

IOWA STATE REVOLVING FUND
A Fund of the Iowa Finance Authority
Basic Financial Statements
June 30, 2020
(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
Darlys Baum	Member
Jane Bell	Member
Lyle Borg	Ex-officio voting
John Eisenman	Member
Michel Nelson	Chair
Ruth Randleman	Vice Chair
Amy Reasner	Member
Gilbert Thomas	Treasurer
Michael Van Milligen	Member

Environmental Protection Commission

Stephanie Dykshorn	
Amy Echard	
Lisa Gochenour	
Rebecca Guinn	
Howard Hill	
Harold Hommes	Vice Chair
Ralph Lents	Chair
Bob Sinclair	Secretary



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State Revolving Fund (a fund of Iowa Finance Authority) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State Revolving Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund as of June 30, 2020, and the 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements of the State Revolving Fund are intended to present the financial position, the changes in financial position, and cash flows of only the portion of the business-type activities of Iowa Finance Authority that is attributable to the transactions of the State Revolving Fund. They 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, 2020, 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.

Other Matters

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 33 be presented to supplement the basic financial statements. Such information, 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 or 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Revolving Fund's financial statements. The combining financial schedules on pages 34 through 35 are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial schedules on pages 34 through 35 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such 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 30, 2020 on our consideration of the State Revolving Fund'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'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's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
September 30, 2020

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, 2020. 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 three parts: the management's discussion and analysis (this section), the independent auditor's report, and the basic financial statements. The basic financial statements consist of 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 of 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.

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 2020 and 2019.

State Revolving Fund				
Net Position				
(Dollars in thousands)				
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Assets:				
Cash and cash equivalents	\$ 513,035	\$ 449,499	\$ 63,536	14.1%
Investments	70,042	72,920	(2,878)	-3.9%
Loans to municipalities or water systems, net	2,014,433	1,855,127	159,306	8.6%
Other assets	4,486	5,426	(940)	-17.3%
Total assets	<u>2,601,996</u>	<u>2,382,972</u>	<u>219,024</u>	<u>9.2%</u>
Deferred outflows	<u>10,025</u>	<u>12,761</u>	<u>(2,736)</u>	<u>-21.4%</u>
Total assets and deferred outflows	<u>\$ 2,612,021</u>	<u>\$ 2,395,733</u>	<u>\$ 216,288</u>	<u>9.0%</u>
Liabilities:				
Bonds payable, net	\$ 1,587,956	\$ 1,413,502	\$ 174,454	12.3%
Other liabilities	28,263	25,193	3,070	12.2%
Total liabilities	<u>1,616,219</u>	<u>1,438,695</u>	<u>177,524</u>	<u>12.3%</u>
Deferred inflows	<u>112</u>	<u>37</u>	<u>75</u>	<u>202.7%</u>
Total liabilities and deferred inflows	<u>1,616,331</u>	<u>1,438,732</u>	<u>177,599</u>	<u>12.3%</u>
Net position:				
Restricted net position	<u>995,690</u>	<u>957,001</u>	<u>38,689</u>	<u>4.0%</u>
Total net position	<u>995,690</u>	<u>957,001</u>	<u>38,689</u>	<u>4.0%</u>
Total liabilities, deferred inflows and net position	<u>\$ 2,612,021</u>	<u>\$ 2,395,733</u>	<u>\$ 216,288</u>	<u>9.0%</u>

State Revolving Fund
Revenues, Expenses, and Changes in Net Position
(Dollars in thousands)

