

IOWA STATE REVOLVING FUND
A Fund of the Iowa Finance Authority
Basic Financial Statements
June 30, 2022
(With Independent Auditors' Report Thereon)



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Officials

Name	Title
Kim Reynolds	Governor
Adam Gregg	Lt. Governor
Debi Durham	Director, Iowa Finance Authority
Kayla Lyon	Director, Iowa Department of Natural Resources

Iowa Finance Authority Board of Directors

Ashley Aust	Member
Tracey Ball	Member
Lyle Borg	Ex-officio voting
Jennifer Cooper	Member
John Eisenman	Member
Michel Nelson	Chair
Ruth Randleman	Vice Chair
Amy Reasner	Member
Gilbert Thomas	Treasurer
Michael Van Milligen	Member

Environmental Protection Commission

Brad Bleam	
Rebecca Dostal	
Patricia Foley	
Lisa Gochenour	
Ralph Lents	
Mark Stutsman	
Stephanie Dykshorn	Vice Chair
Harold Hommes	Chair
Amy Echard	Secretary



Independent Auditor's Report

To the Board of Directors
Iowa Finance Authority
Des Moines, Iowa

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State Revolving Fund of the Iowa Finance Authority as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund of the Iowa Finance Authority as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Iowa Finance Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State Revolving Fund, and do not purport to, and do not, present fairly the financial position of Iowa Finance Authority or the State of Iowa as of June 30, 2022, the changes in their financial position, or their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Finance Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the State Revolving Fund's Proportionate Share of the Net Position Liability, Schedule of the State Revolving Fund's Contributions, Schedule of the State Revolving Fund's Proportionate Share of the Total OPEB Liability, and Notes to Required Supplementary Information on pages 5 through 8 and 30 through 34 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Revolving Fund of the Iowa Finance Authority. The combining financial schedules on pages 35 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2022, on our consideration of the State Revolving Fund of the Iowa Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the State Revolving Fund of the Iowa Finance Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Revolving Fund of the Iowa Finance Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Aberdeen, South Dakota
September 27, 2022

This section of the State Revolving Fund's (SRF) annual financial report presents management's discussion and analysis of the financial position and results of operations as and for the fiscal year ended June 30, 2022. This section provides additional information regarding the activities of the SRF to meet the disclosure requirement of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Please use this information in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

This annual financial report consists of four parts: the independent auditor's report, management's discussion and analysis (this section), the basic financial statements, and supplementary schedules. The basic financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and the accompanying Notes to the Financial Statements. The SRF follows enterprise fund accounting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position includes all of the SRF's assets and liabilities, presented in order of liquidity, as well as deferred outflows and deferred inflows. The organization of the statement separates assets and liabilities into current and non-current components. The resulting net position is displayed as either restricted or unrestricted.

Net position is restricted when assets are subject to external limits such as bond indentures, legal agreements, federal and state statutes, or pledged in connection with the general obligation of the SRF.

The Statement of Revenues, Expenses, and Changes in Net Position accounts for the SRF's current year revenues and expenses. This statement measures the activities of the SRF's operations over the past year and presents the resulting change in net position. It is organized by separating operating revenues and expenses from non-operating revenue and expenses.

The Statement of Cash Flows primarily provides information about the net change in the SRF's cash and cash equivalents for the fiscal year. It provides information about the SRF's cash receipts, cash payments, and net changes in cash resulting from operating, noncapital financing, and investing activities. The statement provides information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

These statements are accompanied by a complete set of Notes to the Financial Statements that provide additional information that is essential for a fair presentation of the basic financial statements.

The basic financial statements are presented on an SRF-wide basis and the combining supplementary schedules present the two major SRF programs. SRF-wide financial statements are provided to display a comprehensive view of all SRF funds. All the assets in these funds are substantially restricted as to use by the SRF and are available only in accordance with the applicable bond resolutions, federal and Iowa laws, and other outstanding agreements.

The State Revolving Fund (SRF) is a federal program jointly administered with the Department of Natural Resources (DNR) to provide low-cost financing to Iowa communities and municipalities for the design and construction of water and wastewater infrastructure projects. The SRF consists of grants from the United States Environmental Protection Agency (EPA), tax-exempt bond proceeds, and repayments of loan principal and interest.

State Revolving Fund
A Fund of the Iowa Finance Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2022

The Clean Water SRF funds wastewater treatment, sewer rehabilitation, and storm water quality improvements, as well as non-point source projects. The Drinking Water SRF funds water treatment plants or improvements to existing facilities, water line extensions to existing properties, water storage facilities, wells, and source water protection efforts. The financing for these projects comes in the form of different types of loans depending on each community's need: construction, planning and design, and source water protection. Low-interest loans are also available to public and private borrowers to address storm water management, septic systems, landfill closure, soil erosion, and manure management, for example.

More information regarding this program is provided in the Notes to the Financial Statements.

Condensed Financial Information

The following tables present condensed financial information for fiscal years 2022 and 2021.

State Revolving Fund Net Position (Dollars in thousands)				
	2022	2021	Change	%
Assets:				
Cash and cash equivalents	\$ 597,800	\$ 555,851	\$ 41,949	7.5%
Investments	68,394	58,153	10,241	17.6%
Loans to municipalities or water systems, net	2,336,832	2,204,809	132,023	6.0%
Other assets	4,850	4,621	229	5.0%
Total assets	3,007,876	2,823,434	184,442	6.5%
Deferred outflows	5,638	7,654	(2,016)	-26.3%
Total assets and deferred outflows	\$ 3,013,514	\$ 2,831,088	\$ 182,426	6.4%
Liabilities:				
Current liabilities	\$ 98,077	\$ 90,987	\$ 7,090	7.8%
Noncurrent liabilities	1,871,766	1,720,447	151,319	8.8%
Total liabilities	1,969,843	1,811,434	158,409	8.7%
Deferred inflows	343	59	284	481.4%
Total liabilities and deferred inflows	1,970,186	1,811,493	158,693	8.8%
Net position:				
Restricted net position	1,043,328	1,019,595	23,733	2.3%
Total net position	1,043,328	1,019,595	23,733	2.3%
Total liabilities, deferred inflows and net position	\$ 3,013,514	\$ 2,831,088	\$ 182,426	6.4%

