loans vary between 3.00 percent and 5.02 percent, and loans are generally repaid over 20 years starting one year after the project is completed.

The Clean Water Program has made commitments to municipalities and waste water systems to provide loans for financing the construction of publicly owned water pollution control facilities. Each of the loan recipients has established a dedicated source of revenue for the repayment of the loans, including general obligation bonds or sewer revenue bonds issued at the recipient level. Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2002:

	<u>Loan</u>		
	<u>Commitment</u>	<u>Funds</u>	<u>Loan</u>
	<u>Amount</u>	<u>Disbursed</u>	<u>Balance</u>
Completed projects	\$ 247,257,000	237,588,000	174,188,000
Projects in progress	79,018,000	46,149,064	41,631,064
Totals	<u>\$ 326,275,000</u>	<u>283,737,064</u>	<u>215,819,064</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, 2002:

	<u>Loan</u>		
	<u>Commitment</u>	<u>Funds</u>	<u>Loan</u>
	<u>Amount</u>	<u>Disbursed</u>	<u>Balance</u>
Completed projects	\$ 22,026,000	21,809,000	20,499,000
Projects in progress	47,585,000	24,142,665	23,228,665
Totals	<u>\$ 69,611,000</u>	<u>45,951,665</u>	<u>43,727,665</u>

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

**(4) Bonds Payable**

Bonds payable at June 30, 2002 were as follows:

\$233,225,000 Iowa State Revolving Fund Revenue Bonds, Series, 2001, December 20, 2001 - \$210,395,000 due serially from August 1, 2002 to 2014 at interest rates of 4.00% to 5.50%; \$5,995,000 term bonds due August 1, 2016 at 5.50%; \$6,230,000 term bonds due August 1, 2018 at 5.50%; \$6,525,000 term bonds due August 1, 2020 at 5.00%; and \$4,080,000 term bonds due August 1, 2023 at 5.00%.

Clean Water Program Portion	\$ 176,150,000
Add unamortized bond issuance cost and net premium	7,965,281
Less unamortized loss on defeasance of refunded bonds	8,897,239
Total Clean Water Program revenue bonds	<u>\$ 175,218,042</u>
Drinking Water Program Portion	\$ 57,075,000
Add unamortized bond issuance cost and net premium	1,898,688
Less unamortized loss on defeasance of refunded bonds	1,134,630
Total Drinking Water Program revenue bonds	<u>\$ 57,839,058</u>

A summary of scheduled bond maturities and interest follows:

Year Ending June 30,	Clean Water Program		Drinking Water Program		Memorandum Only Totals
	Principal Amount	Interest	Principal Amount	Interest	
2003	\$ 15,355,000	9,661,321	1,560,000	3,261,351	29,837,672
2004	12,130,000	8,032,975	1,520,000	2,856,213	24,539,188
2005	12,490,000	7,426,813	2,460,000	2,761,900	25,138,713
2006	12,920,000	6,800,425	2,540,000	2,637,950	24,898,375
2007	13,825,000	6,161,425	2,620,000	2,512,375	25,118,800
2008-2012	74,750,000	19,426,481	14,290,000	10,403,056	118,869,537
2013-2017	34,680,000	2,479,575	15,250,000	6,422,331	58,831,906
2018-2022	-	-	15,070,000	2,286,125	17,356,125
2023-2027	-	-	1,765,000	74,125	1,839,125
	<u>\$ 176,150,000</u>	<u>59,989,015</u>	<u>57,075,000</u>	<u>33,215,426</u>	<u>326,429,441</u>

Defeased Debt:

Under the bond resolutions, the Authority has the option to redeem bonds at par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years; however, certain special redemptions, as governed by the bond resolutions, are permitted prior to such time. Term bonds are subject to mandatory redemptions, without premium, through sinking fund installments subsequent to the scheduled completion of retirement of the serial bonds of the same issue. The schedule of bond maturities includes the sinking fund installments for the term bonds. Bond maturities and interest rates are based on those in effect at June 30, 2002.

