OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

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FOR RELEASE March 31, 2011

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 wastewater treatment facilities through loans to eligible municipalities and other qualifying entities. The Drinking Water Program provides financing for the construction of drinking water facilities through loans to municipalities and other qualifying entities.

The Clean Water Program reported operating revenues of $17,604,496 for the year ended June 30, 2010, including interest income of $15,759,130 on loans and administrative fees of $1,845,366. Non operating revenue included $25,687,580 in federal grants, net of grant expense of $17,662,369, and investment income of $1,589,242, net of rebate expense of $222,594. The Drinking Water Program reported operating revenues of $9,159,857, including interest income of $8,117,126 on loans and administrative fees of $1,042,731. Non operating revenue included $26,731,141 in federal grants, net of grant expense of $12,297,480, and investment income of $2,161,560, net of rebate expense of $1,264,482.

Operating expenses of the Clean Water Program for the year ended June 30, 2010 totaled $3,918,852, including $2,414,968 for general and administrative expenses, $941,357 for non-program expenses and $562,527 for amortization of loss on bond redemption. Non-operating expenses of the Clean Water Program totaled $12,207,068 for bond interest expense. The Program loaned $159,107,115 to municipalities and other qualifying entities and collected loan repayments of $42,607,880 during the year. At June 30, 2010, the Clean Water Program had

loans receivable from municipalities and other qualifying entities totaling $573,242,332, net of the forgivable loan reserve of $17,662,369.

Operating expenses of the Drinking Water Program for the year ended June 30, 2010 totaled $4,789,303, including $1,953,432 for source water protection expenses, $1,209,156 for general and administrative expenses and $844,252 for small program management administrative expense. Non-operating expenses of the Drinking Water Program totaled $8,095,610 for bond interest expense. The Program loaned $71,364,292 to municipalities and other qualifying entities and collected loan repayments of $22,753,637 during the year. At June 30, 2010, the Drinking Water Program had loans receivable from municipalities and other qualifying entities totaling $286,194,398, net of the forgivable loan and loan loss reserves of $12,840,297.

A copy of the audit report is available for review at the Iowa Finance Authority, at the Iowa Department of Natural Resources, in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/reports/1160-5420-A000.pdf.

# # #

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

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

JUNE 30, 2010

1160-5420-A000

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Iowa Water Pollution Control Works
and Drinking Water Facilities Financing Programs

Officials

Name	Title
Governor	
Honorable Chester J. Culver (Ended during January 2011)	Honorable Terry E. Branstad (Began during January 2011)
Director, Department of Management	
Richard C. Oshlo, Jr. (Ended during January 2011)	David Roederer (Began during January 2011)
Director, Legislative Services Agency	
Glen P. Dickinson	
Iowa Finance Authority Board	
Roger Caudron	Chairperson
Douglas Walter	Vice Chairperson
Carmela Brown	Treasurer
Steven Adams	Member
Heather Armstrong	Member
Darlys Baum	Member
Virginia Bordwell	Member
David Erickson	Member
Wilfred Johnson	Member
Environmental Protection Commission	
Charlotte Hubbell	Chairperson
Marty Stimson	Vice Chairperson
Dee Bruemmer	Member
John Glenn	Member
Susan Heathcote	Member
Paul Johnson	Member
David Petty	Member
Lorna Puntillo	Member
Gene Ver Steeg	Member
Iowa Finance Authority	
Brett Mills, Executive Director (Ended during January 2010) Joseph O'Hern, Executive Director (Ended during January 2011)	Dave Jamison, Executive Director (Began during January 2011)
Iowa Department of Natural Resources	
Richard Leopold, Director (Ended during September 2010) Patricia Boddy, Interim Director (Ended during January 2011)	Roger Lande, Director (Began during January 2011)

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, 2010, 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, 2010, 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, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2011 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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 22, 2011