	<u>2020</u>	<u>2019</u>	Change	%
Operating revenues:				
Interest income	\$ 44,692	\$ 45,335	\$ (643)	-1.4%
Net increase in fair value of investments	507	575	(68)	-11.8%
Fee income	6,329	5,868	461	7.9%
Total operating revenues	<u>51,528</u>	<u>51,778</u>	<u>(250)</u>	<u>-0.5%</u>
Operating expenses:				
Interest on bonds	44,123	38,603	5,520	14.3%
General and administrative	9,019	10,034	(1,015)	-10.1%
Provision for (recoveries of) losses	(25)	(25)	-	0.0%
Total operating expenses	<u>53,117</u>	<u>48,612</u>	<u>4,505</u>	<u>9.3%</u>
Net operating income	<u>(1,589)</u>	<u>3,166</u>	<u>(4,755)</u>	<u>-150.2%</u>
Non-operating revenue (expense):				
Grant income	44,942	37,572	7,370	19.6%
Grants and aid	(4,664)	(3,794)	(870)	22.9%
Net non-operating revenue	<u>40,278</u>	<u>33,778</u>	<u>6,500</u>	<u>19.2%</u>
Change in net position	<u>38,689</u>	<u>36,944</u>	<u>1,745</u>	<u>4.7%</u>
Net position at beginning of year	<u>957,001</u>	<u>920,057</u>	<u>36,944</u>	<u>4.0%</u>
Net position at end of year	<u>\$ 995,690</u>	<u>\$ 957,001</u>	<u>\$ 38,689</u>	<u>4.0%</u>

Financial Analysis – State Revolving Fund 2020 (dollars in thousands)

- Assets and deferred outflows increased 9.0% or \$216,288 to \$2,612,021 due to the strategic goal of increasing loans to municipalities and water systems.
- Liabilities and deferred inflows increased by 12.3% or \$177,599 to \$1,616,331 in order to finance the additional loans mentioned above.
- The SRF 2020A bond series was issued on February 27, 2020, generating proceeds totaling \$264,185 to purchase SRF loans. See Note 4 - Bonds Payable for more detail on SRF's debt.
- Interest income decreased 1.4% to \$44,692 due to lower interest rates on cash balances.
- Fee income increased 7.9% to \$6,329 due to the higher loan balances.
- Interest on bonds increased 14.3% to \$44,123 due to the higher bond balances.
- General and administrative expenses decreased 10.1% to \$9,019 due to lower DNR set-aside expenses.

- Grant income increased 19.6% to \$44,942 due to increased use of capitalization grants from the Environmental Protection Agency.
- Grants and aid expense increased 22.9% to \$4,664 due to higher disbursements on SRF loans with forgivable portions during the year.
- As a result, net position increased 4.0% or \$38,689 to \$995,690.

Currently Known Facts, Decisions, or Conditions

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, 2020

Assets	
Current assets (substantially restricted):	
Cash and cash equivalents	\$ 513,035
Other investments	50,965
Loans to municipalities or water systems, net	130,961
Accrued interest receivable	3,401
Other current assets	1,085
Total current assets	699,447
Noncurrent assets (substantially restricted):	
Other investments	19,077
Loans to municipalities or water systems, net	1,883,472
Total noncurrent assets	1,902,549
Total assets	2,601,996
Deferred Outflows of Resources	
Other post employment benefits	6
Pension plan	109
Loss on refunding	9,910
Total deferred outflows of resources	10,025
Liabilities	
Current liabilities:	
Bonds payable, net	64,140
Accrued interest payable	26,277
Accounts payable and other liabilities	1,512
Total current liabilities	91,929
Noncurrent liabilities:	
Bonds payable, net	1,523,816
Other liabilities	474
Total noncurrent liabilities	1,524,290
Total liabilities	1,616,219
Deferred Inflows of Resources	
Other post employment benefits	4
Pension plan	108
Total deferred inflows of resources	112
Net Position	
Restricted net position:	
Per bond resolutions	822,646
Per other agreements	173,044
Total restricted net position	995,690
Unrestricted net position	
Total net position	\$ 995,690