On December 20, 2001, the Authority issued Iowa State Revolving Fund Revenue Bonds, Series 2001, in the par amount of \$233,225,000 with interest rates of 4.00% to 5.50% in part to refund and defease \$23,350,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1991; \$23,390,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1992; \$30,005,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1993; \$17,965,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1994; \$17,000,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1995; \$29,320,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1996; \$9,430,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1997; \$21,040,000 of Iowa State Revolving Fund Revenue Bonds, Combined Series 1998; \$3,700,000 of Clean Water State Revolving Revenue Subordinated Bond Anticipation Notes, Series 2001; \$31,595,000 of Drinking Water Program Revenue Bonds, Combined Series 1999; and \$5,565,000 of Drinking Water Program Revenue Bonds, 2000 Series A (collectively the "Refunded Bonds") with overall interest rates of 2.50% to 6.25%. Proceeds of \$168,073,343 from the issuance of the Series 2001 bonds, along with \$53,028,591 of Refunded Bonds funds (consisting of Federal Capitalization Grants and revenues) were used to purchase U.S. government securities, which 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.

Although the refunding resulted in the recognition of an accounting loss of \$9,699,933 in the Clean Water Program Funds and \$1,197,724 in the Drinking Water Program Funds for the year ended June 30, 2002, the Authority in effect decreased its future debt service payments by approximately \$82,813,100 in the Clean Water Program Funds and \$14,924,200 in the Drinking Water Program Funds and obtained an aggregate present value savings (difference between the present value of the debt service payments on the old and new debt) of approximately \$7,732,000. The Iowa State Revolving Fund Revenue Bonds, Combined Series 1993-R under the Clean Water Program Funds were defeased in full and not refunded, resulting in a loss on redemption of approximately \$1,095,600 but decreased its future aggregate debt service payments by approximately \$27,538,400.

The bonds are secured, as described in the applicable bond resolution, by the revenues, monies, investments, loans, and other assets in the funds and accounts established by the respective bond resolutions.

**(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, 2002, the EPA has awarded capitalization grants of \$247,367,873 to the state for the Clean Water Program, of which \$192,473,568 has been drawn for loans and administrative expenses. In addition, the state has provided matching funds of \$49,473,747 through bond issuances within the Clean Water Program. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2002, and balances available for future loans or administrative expenses for the Clean Water Program.

Grant Award Year	EPA Grant Amount	Total Draws Beginning of Year	2002 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2002
1989	\$ 12,765,654	12,764,997	657	12,765,654	-
1990	13,204,422	13,167,577	36,845	13,204,422	-
1991	26,574,138	26,102,736	471,402	26,574,138	-
1992	25,650,000	25,592,845	57,155	25,650,000	-
1993	27,861,714	25,203,749	2,657,965	27,861,714	-
1994	16,140,960	15,983,077	157,883	16,140,960	-
1995	16,670,100	10,916,837	5,753,263	16,670,100	-
1996	27,306,080	25,079,739	2,226,341	27,306,080	-
1997	8,420,100	7,356,512	1,063,588	8,420,100	-
1998	18,381,432	14,571,564	3,308,836	17,880,400	501,032
1999	18,226,098	-	-	-	18,226,098
2000	18,164,322	-	-	-	18,164,322
2001	18,002,853	-	-	-	18,002,853
Totals	\$ 247,367,873	176,739,633	15,733,935	192,473,568	54,894,305

At June 30, 2002, the EPA has awarded capitalization grants of \$64,410,100 to the state for the Drinking Water Program, of which \$39,699,410 has been drawn for loans and other technical administrative expenses. In addition, the state has provided matching funds of \$12,882,020.