Basic Financial Statements

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2010

	Clean Water Program	Drinking Water Program	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 84,086,314	82,635,830	166,722,144
Cash - linked deposits	45,411,379	-	45,411,379
Investments	68,157,684	26,862,160	95,019,844
Loans receivable, net	31,234,974	12,685,733	43,920,707
Accrued interest receivable	1,837,995	1,576,902	3,414,897
Due from federal government	-	527,240	527,240
Other assets	734,070	496,768	1,230,838
Total current assets	231,462,416	124,784,633	356,247,049
Noncurrent assets:			
Investments	1,516,656	1,004,850	2,521,506
Loans receivable	542,007,358	273,508,665	815,516,023
Total noncurrent assets	543,524,014	274,513,515	818,037,529
Total assets	774,986,430	399,298,148	1,174,284,578
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	406,690	651,916	1,058,606
Accrued bond interest payable	7,164,065	4,165,135	11,329,200
Deferred initiation fees	431,855	216,512	648,367
Due to Iowa Finance Authority	41,229	19,220	60,449
Bonds payable, net	20,845,000	9,110,000	29,955,000
Total current liabilities	28,888,839	14,162,783	43,051,622
Noncurrent liabilities:			
Rebates payable	243,114	1,878,218	2,121,332
Deferred initiation fees	5,979,247	3,263,769	9,243,016
Bonds payable, net	304,869,937	190,650,974	495,520,911
Total noncurrent liabilities	311,092,298	195,792,961	506,885,259
Total liabilities	339,981,137	209,955,744	549,936,881
Net Assets			
Restricted net assets:			
Per bond resolutions	247,357,364	119,273,763	366,631,127
Per other agreements	187,647,929	70,068,641	257,716,570
Total net assets	$ 435,005,293	189,342,404	624,347,697

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2010

	Clean Water Program	Drinking Water Program	Total
Operating revenues:			
Interest on loans	$ 15,759,130	8,117,126	23,876,256
Administrative fees	1,845,366	1,042,731	2,888,097
Total operating revenues	17,604,496	9,159,857	26,764,353
Operating expenses:			
Amortization of loss on bond redemption	562,527	69,146	631,673
Provision for loan losses	-	396,000	396,000
General and administrative	2,414,968	1,209,156	3,624,124
Source water protection	-	1,953,432	1,953,432
Small community technical assistance	-	285,208	285,208
Small program management administrative	-	844,252	844,252
Non program	941,357	32,109	973,466
Total operating expenses	3,918,852	4,789,303	8,708,155
Operating income	13,685,644	4,370,554	18,056,198
Non operating revenue/(expenses):			
Federal grants	25,687,580	26,731,141	52,418,721
Grant expense	(17,662,369)	(12,297,480)	(29,959,849)
Investment income	1,589,242	2,161,560	3,750,802
Rebates	(222,594)	(1,264,482)	(1,487,076)
Bond interest expense	(12,207,068)	(8,095,610)	(20,302,678)
Total non-operating revenues/(expenses)	(2,815,209)	7,235,129	4,419,920
Income before transfers	10,870,435	11,605,683	22,476,118
Transfers between funds	202,400	(202,400)	-
Change in net assets	11,072,835	11,403,283	22,476,118
Net assets beginning of year	423,932,458	177,939,121	601,871,579
Net assets end of year	$ 435,005,293	189,342,404	624,347,697