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, 2020

Operating revenues:	
Interest on loans	\$ 39,911
Interest on investments	4,781
Net increase in fair value of investments	507
Fee income	<u>6,329</u>
Total operating revenues	<u>51,528</u>
Operating expenses:	
Interest on bonds	44,123
General and administrative	9,019
Provision for (recoveries of) losses	<u>(25)</u>
Total operating expenses	<u>53,117</u>
Net operating loss	<u>(1,589)</u>
Non-operating revenue (expense):	
Grant income	44,942
Grants and aid	<u>(4,664)</u>
Net non-operating revenue	<u>40,278</u>
Change in net position	<u>38,689</u>
Net position at June 30, 2019	<u>957,001</u>
Net position at June 30, 2020	<u><u>\$ 995,690</u></u>

State Revolving Fund
A Fund of the Iowa Finance Authority
Statement of Cash Flows
(Dollars in thousands)
Year ended June 30, 2020

Cash flows from operating activities:	
Cash receipts for fees and other income	\$ 6,288
Interest received on loans	40,862
Principal payments on loans	130,010
Purchase of loans	(280,084)
Cash payments for salaries and related benefits	(749)
Cash payments to suppliers	(8,341)
	<u>(112,014)</u>
Net cash used by operating activities	
Cash flows from noncapital financing activities:	
Proceeds from issuance of bonds	264,185
Repayment of bonds	(70,915)
Interest paid	(55,925)
Payments for cost of issuance	(1,301)
Receipts for grant programs	45,235
Payments for grant programs	(13,895)
	<u>167,384</u>
Net cash provided by noncapital financing activities	
Cash flows from investing activities:	
Purchases of investments	(45,836)
Interest received on investments	4,781
Sales/maturities of investments	49,220
	<u>8,165</u>
Net cash provided by investing activities	
Change in cash and cash equivalents	
	63,535
Cash and cash equivalents, beginning of year	<u>449,500</u>
Cash and cash equivalents, end of year	<u>\$ 513,035</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,589)
Interest on investments	(4,781)
Interest on bonds	42,825
Payments for cost of issuance	1,301
Net increase in fair value of investments	(507)
Increase on loans to municipalities or water systems	(150,074)
Decrease in interest receivable on loans	952
Increase in other assets and deferred outflows	(286)
Increase in accounts payable, other liabilities and deferred inflows	145
	<u>(112,014)</u>
Net cash used by operating activities	

(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 statements 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, 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 loans 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.

Interest accrues on loans and is charged to interest income until a loan becomes more than three months delinquent, at which time accrued interest is reversed. Subsequent interest income is not recognized on the loan until collected or until the loan is three months or less in arrears. There are no loans on non-accrual status.

(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 for (recoveries of) loan losses or grant expense. An allowance for losses of \$10.6 million was netted against loans to municipalities or water systems at June 30, 2020.

(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, 2020, the SRF incurred \$98.3 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, 2020, the SRF had an intercompany payable to the Authority of \$118.2 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, 2020		Average Maturity (years)
	Total	% of total	
Cash and cash equivalents			
Cash in banks	\$ 42,852	7%	
Money market funds	470,183	81%	
Total	513,035	88%	
Investments			
Certificates of deposit	2,917	1%	2.02
U.S. government agency securities	22,298	4%	1.50
Municipal securities	12,209	2%	2.95
U.S. Treasury securities	32,618	5%	0.64
Total	70,042	12%	
Total	\$ 583,077	100%	

(a) Deposits

At June 30, 2020, the SRF had \$23.6 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; and guaranteed investment contracts with financial institutions meeting certain credit rating standards.