Grant Award Year	EPA Grant Amount	Total Draws Beginning of Year	2002 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2002
1997	\$ 16,857,300	9,679,868	4,336,055	14,015,923	2,841,377
1998	11,238,700	5,849,801	3,576,814	9,425,173	1,813,527
1999	11,779,300	3,387,905	2,559,966	5,949,313	5,829,987
2000	12,242,100	5,088	6,078,371	6,083,459	6,158,641
2001	12,292,700	-	4,195,542	4,195,542	8,097,158
Totals	\$ 64,410,100	18,922,662	20,746,748	39,669,410	24,740,690

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2001	\$176,739,633	18,922,662
Federal capitalization draws from EPA	15,733,935	20,746,748
Balance at June 30, 2002	\$ 192,473,568	39,699,410

**(6) Commitments**

The Clean Water Program has loan agreements with municipalities and waste water systems totaling \$326,275,000, of which \$283,737,064 was disbursed at June 30, 2002. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001 Equity Fund	\$ 313,982,000	282,875,484
	12,293,000	861,580
Total	\$ 326,275,000	283,737,064

The Drinking Water Program has loan agreements with drinking water systems totaling \$69,611,000, of which \$45,951,665 was disbursed at June 30, 2002. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001 Equity Fund	\$ 62,428,460	45,879,840
	7,182,540	71,825
Total	\$ 69,611,000	45,951,665

**(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 for the prior year and settlements have not exceeded coverage for the past three fiscal years.

**(8) Accounting Change**

Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement Number 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement Number 38, Certain Financial Statement Note Disclosures were implemented during fiscal year 2002. The statements create new basic financial statements for reporting on the Programs’ financial activities.

Adoption of these statements had no impact on the total net assets of the programs.

**(9) Subsequent Event**

On January 23, 2003, the Iowa Finance Authority issued \$56,100,000 of Iowa State Revolving Fund Revenue Bonds, Series 2003.

## **Supplemental Information**

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

## Schedule of Loan Activity – Clean Water Program

June 30, 2002

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2002 Outstanding Loan Balance
Adel	\$ 2,056,000	1,365,000	563,000	802,000
Afton	515,000	462,000	108,000	354,000
Agency	234,000	224,000	91,000	133,000
Albia	630,000	630,000	630,000	-
Anita	225,000	225,000	87,000	138,000
Ankeny	7,054,000	7,054,000	871,000	6,183,000
Armstrong	500,000	455,000	106,000	349,000
Aurelia	900,000	721,000	95,000	626,000
Avoca	415,000	219,000	105,000	114,000
Beacon	600,000	90,980	-	90,980
Blencoe	73,000	73,000	14,000	59,000
Bondurant	800,000	575,000	69,000	506,000
Boone	8,170,000	8,151,000	2,068,000	6,083,000
Breda	686,000	686,000	80,000	606,000
Bronson	361,000	230,000	12,000	218,000
Brooklyn	1,325,000	814,878	42,000	772,878
Burt	656,000	289,513	-	289,513
Camanche	336,000	323,000	155,000	168,000
Cambridge	448,000	318,435	17,000	301,435
Carlisle	2,084,000	1,583,000	526,000	1,057,000
Cherokee	6,463,000	2,951,580	71,000	2,880,580
Clarence	477,000	468,000	101,000	367,000
Clear Lake Sanitary Sewer District	16,631,000	16,631,000	7,850,000	8,781,000
Clinton	2,755,000	2,564,000	824,000	1,740,000
Columbus City	232,000	87,932	8,000	79,932
Columbus Junction	505,000	503,000	17,000	486,000
Conrad	1,461,000	1,461,000	153,000	1,308,000
Coralville	11,475,000	10,636,171	1,960,000	8,676,171
Correctionville	1,000,000	850,000	64,000	786,000
Corydon	256,000	230,000	52,000	178,000
Cresco	1,000,000	853,000	33,000	820,000
Creston	4,022,000	4,020,000	736,000	3,284,000
Dallas Center	1,000,000	857,000	41,000	816,000
Dayton	689,000	359,001	-	359,001
Denmark Sanitary Sewer District	500,000	500,000	151,000	349,000
Des Moines	50,106,000	45,436,675	19,662,000	25,774,675
De Witt	4,000,000	3,854,000	1,023,000	2,831,000
DNR State Parks	3,918,000	2,445,300	276,000	2,169,300
Dows	310,000	310,000	125,000	185,000



Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2002

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2002 Outstanding Loan Balance
Dumont	196,000	150,000	89,000	61,000
Durant	2,450,000	2,117,000	331,000	1,786,000
Dyersville	2,269,000	2,183,352	-	2,183,352
Dysart	384,000	345,000	207,000	138,000
Eagle Grove	500,000	500,000	35,000	465,000
Earlham	1,450,000	711,530	-	711,530
Earling	133,000	129,000	36,000	93,000
Edgewood	450,000	420,000	230,000	190,000
Eldora	3,877,000	1,207,813	131,000	1,076,813
Emmetsburg	560,000	560,000	78,000	482,000
Exira	425,000	4,250	-	4,250
Fort Dodge	13,217,000	12,834,240	640,000	12,194,240
Fort Madison	420,000	420,000	71,000	349,000
Fredonia	196,000	51,197	7,000	44,197
Fremont	601,000	601,000	91,000	510,000
Gladbrook	706,000	408,666	26,000	382,666
Graettinger	375,000	369,000	94,000	275,000
Grand Mound	310,000	269,000	115,000	154,000
Granger	665,000	655,000	70,000	585,000
Grimes	5,372,000	5,368,636	175,000	5,193,636
Grinnell	5,855,000	5,411,000	1,467,000	3,944,000
Griswold	750,000	750,000	51,000	699,000
Hamburg	369,000	59,189	14,000	45,189
Hazelton	730,000	618,000	73,000	545,000
Holstein	1,041,000	1,036,000	146,000	890,000
Hull	750,000	750,000	51,000	699,000
Humboldt	4,847,000	4,619,000	334,000	4,285,000
Independence	1,336,000	1,097,000	443,000	654,000
Indianola	1,736,000	1,682,000	549,000	1,133,000
Inwood	529,000	527,000	19,000	508,000
Iowa Falls	4,745,000	3,709,000	872,000	2,837,000
Johnston	2,359,000	2,359,000	806,000	1,553,000
Kanawha	338,000	338,000	117,000	221,000
Knoxville	1,592,000	1,592,000	545,000	1,047,000
Kalona	590,000	489,000	127,000	362,000
Lake Park	1,066,000	1,028,000	165,000	863,000
Lake View	1,138,000	1,138,000	76,000	1,062,000
Larchwood	700,000	352,080	-	352,080
Le Grand	500,000	455,000	187,000	268,000
Logan	1,257,000	1,176,793	41,000	1,135,793
Lone Tree	1,021,000	786,000	97,000	689,000
Lowden	145,000	145,000	90,000	55,000