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2010

	Clean Water Program	Drinking Water Program	Total
Cash flows from operating activities:			
Administrative fees received	$ 3,036,823	1,792,874	4,829,697
Interest received on loans to municipalities and other qualifying entities	15,601,210	8,039,835	23,641,045
Principal received on loans to municipalities and other qualifying entities	42,607,880	22,753,637	65,361,517
Loans disbursed to municipalities and other qualifying entities	(159,107,115)	(71,364,292)	(230,471,407)
Cash paid to suppliers and grantees	(3,340,146)	(4,519,022)	(7,859,168)
Net cash used for operating activities	(101,201,348)	(43,296,968)	(144,498,316)
Cash flows from non-capital financing activities:			
Draws on capitalization grants from EPA	25,687,580	26,636,650	52,324,230
Issuance of debt	104,395,000	39,500,000	143,895,000
Premium on bonds issued	9,609,039	3,664,007	13,273,046
Bond issue costs	(252,810)	(97,965)	(350,775)
Interest paid on debt	(11,605,718)	(7,874,953)	(19,480,671)
Rebates (paid) received	10,118	(17,567)	(7,449)
Transfers between funds	202,400	(202,400)	-
Repayment of debt principal	(18,540,000)	(7,825,000)	(26,365,000)
Net cash provided by non-capital financing activities	109,505,609	53,782,772	163,288,381
Cash flows from investing activities:			
Sale of investments	8,989,065	1,963,952	10,953,017
Interest received on investments	2,332,032	2,193,895	4,525,927
Investments purchased	(70,109,544)	(27,844,386)	(97,953,930)
Net cash used for investing activities	(58,788,447)	(23,686,539)	(82,474,986)
Net decrease in cash and cash equivalents	(50,484,186)	(13,200,735)	(63,684,921)
Cash and cash equivalents beginning of year	179,981,879	95,836,565	275,818,444
Cash and cash equivalents end of year	$ 129,497,693	82,635,830	212,133,523

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2010

	Clean Water Program	Drinking Water Program	Total
Reconciliation of operating income to net cash used for operating activities:			
Operating income	$ 13,685,644	4,370,554	18,056,198
Adjustments to reconcile operating income to net cash used for operating activities:			
Amortization of loss on bond redemption	562,527	69,146	631,673
Change in provision for loan losses	-	396,000	396,000
Change in allowance for doubtful accounts	(17,662,369)	(12,297,480)	(29,959,849)
Increase in loans receivable	(98,836,866)	(36,313,175)	(135,150,041)
(Increase) decrease in accrued interest receivable	(157,518)	(77,291)	(234,809)
(Increase) decrease in other assets	(27,587)	(38,941)	(66,528)
Increase in due to Iowa Finance Authority	2,655	294	2,949
Increase in deferred revenue	1,218,642	789,084	2,007,726
Increase (decrease) in accounts payable and accrued expenses	13,524	(195,159)	(181,635)
Total adjustments	(114,886,992)	(47,667,522)	(162,554,514)
Net cash used for operating activities	$ (101,201,348)	(43,296,968)	(144,498,316)

See notes to financial statements.

(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. Loans made by the Clean Water program must be repaid within 30 years. The Clean Water Program is to be established, maintained and credited with loan repayments and the funds of the Clean Water Program are to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities and other qualifying entities from the Clean Water Program for eligible project costs as defined in Chapter 567, section 92, of the Iowa Administrative Code. The DNR administers the aspects of the Clean Water Program relating to project eligibility and monitoring of construction progress. The Authority administers the aspects of the Clean Water Program relating to loan eligibility, arranging financing and accounting for the loans, their repayments and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and other qualifying entities to finance all or part of the construction of wastewater treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. The obligations do not constitute a debt of the State or a general obligation of the Authority.

The Clean Water Program also provides funds to various lending institutions to buy down the interest rate on loans made by these institutions to individuals. The funds are deposited at the various institutions in non interest bearing accounts and 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 repayment of the loan if the individual defaults on the loan. The DNR has contracted with the Iowa Finance Authority to be the fiscal agent for the program.

During the fiscal year ended June 30, 2010, the DNR was awarded a capitalization grant with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009. The DNR has also contracted with the Iowa Finance Authority to be the fiscal agent for the program. The purpose of the grant is as follows: "to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advance in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases." Also, there was an additional condition for the Authority to award at least fifty percent forgivable loans to municipalities and other qualifying entities.