State Revolving Fund
A Fund of the Iowa Finance Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2022

State Revolving Fund Revenues, Expenses, and Changes in Net Position (Dollars in thousands)				
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>%</u>
Operating revenues:				
Interest income	\$ 42,196	\$ 41,609	\$ 587	1.4%
Net decrease in fair value of investments	(1,612)	(351)	(1,261)	359.3%
Fee income	7,114	6,883	231	3.4%
Total operating revenues	<u>47,698</u>	<u>48,141</u>	<u>(443)</u>	<u>-0.9%</u>
Operating expenses:				
Interest on bonds	51,611	47,125	4,486	9.5%
General and administrative	8,976	9,087	(111)	-1.2%
Provision (recoveries) for losses	(25)	(25)	-	0.0%
Total operating expenses	<u>60,562</u>	<u>56,187</u>	<u>4,375</u>	<u>7.8%</u>
Net operating loss	<u>(12,864)</u>	<u>(8,046)</u>	<u>(4,818)</u>	<u>59.9%</u>
Non-operating revenue (expense):				
Grant income	39,591	35,047	4,544	13.0%
Grants and aid	(2,994)	(3,096)	102	-3.3%
Net non-operating revenue	<u>36,597</u>	<u>31,951</u>	<u>4,646</u>	<u>14.5%</u>
Change in net position	23,733	23,905	(172)	-0.7%
Net position at beginning of year	<u>1,019,595</u>	<u>995,690</u>	<u>23,905</u>	<u>2.4%</u>
Net position at end of year	<u>\$ 1,043,328</u>	<u>\$ 1,019,595</u>	<u>\$ 23,733</u>	<u>2.3%</u>

Financial Analysis – State Revolving Fund 2022 (dollars in thousands)

- Assets and deferred outflows increased 6.4% or \$182,426 to \$3,013,514 due to the strategic goal of increasing loans to municipalities and water systems.
- Liabilities and deferred inflows increased by 8.8% or \$158,693 to \$1,970,186 in order to finance the additional loans mentioned above.
- The SRF 2022AB bond series was issued on May 3, 2022, generating proceeds totaling \$240,376 to purchase SRF loans. See Note 4 - Bonds Payable for more detail on SRF's debt.
- Interest income increased 1.4% to \$42,196 due to rising interest rates at year-end on outstanding loans and cash balances.
- Fee income increased 3.4% to \$7,114 due to the higher loan balances.
- Interest on bonds increased 9.5% to \$51,611 due to the higher bond balances.
- General and administrative expenses decreased 1.2% to \$8,976.
- Grant income increased 13.0% to \$39,591 due to timing of receipt of capitalization grants from the Environmental Protection Agency.

- Grants and aid expense decreased 3.3% to \$2,994 due to lower disbursements on SRF loans with forgivable portions during the year.
- As a result, net position increased 2.3% or \$23,733 to \$1,043,328.

Currently Known Facts, Decisions, or Conditions

The Authority executed a bond purchase agreement for a Direct Placement in the amount of \$36.0 million with Bank of America, N.A., on September 6, 2022. The bonds are scheduled to close on June 28, 2023 and will refund the State Revolving Fund Series 2013 Bonds on August 1, 2023.

The Authority closed on a Direct Placement in the amount of \$43.5 million with Bank of America, N.A., on September 15, 2022. These bonds will advance refund a portion of the State Revolving Fund Series 2015 Bonds.

At this time, the SRF is not aware of any facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations of the SRF.

Requests for Information

This financial report is designed to provide a general overview of the SRF's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Iowa Finance Authority
ATTN: Chief Financial Officer
1963 Bell Avenue, Suite 200
Des Moines, IA 50315

State Revolving Fund
A Fund of the Iowa Finance Authority
Statement of Net Position
(Dollars in thousands)
June 30, 2022

Assets	
Current assets (substantially restricted):	
Cash and cash equivalents	\$ 597,800
Other investments	49,734
Loans to municipalities or water systems, net	152,207
Accrued interest receivable	4,170
Other current assets	680
Total current assets	804,591
Noncurrent assets (substantially restricted):	
Other investments	18,660
Loans to municipalities or water systems, net	2,184,625
Total noncurrent assets	2,203,285
Total assets	3,007,876
Deferred Outflows of Resources	
Other post employment benefits	7
Pension plan	76
Loss on refunding	5,555
Total deferred outflows of resources	5,638
Liabilities	
Current liabilities:	
Bonds payable, net	66,340
Accrued interest payable	30,251
Accounts payable and other liabilities	1,486
Total current liabilities	98,077
Noncurrent liabilities:	
Bonds payable, net	1,871,717
Other liabilities	49
Total noncurrent liabilities	1,871,766
Total liabilities	1,969,843
Deferred Inflows of Resources	
Other post employment benefits	5
Pension plan	338
Total deferred inflows of resources	343
Net Position	
Restricted net position:	
Per bond resolutions	864,162
Per other agreements	179,166
Total restricted net position	1,043,328
Unrestricted net position	
Total net position	\$ 1,043,328

See accompanying notes to financial statements

State Revolving Fund
 A Fund of the Iowa Finance Authority
 Statement of Revenues, Expenses, and Changes in Net Position
 (Dollars in thousands)
 Year ended June 30, 2022

Operating revenues:	
Interest on loans	\$ 40,896
Interest on investments	1,300
Net decrease in fair value of investments	(1,612)
Fee income	7,114
Total operating revenues	<u>47,698</u>
Operating expenses:	
Interest on bonds	51,611
General and administrative	8,976
Provision (recoveries) of losses	<u>(25)</u>
Total operating expenses	<u>60,562</u>
Net operating loss	<u>(12,864)</u>
Non-operating revenue (expense):	
Grant income	39,591
Grants and aid	<u>(2,994)</u>
Net non-operating revenue	<u>36,597</u>
Change in net position	23,733
Net position at July 1, 2021	<u>1,019,595</u>
Net position at June 30, 2022	<u>\$ 1,043,328</u>