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

## Schedule of Loan Activity – Clean Water Program

June 30, 2002

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2002 Outstanding Loan Balance
MacBride Sanitary Sewer District	175,000	168,000	49,000	119,000
Manson	309,000	3,090	12,000	(8,910)
Maquoketa	4,546,000	2,596,226	509,000	2,087,226
Marcus	1,375,000	1,339,000	196,000	1,143,000
Marengo	360,000	360,000	140,000	220,000
Martensdale	210,000	176,000	65,000	111,000
Mason City	4,237,000	4,237,000	1,782,000	2,455,000
Melcher-Dallas	405,000	126,899	39,000	87,899
Missouri Valley	337,000	329,000	128,000	201,000
Minburn	657,000	653,000	196,000	457,000
Monroe	520,000	446,360	17,000	429,360
Montour	149,000	96,000	36,000	60,000
Morning Sun	242,000	242,000	51,000	191,000
Moulton	400,000	400,000	56,000	344,000
Moville	500,000	47,549	-	47,549
Mount Pleasant	7,657,000	7,652,000	787,000	6,865,000
Nevada	1,114,000	1,114,000	329,000	785,000
New Sharon	546,000	388,000	18,000	370,000
Newton	2,261,000	22,610	-	22,610
North Liberty	5,572,000	5,093,000	605,000	4,488,000
Norwalk	2,903,000	2,717,364	236,000	2,481,364
Osceola	1,880,000	1,854,000	220,000	1,634,000
Oskaloosa	7,166,000	7,166,000	1,956,000	5,210,000
Ottumwa	15,000,000	15,000,000	3,692,000	11,308,000
Oxford	266,000	262,000	68,000	194,000
Parkersburg	1,176,000	900,060	79,000	821,060
Paullina	567,000	418,000	147,000	271,000
Pella	6,515,000	4,473,000	216,000	4,257,000
Perry	6,021,000	6,021,000	1,085,000	4,936,000
Pleasantville	876,000	723,552	75,000	648,552
Preston	715,000	715,000	302,000	413,000
Rockwell City	1,766,000	1,766,000	181,000	1,585,000
Ryan	195,000	168,048	13,000	155,048
Sheldon	1,167,000	1,105,595	353,000	752,595
Sigourney	523,000	436,000	161,000	275,000
Sioux Center	2,164,000	2,164,000	391,000	1,773,000
Sioux City	10,785,000	2,865,000	675,000	2,190,000

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2002

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2002 Outstanding Loan Balance
Stanton	275,000	275,000	106,000	169,000
Stanwood	294,000	294,000	120,000	174,000
Stratford	350,000	350,000	135,000	215,000
Sully	607,000	607,000	125,000	482,000
Tabor	1,000,000	950,000	261,000	689,000
Tama	1,828,000	1,784,000	462,000	1,322,000
Tiffin	1,600,000	1,570,000	170,000	1,400,000
Traer	757,000	400,303	-	400,303
Tripoli	825,000	716,000	10,000	706,000
Urbandale Sanitary Sewer District	3,400,000	3,400,000	987,000	2,413,000
Van Hone	925,000	531,150	-	531,150
Van Meter	559,000	457,000	184,000	273,000
Waukee	2,579,000	2,494,651	365,000	2,129,651
Wayland	266,000	249,000	79,000	170,000
Webster City	3,900,000	3,900,000	269,000	3,631,000
Wellman	1,339,000	1,315,830	93,000	1,222,830
West Bend	825,000	699,000	100,000	599,000
West Des Moines	6,558,000	6,558,000	1,724,000	4,834,000
West Point	665,000	569,000	158,000	411,000
Wilton	1,794,000	1,794,000	123,000	1,671,000
Winterset	1,100,000	1,100,000	76,000	1,024,000
Worthington	350,000	303,744	24,000	279,744
Wyoming	404,000	245,822	-	245,822
<b>Total</b>	<b>\$ 326,275,000</b>	<b>283,737,064</b>	<b>67,918,000</b>	<b>215,819,064</b>

See accompanying independent auditor's report.