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. Loans made by the Drinking Water Program must be repaid within 30 years. The Drinking Water Program is to be established, maintained and credited with loan repayments and the funds of the Drinking Water Program are to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities and other qualifying entities from the Drinking Water Program for eligible project costs as defined in Chapter 567, section 44, of the Iowa Administrative Code. The DNR administers the aspects of the Drinking Water Program relating to project eligibility and monitoring of construction progress. The Authority administers the aspects of the Drinking Water Program relating to loan eligibility, arranging financing and accounting for the loans, their repayments and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and other qualifying entities to finance all or part of the construction of drinking water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. The obligations do not constitute a debt of the State or general obligation of the Authority.

During the fiscal year ended June 30, 2010, the DNR was awarded a capitalization grant with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009. The DNR has also contracted with the Iowa Finance Authority to be the fiscal agent for the program. The purpose of the grant is as follows: "to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advance in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases." Also, there was an additional condition for the Authority to award at least fifty percent forgivable loans to municipalities and other qualifying entities.

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 issues bonds 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 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 (GASB). 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 other qualifying entities, the Drinking Water Program loans to municipalities and other qualifying entities and administrative costs of the Programs. The Authority and the State are not obligated for repayment of the bonds, which are secured by certain loan agreements with the municipalities and other qualifying entities and other assets and revenues pledged under the applicable bond resolutions. Separate accounts are maintained under the various bond resolutions and for the equity account, and while the accounts are combined in the accompanying financial

statements, the combined assets are available only in accordance with the applicable bond resolution and the Master Trust Agreement.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities, whether current or non-current, associated with their activity are included in 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 administrative fees, including initiation fees, as operating revenues and expenses since these are generated from the Programs' operations and are needed to carry out their statutory purposes and to provide debt service coverage on their bonds. Non-operating revenues and expenses include federal grants and related grant expense, investment income and related rebates, and bond interest expense.

E. Assets, 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.

Cash equivalents also include $45,411,379 of linked deposits. Linked deposits are defined as a deposit in an account with a financial institution to induce the institution's support for one or more projects (loans).

Investments

Under the 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 and Other Qualifying Entities

The Clean Water Program and Drinking Water Program are operated as direct loan programs. Loan funds are disbursed to municipalities and other qualifying entities 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 and other qualifying entities are recorded at their unpaid principal balance. The loans are intended to be held to maturity of up to 30 years. Certain loans are pledged as collateral for particular bonds outstanding. Disadvantaged loans for drinking water systems are intended to be held for 30 years. Each municipality or other qualifying entity has entered into a loan agreement with the Authority, 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. A provision for loan losses for the Drinking Water Program was established during the year ended June 30, 2009. Additionally, during the year ended June 30, 2010, a reserve was established for the Clean Water and Drinking Water Programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009.

Loans to municipalities and other qualifying entities consists of five types of loans. The types of loans include: construction and wastewater treatment facilities loans, sewer rehabilitation and sewer loans, planning and design loans, storm water quality loans and nonpoint source pollution loans. The construction and wastewater treatment facilities loans and the sewer rehabilitation and sewer loans are described in the preceding paragraphs. The planning and design loans are loans which reimburse the initial costs for an infrastructure program, which eventually roll into one of the other types of loans. Storm water quality loans are loans with either private development companies or municipalities. If the loans' recipients are private development companies, then a linked deposit investment is set up with a financial institution and, therefore, is not included as a binding commitment of the Authority. On the other hand, if storm water quality loans are with a municipality, the loans are set up as a participation loan. Furthermore, nonpoint source pollution loans are non-infrastructure loans used to restore habitat and wetlands, urban storm water management, landfill closures, lake restoration and watershed planning through either a direct loan with a municipality or a participation loan through a qualifying entity. All of the non-source loans are reported as a binding commitment of the Authority, except for linked deposits of projects with Charles Daoud, Emily Patton, Hills of Cedar Creek, LLC, Michelle Moore, Southern Glen, Inc, Mary Gibson, and Windmill Estates, Inc.