State Revolving Fund
 A Fund of the Iowa Finance Authority
 Statement of Cash Flows
 (Dollars in thousands)
 Year ended June 30, 2022

Cash flows from operating activities:	
Cash receipts for fees and other income	\$ 7,127
Interest received on loans	40,384
Principal payments on loans	138,645
Purchase of loans	(271,138)
Cash payments for salaries and related benefits	(324)
Cash payments to suppliers	(8,506)
Net cash used by operating activities	<u>(93,812)</u>
Cash flows from noncapital financing activities:	
Proceeds from issuance of bonds	240,376
Repayment of bonds	(62,760)
Interest paid	(67,410)
Payments for cost of issuance	(1,252)
Receipts for grant programs	39,884
Payments for grant programs	(2,524)
Net cash provided by noncapital financing activities	<u>146,314</u>
Cash flows from investing activities:	
Purchases of investments	(87,818)
Interest received on investments	1,299
Sales/maturities of investments	75,966
Net cash used by investing activities	<u>(10,553)</u>
Change in cash and cash equivalents	41,949
Cash and cash equivalents, beginning of year	<u>555,851</u>
Cash and cash equivalents, end of year	<u><u>\$ 597,800</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (12,864)
Interest on investments	(1,300)
Interest on bonds	50,358
Payments for cost of issuance	1,252
Net decrease in fair value of investments	1,612
Increase on loans to municipalities or water systems	(132,493)
Decrease in interest receivable on loans	(512)
Increase in other assets and deferred outflows	(73)
Increase in accounts payable, other liabilities and deferred inflows	208
Net cash used by operating activities	<u><u>\$ (93,812)</u></u>

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Iowa Finance Authority (the Authority) was created in 1975 under Chapter 16 of the Code of Iowa as a public instrumentality and agency of the State of Iowa (the State) to undertake programs that assist in attainment of adequate housing for low- or moderate-income families, elderly families, and families that include one or more persons with disabilities.

Chapter 455B and Chapter 16 of the Code of Iowa authorizes 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 (the Clean Water State Revolving Fund (CWSRF) Program), and the Iowa Drinking Water Facilities Financing Program (the Drinking Water State Revolving Fund (DWSRF) Program), jointly known as the State Revolving Fund (SRF). These programs were created to implement provisions of federal legislation. The U.S. Environmental Protection Agency (EPA) makes annual capitalization grants to states for these programs. The SRF 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 finance all or part of the construction of wastewater and drinking water facilities. The bonds are limited obligations of the SRF payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond indentures. The obligations do not constitute a debt of the State or a general obligation of the Authority.

(b) Basis of Presentation

The financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

(c) Fund Accounting

The SRF is a major fund of the Authority with a separate set of self-balancing accounts for the assets, liabilities, net position, revenues, and expenses. There are two primary programs of the SRF:

- a. Clean Water Program Accounts – account for the proceeds of Clean Water Program revenue bonds, the debt service requirements of the bonds, the investment of moneys held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related wastewater treatment facility loans to municipalities, and administrative costs of the program. The bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indentures for the SRF.
- b. Drinking Water Program Accounts – account for the proceeds of Drinking Water Program revenue bonds, the debt service requirements of the bonds, the investment of moneys held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related drinking water facility loans to Iowa drinking water State Revolving Fund systems, and administrative costs of the program. The bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indentures for the SRF.

(d) *Substantially Restricted Assets*

All assets of the SRF are either specifically pledged to bondholders or held on behalf of federal programs.

(e) *Cash Equivalents*

For purposes of the statement of cash flows, all highly liquid investments with original maturity of three months or less from the date of purchase are considered to be cash equivalents. These investments are associated with bond issues and are generally money market funds.

(f) *Investments*

Under the various bond resolutions, State statutes, and the SRF's Investment Policy, the SRF may invest in U.S. government and agency securities, municipal obligations directly or through repurchase agreements secured by such obligations, commercial paper with qualified corporations, and certificates of deposit in qualified financial institutions.

Investments are recorded at fair value in the statements of net position, with the change in the fair value recorded in the statement of revenues, expenses, and changes in net position.

(g) *Loans to Municipalities or Water Systems, Net*

Loans to municipalities or water systems are recorded at their unpaid principal balance, net of allowance for loan losses, within the SRF. The loans generally have terms of 20 to 30 years and are intended to be held to maturity. The loans are pledged as collateral for the bonds outstanding. Each municipality or water system has entered into a loan agreement with the SRF and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the SRF.

(h) *Provision for Loan Losses*

An evaluation of possible credit losses relating to loans to municipalities or water systems is made and a provision for losses is charged to provision (recoveries) of loan losses or grant expense. An allowance for losses of \$6.6 million was netted against loans to municipalities or water systems at June 30, 2022.

(i) *Bond Issuance Costs*

Bond issuance costs are expensed in the period incurred.

(j) *Bond Premiums, Discounts and Losses on Refunding*

Bond premiums and discounts are amortized as an adjustment to interest expense over the life of the related bond issues using the bonds outstanding method. Losses on bond refunding are recorded as deferred outflows of resources and are deferred and amortized as an adjustment to interest expense over the shorter of the remaining life of the refunded bonds or the new bonds using the bonds outstanding method.

(k) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS), and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

(l) Net Position

Restricted net position represents net position set aside, as required by the various bond resolutions, for the benefit of the respective bond owners. Assets related to such restricted net position include required reserves, investments, and assets held for scheduled debt service.