(c) Credit Risk

Credit risk is if an issuer or counterparty will not fulfill their obligation to the SRF. Custodial credit risk is if a depository institution fails it may not return 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):

Type/Provider	June 30, 2020		State Revolving Fund	% of Total
	Credit ratings			
	S&P	Moody's		
Money market funds:				
BlackRock	AAAm	Aaa-mf	\$ 408,582	75.7%
Goldman Sachs Group	AAAm	Aaa-mf	61,601	11.4%
Certificates of deposit	NR	NR	2,917	0.5%
US government agency securities	AA+	Aaa	22,298	4.1%
US Treasury securities	AA+	Aaa	32,618	6.0%
Municipal securities	AA to AAA	Aa1 to Aaa	12,209	2.3%
Total			\$ 540,225	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, 2020, are as follows (dollars in thousands):

	2020		
	Cost	Allowance for losses	Net
State Revolving Fund Loans			
Loans backed by municipal bonds	\$ 1,971,232	\$ -	\$ 1,971,232
Unsecured planning and design loans	20,935	-	20,935
Unsecured nonpoint source loans	23,579	(1,313)	22,266
Forgivable portion of SRF loans	9,281	(9,281)	-
Total State Revolving Fund Loans	<u>\$ 2,025,027</u>	<u>\$ (10,594)</u>	<u>\$ 2,014,433</u>

(4) **Bonds Payable**

(a) **Outstanding Bonds Payable at June 30, 2020, are as follows (dollars in thousands):**

Description	Original amount	Due dates		Interest rate		Balance 2020
		From	To	From	To	
2010 - Serial Bonds	\$ 215,725	08/01/11	08/01/25	2.000	5.000	\$ 83,235
2010 - Term Bonds	77,165		08/01/30		5.272	77,165
2011 - Serial Bonds	220,435	08/01/12	08/01/31	2.000	5.000	21,850
2013 - Serial Bonds	115,450	08/01/14	08/01/33	1.500	5.000	51,220
2015 - Serial Bonds	321,530	08/01/15	08/01/35	1.000	5.000	216,345
2016 - Serial Bonds	163,275	08/01/17	08/01/39	2.000	5.000	130,895
2017 - Serial Bonds	272,990	08/01/18	08/01/37		5.000	267,740
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	08/01/19	08/01/42	2.250	5.000	214,560
2019 B - Serial Bonds	42,015	08/01/19	08/01/28	2.567	3.354	41,650
2020 - Serial Bonds	168,740	08/01/21	08/01/40		5.000	168,740
2020 - Term Bonds	33,085	08/01/44	08/01/49		5.000	33,085
Unamortized Premium	—					207,001
Total State Revolving Fund Revenue Bonds	<u>\$1,920,870</u>					<u>\$1,587,956</u>

(b) Rollforward

The following table summarizes the bonds payable (net of premium and discount) activity for the SRF for the year ended June 30, 2020 (dollars in thousands):

	June 30, 2019	Additions	Reductions	June 30, 2020	Due within one year
State Revolving Fund	\$1,413,502	\$ 264,185	\$ (89,731)	\$1,587,956	\$ 64,140

(c) Maturity

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

Year ended June 30	Principal	Interest	Total
2021	\$ 64,140	\$ 62,695	\$ 126,835
2022	62,760	60,711	123,471
2023	59,695	58,054	117,749
2024	62,480	55,321	117,801
2025	64,200	52,563	116,763
2026-2030	346,460	218,834	565,294
2031-2035	346,855	134,778	481,633
2036-2040	267,865	57,369	325,234
2041-2045	79,055	14,334	93,389
2046-2050	27,445	2,888	30,333
Total	\$ 1,380,955	\$ 717,547	\$ 2,098,502

The SRF has the option to redeem bonds at par or, in some instances, at a premium. 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, 2020.

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.

(d) Defeased Debt

On February 25, 2015, the SRF issued bonds with a face value of \$321.5 million to provide resources to purchase investment securities that were placed into an irrevocable trust to provide funds for future debt service payments on \$298.3 million of SRF bonds. The funds required for this transaction exceeded the net carrying value of the defeased debt by \$25.4 million. This refunding was undertaken to take advantage of the low interest rate environment and resulted in an economic gain of \$32.9 million.