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 in the Statements of Net Assets and are offset against investment income in 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 wastewater 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 which affect certain reported amounts and disclosures. Actual results could differ from those estimates.

G. Totals

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

(2) Cash, Cash Equivalents and Investments

At June 30, 2010, the Clean Water and Drinking Water Programs' investments include approximately $97.5 million in federal government agency notes. 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	$ 131,447	42.4%	N/A
Guaranteed investment contracts	80,686	26.1	<1 year
Agency notes	97,542	31.5	1.4 years
Total	$ 309,675	100.0%	

Investment portfolio management is the responsibility of the Authority's management and staff. The Authority's Board of Directors has established a general investment policy and specific bond indentures direct investment policy for assets restricted under those bond indentures.

- Qualified investments under the general investment policy include investments in U.S. Treasury, agency and instrumentality obligations; interest bearing time and demand deposits and certificates of deposits with any financial institution, provided such funds are fully insured by an agency of the federal government, or to the extent such deposits exceed federal deposit insurance, are fully collateralized by U.S. Treasury, agency or instrumentality obligations; repurchase agreements fully collateralized and secured by U.S. Treasury, agency and instrumentality obligations or government-backed mortgage loan pools; obligations of any state or political subdivision of the state which at time of purchase are rated in either of the two highest rating categories of at least two nationally recognized rating agencies; public housing bonds or notes fully secured by a contract with the United States; and program-type investments that further the purposes and goals of the Authority, provided such investments are only permitted to the extent the aggregate amount invested therein does not exceed 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 which do not cause the rating of the State Revolving Fund bonds to be lowered.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the Authority. The Authority minimizes credit risk by limiting securities to those authorized in the investment policy, diversifying the investment portfolio to limit the impact of potential losses from any one type of security or individual issuer and prequalifying the financial intuitions, brokers, dealers, and advisers with which the Authority does business.

Cash and cash equivalents at June 30, 2010 total $309.7 million and include $86.0 million invested in money market funds in collateralized trust accounts,

$80.7 million in investment agreements associated with bond indentures and $45.5 million in cash.

Concentration Risk

Concentration of risk is the risk of loss which may be attributed to the magnitude of an investment in a single type of security. The table below (expressed in thousands) lists the money market accounts and guaranteed investment contracts by provider at June 30, 2010.

Provider	Money Market Accounts	Guaranteed Investment Contracts	Agency Notes	Total	Credit Ratings Standard and Poor's	Credit Ratings Moody's	% of Total
Nataxis (formerly IXIS)	$ -	24,109	-	24,109	A+/A1	Aa3/P1	9.1%
Societe Generale	-	56,577	-	56,577	A+/A1	Aa2/P1	21.4%
Federal Home Loan Bank	-	-	97,542	97,542	AAA/A1+	Aaa/P1	37.0%
Wells Fargo Trust	85,985	-	-	85,985	AA/A1+	Aa2/P1	32.5%
Total	$ 85,985	80,686	97,542	264,213			100.0%

Interest Rate Risk

Interest rate risk is the risk changes in interest rates may adversely affect the fair value of the portfolio. The Authority minimizes interest rate risk by structuring investment portfolios so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Foreign Currency Risk

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

(3) Loans Receivable

The Clean Water and Drinking Water Programs make loans to municipalities and other qualifying entities for projects meeting the eligibility requirements of the Clean Water Act and the Safe Drinking Water Act. Loans are financed by capitalization grants, bond proceeds, the state match and revolving funds. Effective interest rates on loans vary between 0% and 4.3% per annum with a term of up to 30 years. Loan are generally repaid over 20 years, starting one year after the project is completed.

A provision for loan losses was established during the year ended June 30, 2009 for the Drinking Water program.