Restricted net position also represents net position restricted for use by other agreements including loans and accounts held under the Clean Water Program Accounts and the Drinking Water Program Accounts, which are restricted pursuant to the Master Trust Agreement and federal laws or regulations. It is the SRF's policy to first use restricted net position, prior to the use of any unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

(m) Classification of Revenues and Expenses

The SRF distinguishes operating revenues and expenses from non-operating items. The principal operating revenues are interest income on loans and investments and change in fair value of investments. Operating expenses include interest expense, general and administrative expenses, and provisions for loan losses. All revenues and expenses not meeting this definition are reported as non-operating.

The SRF's non-operating revenues and expenses consist primarily of the U.S. Environmental Protection Agency's capitalization grants for the SRF programs.

(n) Fee Income

The SRF receives fee income from program users to cover the cost of the program administration. Fee income is recorded in the period earned. Major sources of fee income are loan initiation and servicing fees.

(o) Grant Income

The SRF receives grant income from the Environmental Protection Agency to cover the cost of program administration and for further distribution as loans and grants. Grant income is recorded when all eligibility requirements have been met.

(p) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(q) Income Taxes

The Authority is a tax-exempt, quasi-governmental organization under IRC Section 115(l). Accordingly, no provision for income taxes has been included in the accompanying financial statements of the SRF.

(r) Allocation of Shared Costs

The SRF receives an allocation of shared costs incurred by the Authority. These are limited to consumable supplies, utilities, and facility costs; and are allocated based on the number of SRF employees housed at the Authority. For the year ended June 30, 2022, the SRF incurred \$88.2 thousand for shared costs. In addition, the Authority pays direct expenses of the SRF and is reimbursed monthly for both the shared and direct costs. As of June 30, 2022, the SRF had an amount due to the Authority of \$112.4 thousand.

(2) Cash, Cash Equivalents, and Investments

The following table presents the detail of cash and cash equivalents and investments (dollars in thousands):

	June 30, 2022		
	Total	% of total	Average Maturity (years)
Cash and cash equivalents			
Cash in banks	\$ 31,628	5%	
Money market funds	566,172	85%	
Total	597,800	90%	
Investments			
Certificates of deposit	1,215	0%	1.29
U.S. government agency securities	20,436	3%	2.05
Municipal securities	13,432	2%	2.73
U.S. Treasury securities	33,311	5%	1.41
Total	68,394	10%	
Total	\$ 666,194	100%	

(a) Deposits

At June 30, 2022, the SRF had \$31.6 million of uninsured or uncollateralized deposits.

(b) Investments

The investment of funds is restricted by the Iowa Finance Authority Board of Directors, the SRF's various bond indentures, and the State. Permitted investments include direct obligations of, or obligations guaranteed by, the federal government of the United States of America; obligations issued by certain agencies of the federal government; repurchase agreements fully collateralized and secured by the U.S. Treasury; corporate bonds issued or guaranteed by a domestic U.S. corporation meeting certain credit rating standards; pooled money funds; money market funds; municipal bonds backed by the full faith and credit of the municipality; certificates of deposit; commercial paper with qualified corporations; and guaranteed investment contracts with financial institutions meeting certain credit rating standards.

(c) Credit Risk

Credit risk occurs if an issuer or counterparty will not fulfill their obligation to the SRF. Custodial credit risk occurs if a depository institution fails, possibly preventing it from returning the SRF's deposits.

The SRF minimizes credit risk by limiting securities to the credits and types of investments authorized in the investment policy or relevant bond indentures, and prequalifying the financial institutions, brokers, dealers, and advisers with whom the SRF does business, as outlined in the SRF's investment policy.

(d) Concentration Risk

Concentration risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security or single issuer. The SRF's investment policy outlines the allowable concentrations of various investment categories. Bond indentures restrict the types of permitted investments. Portfolio maturities are staggered to avoid undue concentration of assets within a specific maturity period which provides for stability of income and reasonable liquidity.

The table below addresses credit risk and concentration risk (dollars in thousands):

June 30, 2022				
Credit ratings				
Type/Provider	S&P	Moody's	State Revolving Fund	% of total
Money market funds:				
BlackRock	AAAm	Aaa-mf	\$487,587	76.9%
Goldman Sachs Group	AAAm	Aaa-mf	78,585	12.4%
Certificates of deposit	NR	NR	1,215	0.2%
U.S. government agency securities	AA+	Aaa	20,436	3.2%
U.S. Treasury securities	AA+	Aaa	33,311	5.2%
Municipal securities	AA to AAA	Aa2 to Aaa	13,432	2.1%
Total			\$634,566	100.0%

(e) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the SRF's investments. The SRF's strategy, as discussed in its investment policy, is to minimize interest rate risk by structuring investment portfolios so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

(f) Foreign Currency Risk

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

(3) Loans

Loans at June 30, 2022, are as follows (dollars in thousands):

	2022		
	Cost	Allowance for losses	Net
State Revolving Fund Loans			
Loans backed by municipal bonds	\$ 2,290,222	\$ -	\$ 2,290,222
Unsecured planning and design loans	28,537	-	28,537
Unsecured nonpoint source loans	19,336	(1,263)	18,073
Forgivable portion of SRF loans	5,288	(5,288)	-
Total State Revolving Fund Loans	<u>\$ 2,343,383</u>	<u>\$ (6,551)</u>	<u>\$ 2,336,832</u>

(4) Bonds Payable

Outstanding Bonds Payable at June 30, 2022, are as follows (dollars in thousands):