**Schedule 2**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Drinking Water Program

June 30, 2002

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2002 Outstanding Loan Balance
Alden	\$ 600,000	83,532	-	83,532
Andrew	379,000	354,000	26,000	328,000
Ankeny	925,000	826,380	34,000	792,380
Blairstown	1,344,000	1,085,424	42,000	1,043,424
Bondurant	972,000	941,942	23,000	918,942
Boyden	700,000	317,625	-	317,625
Corning Municipal Utilities	4,008,000	4,005,080	-	4,005,080
De Soto	190,000	178,000	13,000	165,000
De Witt	1,100,000	107,354	-	107,354
Denison Municipal Utilities	4,808,000	4,805,080	179,000	4,626,080
Dow City	144,000	144,000	5,000	139,000
Dyersville	785,000	607,908	-	607,908
Elk Horn	450,000	400,000	16,000	384,000
Grimes	5,976,000	5,589,529	210,000	5,379,529
Hancock	195,000	178,000	14,000	164,000
Hartford	538,000	446,000	34,000	412,000
Huxley	1,816,000	660,023	-	660,023
Iowa American Water	2,265,000	2,263,000	80,000	2,183,000
Janesville	225,000	225,000	25,000	200,000
Keota	780,000	337,878	-	337,878
Lake View	590,000	493,885	20,000	473,885
Lamoni Municipal Utilities	300,000	298,000	11,000	287,000
Latimer	435,000	407,838	29,000	378,838
Le Mars	2,500,000	1,183,426	179,000	1,004,426
Lohrville	390,000	342,939	-	342,939
Mechanicsville	595,000	387,316	43,000	344,316
Morning Sun	365,000	363,000	26,000	337,000
Mount Pleasant Municipal Utilities	5,934,000	5,934,000	426,000	5,508,000
Newton Water Works	1,200,000	1,156,000	82,000	1,074,000
Northwood	1,690,000	1,602,458	122,000	1,480,458
Norwalk	1,175,000	1,175,000	85,000	1,090,000
Odebolt	688,000	458,575	49,000	409,575
Osceola Water Works	4,066,000	898,791	-	898,791
Oxford	495,000	442,773	35,000	407,773
Perry Water Works	625,000	600,000	68,000	532,000
Polk County	800,000	800,000	57,000	743,000
Prairie City	1,175,000	1,175,000	41,000	1,134,000
Scranton	861,000	861,000	61,000	800,000
Shelby	800,000	764,049	28,000	736,049
Sigourney	440,000	388,500	17,000	371,500
Sioux City	13,736,000	137,360	-	137,360
Somers	56,000	56,000	2,000	54,000
Spencer Municipal Utilities	1,525,000	1,500,000	52,000	1,448,000
Stanton	420,000	420,000	30,000	390,000
Sully	550,000	550,000	60,000	490,000
Total	<u>\$ 69,611,000</u>	<u>45,951,665</u>	<u>2,224,000</u>	<u>43,727,665</u>

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

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

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

We have audited the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

February 21, 2003



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Environmental Protection Agency's State Revolving Fund Programs  
in Accordance with Government Auditing Standards

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

We have audited the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2002, and have issued our report thereon dated February 21, 2003. We have also audited the compliance of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs with the types of compliance requirements described in the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines. The management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for the Programs' compliance with those requirements. Our responsibility is to express an opinion on the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a material effect occurred. An audit includes examining, on a test basis, evidence about the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that 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, 2002. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements which is described in the accompanying Schedule of Findings.

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

February 21, 2003

Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2002

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

1-02 Loan Advances – During October 2001, the Iowa Department of Natural Resources provided funding to cities and municipalities under the Clean Water and Drinking Water Programs for costs not incurred. The Department shut down its system to allow the bond defeasement to take place in December 2001. As a result it allowed cities and municipalities to request loan advances based on estimates so a hardship would not be placed on the loan recipients during the Department’s shutdown period. However, per guidelines set forth in the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines, the State may only draw cash from the Federal share at the time costs have been incurred.

Recommendation – The Iowa Department of Natural Resources should comply with federal guidelines and only draw cash from the Federal share at the time costs have been incurred.

Response – The audit comment accurately describes the events that took place resulting in a shutdown of the draw process for a sixty-day period of time. This was an isolated occurrence and is not expected to happen very frequently. As a normal rule we always draw on a reimbursable basis. Under the circumstances described we saw no reason why loan recipients should endure the financial burden associated with a state shutdown of reimbursement systems. If such circumstances would arise in the future we would react in the same fashion. We will however notify EPA in advance of the event should this situation come up in the future.

Conclusion – Response accepted.

**REPORTABLE CONDITIONS:**

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

**Findings Related to Required Statutory Reporting:**

No matters were reported.



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Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

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