A reserve was established during the year ended June 30, 2010 for the Clean Water and Drinking Water programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009.

Each loan recipient has established a dedicated source of revenue for repayment of the loans, including general obligation bonds or revenue bonds issued at the recipient level.

A summary of changes in loans receivable for the year ended June 30, 2010 is as follows:

	Clean Water	Drinking Water	Total
Loans receivable beginning of year	$ 474,405,466	250,424,040	724,829,506
Additions	159,107,115	71,364,292	230,471,407
Deletions	42,607,880	22,753,637	65,361,517
Loans receivable end of year	590,904,701	299,034,695	889,939,396
Less: Provision for loan losses	-	542,817	542,817
Less: Reserve for forgivable loans	17,662,369	12,297,480	29,959,849
Net receivable end of year	$ 573,242,332	286,194,398	859,436,730
Current	$ 31,234,974	12,685,733	43,920,707
Noncurrent	542,007,358	273,508,665	815,516,023
Total	$ 573,242,332	286,194,398	859,436,730

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, 2010 are as follows (dollars in thousands):

Description	Original Amount	Due Dates From	Due Dates To	Interest Rates From	Interest Rates To	Jun 30, 2010 Balance
Clean Water:						
Serial Bonds	$ 37,340	08/01/02	08/01/11	4.00%	5.25%	$ 4,000
Serial Bonds	138,810		08/01/14	4.00	5.5	61,440
Total bonds outstanding	176,150					65,440
Unamortized (disc)/prem/other	-					(66)
Clean Water 2001	176,150					65,374
Total bonds outstanding	3,350	08/01/03	08/01/22	2.00%	4.70%	1,755
Unamortized (disc)/prem/other	-					(7)
Clean Water 2003	3,350					1,748
Total bonds outstanding	11,090	08/01/06	08/01/12	3.25%	5.00%	4,675
Unamortized (disc)/prem/other	-					23
Clean Water 2005	11,090					4,698
Serial Bonds	5,660	08/01/08	08/01/21	4.00%	5.00%	5,230
Serial Bonds	29,700		08/01/24	4.00	5.00	29,100
Total bonds outstanding	35,360					34,330
Unamortized (disc)/prem/other	-					1,021
Clean Water 2007	35,360					35,351
Serial Bonds	2,725	08/01/09	08/01/22	3.50%	5.50%	2,625
Serial Bonds	100,640		08/01/28	3.50	6.00	99,640
Total bonds outstanding	103,365					102,265
Unamortized (disc)/prem/other	-					2,631
Clean Water 2008	103,365					104,896
Serial Bonds	6,005	08/01/10	08/01/23	2.00%	5.00%	6,005
Serial Bonds	98,390		08/01/29	2.00	5.00	98,390
Total bonds outstanding	104,395					104,395
Unamortized (disc)/prem/other	-					9,253
Clean Water 2009	104,395					113,648
Bonds outstanding	433,710					312,860
Unamortized (disc)/prem/other	-					12,855
Total Clean Water	$ 433,710					$ 325,715