<u>Description</u>	<u>Original amount</u>	<u>Due dates</u>		<u>Interest rate</u>		<u>Balance 2022</u>
		<u>From</u>	<u>To</u>	<u>From</u>	<u>To</u>	
2010 - Serial Bonds	\$ 215,725	08/01/22	08/01/25	2.645	2.980	\$ 53,785
2010 - Term Bonds	77,165		08/01/30		3.550	77,165
2013 - Serial Bonds	115,450	08/01/22	08/01/33	4.000	5.000	42,555
2015 - Serial Bonds	321,530	08/01/22	08/01/35	4.000	5.000	165,160
2016 - Serial Bonds	163,275	08/01/26	08/01/39		5.000	127,210
2017 - Serial Bonds	272,990	08/01/22	08/01/37		5.000	265,330
2017 - Term Bonds	54,815		08/01/42		5.000	54,815
2017 - Term Bonds	19,655		08/01/47		5.000	19,655
2019 A - Serial Bonds	215,990	08/01/22	08/01/42	2.250	5.000	207,680
2019 B - Serial Bonds	42,015	08/01/22	08/01/28	2.722	3.354	40,035
2020 - Serial Bonds	168,740	08/01/22	08/01/40		5.000	167,580
2020 - Term Bonds	15,005		08/01/44		5.000	15,005
2020 - Term Bonds	18,080		08/01/49		5.000	18,080
2021A - Serial Bonds	164,490	08/01/22	08/01/41		5.000	164,490
2021A - Term Bonds	12,745		08/01/46		5.000	12,745
2021A - Term Bonds	9,915		08/01/51		5.000	9,915
2021B - Serial Bonds	31,140	08/01/22	08/01/26	0.158	1.014	31,140
2022A - Serial Bonds	165,530	08/01/23	08/01/42		5.000	165,530
2022A - Term Bonds	15,755		08/01/47		3.070	15,755
2022A - Term Bonds	16,740		08/01/52		3.140	16,740
2022B - Serial Bonds	8,155	08/01/23	08/01/27	2.620	3.250	8,155
Unamortized Premium	—					259,532
Total State Revolving Fund Revenue Bonds	<u>\$2,124,905</u>					<u>\$1,938,057</u>

State Revolving Fund
A Fund of the Iowa Finance Authority
Notes to the Financial Statements
June 30, 2022

(a) **Rollforward**

The following table summarizes the bonds payable (net of premium and discount) activity for the SRF for the year ended June 30, 2022 (dollars in thousands):

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2022</u>	<u>Due within one year</u>
State Revolving Fund	\$1,782,751	\$ 240,376	\$ (85,070)	\$1,938,057	\$ 66,340

(b) **Maturity**

A summary of scheduled bond maturities (excluding premium and discount) and interest payments is as follows (dollars in thousands):

<u>Year ending June 30, 2022</u>	<u>State Revolving Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 66,340	\$ 74,593	\$ 140,933
2024	77,195	74,087	151,282
2025	79,005	70,947	149,952
2026	81,600	67,708	149,308
2027	82,530	64,338	146,868
2028-2032	434,285	263,686	697,971
2033-2037	418,340	157,933	576,273
2038-2042	314,985	62,795	377,780
2043-2047	68,150	17,577	85,727
2048-2052	39,355	4,845	44,200
2053-2057	16,740	263	17,003
Total	<u>\$ 1,678,525</u>	<u>\$ 858,772</u>	<u>\$ 2,537,297</u>

The SRF has the option to redeem bonds at par or at a premium, in some instances. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 10 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 as of June 30, 2022.

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

There are no unusual events of default, no unusual termination events, and no subjective acceleration clauses in these bond resolutions with financial related consequences.

(c) Defeased Debt

The irrevocable trust account assets and the liabilities for previously defeased bonds are not included in the SRF's basic financial statements.

The amount of defeased debt outstanding at June 30, 2022, is shown below (dollars in thousands):

	June 30, 2022
State Revolving Fund defeased bonds:	
Series 2013	\$ 37,560
Series 2016	24,160
Total State Revolving Fund defeased bonds	\$ 61,720

(5) Fair Value

GASB Statement No. 72, *Fair Value Measurement and Application*, specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. The SRF categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. These classifications are summarized in the three broad levels below.

Level 1 – Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable.

The SRF has the following fair value measurements as of June 30, 2022:

Investments Measured at Fair Value
(\$ in thousands)

	2022	Fair Value Measurements Using:		
		(Level 1)	(Level 2)	(Level 3)
Investments by fair value level				
U.S. Treasury securities	\$ 33,311	\$ -	\$ 33,311	\$ -
U.S. government agency securities	20,436	-	20,436	-
Municipal Bonds	13,432	-	13,432	-
Negotiable Certificates of Deposit	1,215	-	1,215	-
Total investments by fair value level	68,394	\$ -	\$ 68,394	\$ -
Investments valued using cost-based measures				
Governmental Money Market Mutual Funds	566,172			
Total investments	\$ 634,566			

The SRF obtains its fair value pricing on fixed income investments from its third-party custodian. There are multiple pricing methodologies which are used to value the SRF's U.S. Treasury securities, U.S. Government Agency securities, Municipal Bonds, Commercial Paper, and Negotiable Certificates of Deposit. These methods include, but are not limited to, gathering pricing from multiple market sources and vendor credit information, observed market movements, sector news into the pricing applications and models, or manual methods. Since none of the SRF's fixed income investments are actively traded on an exchange yet rely on significant observable inputs for fair value pricing, these securities are classified as Level 2.

The SRF also holds investments in Governmental Money Market Mutual Funds, which are included as cash equivalents on the statement of net position. These investments are valued using cost-based measures.

(6) Pension Plan

(a) Plan Description

IPERS membership is mandatory for employees of the SRF, except for those covered by another retirement system. Employees of the SRF are provided with pensions through a cost-sharing, multiple-employer, defined-benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report, which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

(b) Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- i. A multiplier (based on years of service).
- ii. The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

(c) *Disability and Death Benefits*

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

(d) *Contributions*

Contribution rates are established by IPERS following the completion of the annual actuarial valuation using IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2022 and 2021, pursuant to the required rate, Regular members contributed 6.29 percent of pay and the SRF contributed 9.44 percent for a total rate of 15.73 percent.

The SRF's contributions to IPERS for the year ended June 30, 2022, 2021, and 2020, were \$48, \$50, and \$54 thousand, respectively.

(e) *Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2022, the SRF reported a liability of \$8 thousand for its proportionate share of the net pension liability and is recorded within other liabilities in the statement of net position. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The SRF's proportion of the net pension liability was based on the SRF's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2022, the SRF's collective proportion was 0.005919 percent, which was a decrease of 0.000096 from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the SRF recognized pension expense of (\$105) thousand. At June 30, 2022, the SRF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6	\$ 7
Changes of assumptions	5	-
Net difference between projected and actual earnings on pension plan investments	-	301
Changes in proportion and differences between SRF contributions and proportionate share of contributions	17	30
SRF contributions subsequent to the measurement date	48	-
Total	\$ 76	\$ 338

\$48 thousand was reported as deferred outflows of resources related to pensions resulting from the SRF's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

Year Ended June 30,		
2023	\$	(79)
2024		(80)
2025		(73)
2026		(80)
2027		2
Total	\$	(310)

There were no non-employer contributing entities at IPERS.

(f) Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	2.60 percent per annum
Rates of salary increase	3.25 to 16.25 percent average, including inflation Rates vary by membership group
Long-term investment rate of return	7.00 percent, compounded annually, net of expenses
Wage growth	3.25 percent per annum, based on 2.60 percent inflation and 0.65 percent real wage inflation

The actuarial assumptions used in the June 30, 2021, valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables adjusted to 2006 and 2017 with MP-2017 generational adjustments.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Asset allocation	Long-term expected real rate of return
U.S. equity	22 %	4.43 %
Non-U.S. equity	18	6.01
Global smart beta equity	6	5.1
Core plus fixed income	26	0.29
Public credit	4	2.08
Cash	1	-0.25
Private equity	13	9.51
Private real assets	7	4.63
Private credit	3	2.87
Total	100 %	

(g) Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the SRF will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(h) Sensitivity of the SRF's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the SRF's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the SRF's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate (dollars in thousands).

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
SRF's proportionate share of the net pension liability	\$ 294	\$ 8	\$ (231)

(i) Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report, which is available on IPERS' website at www.ipers.org.

(j) Payables to the Pension Plan

At June 30, 2022, the SRF had no legally required employer or employee contributions not yet remitted to IPERS.

(7) Commitments and Contingencies

The SRF has signed loan agreements for which \$380.1 million have not been disbursed as of June 30, 2022.

(8) Risk Management:

The SRF is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2022, the SRF managed its risks as follows:

- The SRF participated in the State of Iowa employee benefit program for health, dental, long-term disability, and life insurance coverage which are fully insured.
- The SRF is covered by the State of Iowa for:
 - Employee Theft Governmental Entity - \$2 million
 - Computer Fraud - \$2 million
 - Computer Program/Electronic Data Restoration - \$0.5 million
- The SRF participates in the State of Iowa's self-insured Workers' Compensation Fund. The liability for unpaid claims is estimated based on the average cost per claim-type determined from an actuarial review.
- The SRF is covered by the Authority's insurance policies for:
 - Commercial General Liability - \$2 million
 - Automobile Liability - \$1 million
 - Umbrella Liability - \$10 million
 - Building Property – 1963 Bell - \$15.3 million
 - Personal Property – 1963 Bell - \$2.2 million
 - Crime Policy, including computer fraud - \$2 million
 - Cyber Liability - \$1 million

(9) Subsequent Events

The Authority executed a bond purchase agreement for a Direct Placement in the amount of \$36.0 million with Bank of America, N.A., on September 6, 2022. The bonds are scheduled to close on June 28, 2023, and will refund the State Revolving Fund Series 2013 Bonds on August 1, 2023.

The Authority closed on a Direct Placement in the amount of \$43.5 million with Bank of America, N.A., on September 15, 2022. These bonds will advance refund a portion of the State Revolving Fund Series 2015 Bonds.

(10) Related Party Transactions

A member of the Authority's Board of Directors is a key employee for the City of Dubuque, Iowa. The Authority has \$113 million in SRF loans outstanding with the City of Dubuque.

(11) Other Post-Employment Benefits (OPEB):

(a) Plan Description

The SRF's employees are provided with OPEB through the State of Iowa OPEB Plan, a cost-sharing, multiple-employer, defined-benefit OPEB plan administered by the State of Iowa (State Plan). The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires that employers recognize the Implicit Rate Subsidy that exists in postretirement medical plans provided by governmental employers.

The Implicit Rate Subsidy refers to the concept that retirees under the age of 65 (i.e., not eligible for Medicare) generate higher claims on average than active participants. When a medical plan is self-insured or fully insured through a third-party administrator, a premium is usually determined by analyzing the claims of the entire population in the plan and adjusting for administrative costs. The resulting premium is called a blended premium because it blends the claims of active and retired participants. Since individuals generally have more and higher claims as they get older, the blended premium paid for retirees is lower than their expected claims. Another way of considering this is that if the retirees were removed from the plan, the premium for the active group would be lower; therefore, the retirees' premiums are being subsidized by the active group. Since the employer generally pays a large portion, or all, of the premiums for the active group, this subsidy creates a liability for the employer. The difference between the expected claims for the retiree group and the blended premium is called the Implicit Rate Subsidy.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

(b) Plan Membership

There are 17,448 active and 2,227 retired participants in the plan as of January 1, 2020. The actuarial valuation for June 30, 2021, utilized a modified roll-forward approach in which new participant data was not collected, but claims and contribution rates were updated to reflect updated experience and premium rates for the current fiscal year.

(c) Plan Benefits

The State currently offers three plans which are available to participants: Iowa Choice, National Choice, and State Police Officers Council.

The contribution requirements of the plan participants are established and may be amended by the State Legislature. The State currently finances the retiree benefit plan on a pay-as-you-go basis.

(d) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (dollars in thousands)

At June 30, 2022, the SRF reported a liability of \$42 for its proportionate share of the total OPEB liability. The total OPEB liability was based upon an actuarial valuation performed as of June 30, 2021. The SRF's proportion of the total OPEB liability was based on the ratio of SRF's headcount of active employees and covered spouses in relation to all active employees and covered spouses of the plan. At June 30, 2021, the SRF's proportion was 0.024%, which was an increase of 0.007% from the prior measurement date.