Drinking Water:						
Serial Bonds	$ 12,900	08/01/02	08/01/14	4.00%	5.25%	$ 4,470
Term Bonds	1,100		08/01/16		5.50	1,100
Term Bonds	480		08/01/18		5.50	480
Term Bonds	405		08/01/20		5.00	405
Term Bonds	120		08/01/23		5.00	120
Serial Bonds	21,345		04/01/21	4.00	5.50	10,755
Term Bonds	4,895		08/01/16		5.50	4,895
Term Bonds	5,750		08/01/18		5.50	5,750
Term Bonds	6,120		08/01/20		5.00	6,120
Term Bonds	3,960		08/01/23		5.00	3,960
Total bonds outstanding	57,075					38,055
Unamortized (disc)/prem/other	-					319
Drinking Water 2001	57,075					38,374
Serial Bonds	3,240	08/01/04	08/01/17	2.00%	4.30%	1,695
Serial Bonds	49,510		08/01/24	2.00	5.00	39,510
Total bonds outstanding	52,750					41,205
Unamortized (disc)/prem/other	-					(8)
Drinking Water 2003	52,750					41,197
Total bonds outstanding	6,685	08/01/06	08/01/12	3.25%	5.00%	3,200
Unamortized (disc)/prem/other	-					16
Drinking Water 2005	6,685					3,216
Serial Bonds	4,435	08/01/08	08/01/21	4.00%	5.00%	3,705
Serial Bonds	24,365	08/01/09	08/01/24	4.00	5.00	23,790
Total bonds outstanding	28,800					27,495
Unamortized (disc)/prem/other	-					772
Drinking Water 2007	28,800					28,267
Serial Bonds	2,175	08/01/09	08/01/22	3.50%	5.25%	2,125
Serial Bonds	42,895		08/01/28	3.50	6.00	42,395
Total bonds outstanding	45,070					44,520
Unamortized (disc)/prem/other	-					1,158
Drinking Water 2008	45,070					45,678
Serial Bonds	5,965	08/01/10	08/01/23	2.00%	5.00%	5,965
Serial Bonds	33,535		08/01/29	2.00	5.00	33,535
Total bonds outstanding	39,500					39,500
Unamortized (disc)/prem/other						3,529
Drinking Water 2009	39,500					43,029
Bonds outstanding	229,880					193,975
Unamortized (disc)/prem/other	-					5,786
Total Drinking Water	$ 229,880					$ 199,761

A portion of the proceeds from the issuance of the State Revolving Fund Revenue Bonds, Series 2001, in the par amount of $233,225,000, with interest rates of 4.00% to 5.50% per annum, 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		
	Principal	Interest	Principal	Interest	Total
2011	$ 20,845,000	15,666,850	9,110,000	9,402,128	55,023,978
2012	20,460,000	13,857,064	9,755,000	8,705,941	52,778,005
2013	22,310,000	12,803,114	10,975,000	8,248,445	54,336,559
2014	23,460,000	11,713,864	10,300,000	7,783,895	53,257,759
2015	18,385,000	10,687,695	10,870,000	7,321,308	47,264,003
2016-2020	69,250,000	43,323,354	61,445,000	28,113,013	202,131,367
2021-2025	84,505,000	24,993,203	61,630,000	12,449,424	183,577,627
2026-2030	53,645,000	6,363,209	19,890,000	2,243,772	82,141,981
Total	$ 312,860,000	139,408,353	193,975,000	84,267,926	730,511,279

(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, 2010, the EPA has awarded capitalization grants of $413,639,459 to the State for the Clean Water Program, of which $380,590,417 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of $72,119,892 through bond issuances for the Clean Water Program. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2010 and balances available for future loans or administrative expenses for the Clean Water Program.

Grant Award Year	EPA Grants Awarded	Total Draws Beginning of Year	2010 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2010
1989	$ 12,765,654	12,765,654	-	12,765,654	-
1990	13,204,422	13,204,422	-	13,204,422	-
1991	26,574,138	26,574,138	-	26,574,138	-
1992	25,650,000	25,650,000	-	25,650,000	-
1993	27,861,714	27,861,714	-	27,861,714	-
1994	16,140,960	16,140,960	-	16,140,960	-
1995	16,670,100	16,670,100	-	16,670,100	-
1996	27,306,080	27,306,080	-	27,306,080	-
1997	8,420,100	8,420,100	-	8,420,100	-
1998	18,381,432	18,381,432	-	18,381,432	-
1999	18,226,098	18,226,098	-	18,226,098	-
2000	18,164,322	18,164,322	-	18,164,322	-
2001	18,002,853	18,002,853	-	18,002,853	-
2002	18,042,900	18,042,900	-	18,042,900	-
2003	17,925,732	17,925,732	-	17,925,732	-
2004	17,936,500	17,936,500	-	17,936,500	-
2005	14,584,086	14,584,086	-	14,584,086	-
2006	11,851,686	11,851,686	-	11,851,686	-
2007	14,485,482	14,485,482	-	14,485,482	-
2008	9,202,600	9,202,600	-	9,202,600	-
2009	62,242,600	3,505,978	25,687,580	29,193,558	33,049,042
Total	$ 413,639,459	354,902,837	25,687,580	380,590,417	33,049,042