For the year ended June 30, 2022, the SRF recognized OPEB expense of \$5. At June 30, 2022, the SRF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ 1
Changes of assumptions	2	1
Change in proportionate share	5	3
Total	<u>\$ 7</u>	<u>\$ 5</u>

Amounts reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

<u>Year Ended June 30,</u>	
2023	\$ -
2024	-
2025	-
2026	-
2027+	2
Total	<u>\$ 2</u>

(e) Actuarial Assumptions

The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Rate of inflation	2.60 percent per annum
Discount Rate (based on 20-year municipal bond yield)	3.44 percent (as of January 1, 2018) 3.87 percent (as of June 30, 2018) 3.50 percent (as of June 30, 2019) 2.73 percent (as of January 1, 2020) 2.21 percent (as of June 30, 2020) 2.16 percent (as of June 30, 2021)
Age of Spouse	Actual age, or if unavailable, males assumed to be 3 years older than females

The majority of State of Iowa employees are participants in the Iowa Public Employees Retirement System (IPERS). For this reason, the individual salary increase, mortality, withdrawal, and retirement assumptions are based on the assumptions used for IPERS actuarial valuation report as of June 30, 2019. The plan participation assumption and other medical plan specific assumptions are based upon the recent experience of the State of Iowa Post-retirement Medical Plan.

For the June 30, 2021, valuation, the following changes were made:

- Medical, prescription drug, and administrative costs were updated to reflect recent experience.
- Medical, prescription drug, and administrative expense trend rates were updated to reflect recent experience and future expectations.
- The discount rate was updated from 2.21% to 2.16%.

(f) Changes in Total OPEB Liability (expressed in thousands)

	Increase (decrease)
Balance at July 1, 2021	\$ 37
Changes for the year:	
Service cost	4
Interest	1
Employer contributions	(1)
New deferred outflows	(1)
Recognition of beginning deferred (outflows)/inflows due to change in proportion and differences between employer contributions and proportionate share	2
Net change	5
Balance at June 30, 2022	\$ 42

(g) Sensitivity Analysis – Changes to the Discount Rate

The proportionate share of the total OPEB liability was calculated using a discount rate of 2.16%, as well as a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the discount rate is presented below (expressed in thousands):

	1% Decrease 1.16%	Discount Rate 2.16%	1% Increase 3.16%
SRF's proportionate share of the total OPEB liability	\$ 45	\$ 42	\$ 40

(h) Sensitivity Analysis – Changes to the Healthcare Cost Trend Rate

The proportionate share of the total OPEB liability was calculated using a healthcare trend rate of 7.0% to 7.25% grading down to 4.5%, as well as a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the healthcare cost trend rate is presented below (expressed in thousands):

	1% Decrease	Healthcare Trend Rate	1% Increase
SRF's proportionate share of the total OPEB liability	\$ 38	\$ 42	\$ 48

(i) Payables to the OPEB Plan

The SRF makes no contributions to this plan; therefore, no payments are outstanding as of June 30, 2022.



Required Supplementary Information
June 30, 2022

State Revolving Fund
(A Fund of the Iowa Finance Authority)

State Revolving Fund
A Fund of the Iowa Finance Authority
Required Supplementary Information (Unaudited)
(Dollars in thousands)
Year Ended June 30, 2022

(1) Schedule of SRF's Proportionate Share of the Net Pension Liability

	2022	2021	2020	2019	2018	2017	2016	2015
SRF's proportion of the net pension liability	0.005919%	0.006015%	0.007482%	0.007609%	0.006958%	0.005179%	0.006960%	0.007112%
SRF's proportionate share of the net pension liability	\$ 8	\$ 420	\$ 436	\$ 481	\$ 459	\$ 323	\$ 346	\$ 282
SRF's covered payroll	530	572	508	504	381	459	470	437
SRF's proportionate share of the net pension liability as a percentage of its covered payroll	1.51%	73.43%	85.83%	95.44%	120.47%	70.37%	73.62%	64.53%
Plan fiduciary net position as a percentage of the total pension liability	100.81%	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* The amounts presented were determined as of the measurement date, which is one year prior to the SRF's fiscal year-end.

State Revolving Fund
 A Fund of the Iowa Finance Authority
 Required Supplementary Information (Unaudited)
 (Dollars in thousands)
 Year Ended June 30, 2022

(2) Schedule of SRF's Contributions

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 48	\$ 50	\$ 54	\$ 48	\$ 45	\$ 34	\$ 41	\$ 42
Contributions in relation to the statutorily required contribution	(48)	(50)	(54)	(48)	(45)	(34)	(41)	(42)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
SRF's covered payroll	508	530	572	508	504	381	459	470
Contribution as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%

(3) Schedule of SRF's Proportionate Share of the Total OPEB Liability

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
SRF's proportion of the total OPEB liability	0.024%	0.017%	0.017%	0.017%	0.018%
SRF's proportionate share of the total OPEB liability	\$ 42	\$ 37	\$ 37	\$ 34	\$ 34
SRF's covered-employee payroll	508	508	508	504	381
SRF's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	8.27%	7.28%	7.28%	6.75%	8.92%

* The amounts presented were determined as of the calendar year-end that occurred within the fiscal year.

Note: GASB Statement No. 68 requires 10 years of information to be presented in Tables (1), (2), and (3). However, until a full 10-year trend is compiled, the SRF will present available information.

(4) Notes to Required Supplementary Information

(a) Pension-Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

(b) Pension-Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates for all groups.
- Adjusted termination rates.
- Adjusted the probability of a vested member electing to receive a deferred benefit.
- Salary increase assumption merit component was adjusted.

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.00 percent to 2.60 percent per year.
- Decreased the assumed rate of interest on member accounts from 3.75 percent to 3.50 percent per year.
- Decreased the long-term rate of return assumption from 7.50 percent to 7.00 percent per year.
- Decreased the wage growth and payroll growth assumption from 4.00 percent to 3.25 percent per year.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

(c) OPEB – Funding:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

(d) OPEB – Changes of benefit terms:

There were no significant changes in benefit terms.

(e) OPEB – Changes of assumptions and demographic experience:

Effective with the June 30, 2021, actuarial valuation, the following methodology and assumption changes were made:

- Medical, prescription drug, and administrative expense costs were updated to reflect recent experience.
- Medical, prescription drug, and administrative expense trend rates were updated to reflect recent experience.
- The discount rate was updated from 2.21% to 2.16%.

Effective with the June 30, 2020, actuarial valuation, the following methodology and assumption changes were made:

- Medical claim costs and premiums were updated based on recent experience.
- Annual medical trends were updated based on industry observations and the current SOA-Getzen model.
- The salary scale was updated to be consistent with the assumption used for “State Employees” in the June 30, 2019 IPERS actuarial valuation.
- The future expectation of inflation was updated from 3.00% to 2.60% to be consistent with the assumption used in the June 30, 2019 IPERS actuarial valuation.
- The discount rate methodology was updated based on a 20-year municipal bond yield as of January 1, 2020. This resulted in a change in discount rate from 3.44% to 2.73%.

Demographic Experience – Demographic experience was updated based on the current covered population of 17,448 active participants and 2,227 inactive participants as of January 1, 2020.



Other Supplementary Information
June 30, 2022

State Revolving Fund
(A Fund of the Iowa Finance Authority)

State Revolving Fund
A Fund of the Iowa Finance Authority
Combining Schedule of Net Position
(Dollars in thousands)
June 30, 2022

	State Revolving Fund		
	Clean Water Programs	Drinking Water Programs	Total SRF
Assets			
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 396,570	\$ 201,230	\$ 597,800
Other investments	30,731	19,003	49,734
Loans to municipalities or water systems, net	107,271	44,936	152,207
Accrued interest receivable	3,097	1,073	4,170
Other current assets	172	508	680
Total current assets	<u>537,841</u>	<u>266,750</u>	<u>804,591</u>
Noncurrent assets (substantially restricted):			
Other investments	10,013	8,647	18,660
Loans to municipalities or water systems, net	1,705,047	479,578	2,184,625
Total noncurrent assets	<u>1,715,060</u>	<u>488,225</u>	<u>2,203,285</u>
Total assets	<u>2,252,901</u>	<u>754,975</u>	<u>3,007,876</u>
Deferred Outflows of Resources			
Other post employment benefits	7	-	7
Pension plan	48	28	76
Loss on bond refunding	3,924	1,631	5,555
Total deferred outflows	<u>3,979</u>	<u>1,659</u>	<u>5,638</u>
Total assets and deferred outflows	<u>\$ 2,256,880</u>	<u>\$ 756,634</u>	<u>\$ 3,013,514</u>
Liabilities			
Current liabilities:			
Bonds payable, net	\$ 46,455	\$ 19,885	\$ 66,340
Accrued interest payable	23,761	6,490	30,251
Accounts payable and other liabilities	1,200	286	1,486
Total current liabilities	<u>71,416</u>	<u>26,661</u>	<u>98,077</u>
Noncurrent liabilities:			
Bonds payable, net	1,487,549	384,168	1,871,717
Other liabilities	49	-	49
Total noncurrent liabilities	<u>1,487,598</u>	<u>384,168</u>	<u>1,871,766</u>
Total liabilities	<u>1,559,014</u>	<u>410,829</u>	<u>1,969,843</u>
Deferred Inflows of Resources			
Other post employment benefits	5	-	5
Pension plan	213	125	338
Total deferred inflows of resources	<u>218</u>	<u>125</u>	<u>343</u>
Net Position			
Restricted net position:			
Per bond resolutions	560,496	303,666	864,162
Per other agreements	137,152	42,014	179,166
Total restricted net position	<u>697,648</u>	<u>345,680</u>	<u>1,043,328</u>
Unrestricted net position	-	-	-
Total net position	<u>697,648</u>	<u>345,680</u>	<u>1,043,328</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,256,880</u>	<u>\$ 756,634</u>	<u>\$ 3,013,514</u>

State Revolving Fund
 A Fund of the Iowa Finance Authority
 Combining Schedule of Revenues, Expenses, and Changes in Net Position
 (Dollars in thousands)
 Year Ended June 30, 2022

	State Revolving Fund		
	Clean Water Programs	Drinking Water Programs	Total SRF
Operating revenues:			
Interest on loans	\$ 31,308	\$ 9,588	\$ 40,896
Interest on investments	776	524	1,300
Net decrease in fair value of investments	(799)	(813)	(1,612)
Fee revenue	5,546	1,568	7,114
Total operating revenues	<u>36,831</u>	<u>10,867</u>	<u>47,698</u>
Operating expenses:			
Interest on bonds	41,084	10,527	51,611
General and administrative	4,759	4,217	8,976
Provision (recoveries) of losses	-	(25)	(25)
Total operating expenses	<u>45,843</u>	<u>14,719</u>	<u>60,562</u>
Net operating loss	(9,012)	(3,852)	(12,864)
Non-operating revenue (expense):			
Grant income	21,380	18,211	39,591
Grants and aid	(2,256)	(738)	(2,994)
Net non-operating revenue	<u>19,124</u>	<u>17,473</u>	<u>36,597</u>
Change in net position	10,112	13,621	23,733
Net position at July 1, 2021	<u>687,536</u>	<u>332,059</u>	<u>1,019,595</u>
Net position at June 30, 2022	<u>\$ 697,648</u>	<u>\$ 345,680</u>	<u>\$ 1,043,328</u>



**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 Board of Directors
Iowa Finance Authority
Des Moines, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the State Revolving Fund of the Iowa Finance Authority as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the State Revolving Fund’s basic financial statements and have issued our report thereon dated September 27, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Finance Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the State Revolving Fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Finance Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Finance Authority’s internal control.

A deficiency in internal control exists when the design or operation of a 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 that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Iowa Finance Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
September 27, 2022