At June 30, 2010, the EPA has awarded capitalization grants of $189,440,500 to the State for the Drinking Water Program, of which $169,569,033 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of $30,030,500. The following summarizes the capitalization grants awarded, amounts

drawn on each grant at June 30, 2010 and balances available for future loans or administrative expenses for the Drinking Water Program.

Grant Award Year	EPA Grants Awarded	Total Draws Beginning of Year	2010 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2010
1997	$ 16,857,300	16,857,300	-	16,857,300	-
1998	11,238,700	11,238,700	-	11,238,700	-
1999	11,779,300	11,779,300	-	11,779,300	-
2000	12,242,100	12,242,100	-	12,242,100	-
2001	12,292,700	12,292,700	-	12,292,700	-
2002	14,784,600	14,784,600	-	14,784,600	-
2003	14,695,700	14,695,700	-	14,695,700	-
2004	15,244,700	15,244,700	-	15,244,700	-
2005	15,212,400	15,212,400	-	15,212,400	-
2006	10,252,000	7,783,183	2,468,817	10,252,000	-
2007	10,252,000	4,443,300	5,002,014	9,445,314	806,686
2008	10,148,000	6,358,400	1,201,121	7,559,521	2,588,479
2009	34,441,000	-	17,964,698	17,964,698	16,476,302
Totals	$ 189,440,500	142,932,383	26,636,650	169,569,033	19,871,467

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2009	$ 354,902,837	142,932,383
Federal capitalization draws from EPA	25,687,580	26,636,650
Balance at June 30, 2010	$ 380,590,417	169,569,033

(6) Commitments

The Clean Water and Drinking Water Programs have entered into loan agreements with municipalities and other qualifying entities for which $178,287,895 and $95,933,555, respectively, have not been disbursed as of June 30, 2010.

The funds disbursed is the cumulative amounts disbursed on loans classified as binding commitments and causes a reduction of the amount of net loan commitments. The unused proceeds are funds where the recipient did not draw down the total award reducing the net loan commitments.

Loan commitments as of June 30, 2010 are as follows:

	Loan Commitments	Funds Disbursed	Unused Proceeds	Net Loan Commitments
Clean Water	$ 1,004,250,740	797,191,839	28,771,006	178,287,895
Drinking Water	479,130,365	369,772,847	13,423,963	95,933,555
Total	$ 1,483,381,105	1,166,964,686	42,194,969	274,221,450

(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 four fiscal years.

Iowa Water Pollution Control Works
and Drinking Water Facilities Financing Programs

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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, 2010, and have issued our report thereon dated March 22, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies over financial reporting we consider to be material weaknesses, as defined above.

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, 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, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 22, 2011

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the 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 Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance 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 could have a direct and material effect on its federal financial assistance programs for the year ended June 30, 2010.

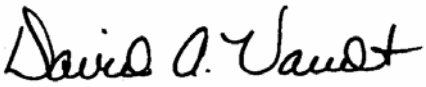
Internal Control Over Compliance

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over compliance.

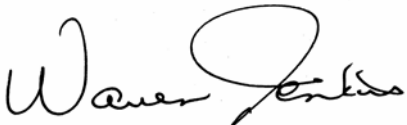
A deficiency in the Programs' internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

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

March 22, 2011

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings for Federal Programs:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the programs were noted.

Findings Related to Required Statutory Reporting:

No matters were noted.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

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