On December 14, 2017, the SRF issued bonds with a face value of \$347.5 million to provide resources to purchase investment securities that were placed into an irrevocable trust to provide funds for future debt service payments on \$207.4 million of SRF bonds. The funds required for this transaction exceeded the net carrying value of the defeased debt by \$87.3 thousand. This refunding was undertaken to take advantage of the low interest rate environment. The aggregate difference in debt service between the refunding debt and the refunded debt was \$19.9 million. However, the refunding resulted in an economic gain of \$16.2 million.

On January 22, 2020, the SRF used \$12.9 million of cash from the SRF Equity Accounts to provide resources to purchase State and Local Government Series (SLGS) securities that were placed into an irrevocable trust to provide funds for future debt service payments on \$12.4 million of SRF bonds. The funds required for this transaction exceeded the net carrying value of the defeased debt by \$576.2 thousand. This refunding was undertaken to retire the oldest debt outstanding in the portfolio that would be available for redemption on August 1, 2020, in addition to achieve debt service savings resulting in an economic gain of \$766 thousand.

As a result, the irrevocable trust account assets and the liabilities for these defeased bonds are not included in the SRF's basic financial statements.

The amount of defeased debt outstanding at June 30, 2020, is shown below (dollars in thousands):

	2020
State Revolving Fund defeased bonds:	
Series 2010A	\$ 12,420
Series 2011	145,650
Series 2013	37,560
Series 2016	24,160
Total State Revolving Fund defeased bonds	\$ 219,790

(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, 2020:

Investments Measured at Fair Value				
(\$ in thousands)				
	<u>2,020</u>	Fair Value Measurements Using:		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments by fair value level				
U.S. Treasury securities	\$ 32,618	\$ -	\$ 32,618	\$ -
U.S. government agency securities	22,298	-	22,298	-
Municipal Bonds	12,209	-	12,209	-
Negotiable Certificates of Deposit	2,917	-	2,917	-
Total investments by fair value level	<u>70,042</u>	<u>\$ -</u>	<u>\$ 70,042</u>	<u>\$ -</u>
Investments valued using cost based measures				
Governmental Money Market Mutual Funds	<u>470,183</u>			
Total investments	<u>\$ 540,225</u>			

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, 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, we classify these securities 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 2020 and 2019, 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, 2020, 2019, and 2018, were \$54, \$48, and \$45 thousand respectively.

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

At June 30, 2020, the SRF reported a liability of \$0.4 million for its proportionate share of the net pension liability and it is recorded within other liabilities in the statement of net position. The net pension liability was measured as of June 30, 2019, 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, 2019, the SRF's collective proportion was 0.007482 percent, which was a decrease of 0.000127 from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the SRF recognized pension expense of \$60 thousand. At June 30, 2020, 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	\$ 1	\$ 16
Changes of assumptions	47	-
Net difference between projected and actual earnings on pension plan investments	-	49
Changes in proportion and differences between SRF contributions and proportionate share of contributions	7	43
SRF contributions subsequent to the measurement date	54	-
Total	\$ 109	\$ 108

\$54 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, 2021.

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,		
2021	\$	-
2022		(17)
2023		(15)
2024		(16)
2025		(5)
Total	\$	(53)

There were no nonemployer contributing entities at IPERS.

(f) Actuarial Assumptions

The total pension liability in the June 30, 2019, 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 investment expense, including inflation
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, 2019, valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, 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 %	5.60 %
Non-U.S. equity	15	6.08
Global smart beta equity	3	5.82
Core plus fixed income	27	1.71
Public credit	4	3.32
Public real estate	7	2.81
Cash	1	-0.21
Private equity	11	10.13
Private real assets	7	4.76
Private credit	3	3.01
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	\$ 775	\$ 436	\$ 152

(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' web site at www.ipers.org.

(j) Payables to the Pension Plan

At June 30, 2020, 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 \$338.9 million have not been disbursed as of June 30, 2020.

(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, 2020, 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 - \$1.3 million
 - Personal Property - 1963 Bell - \$2.1 million
 - Crime Policy, including computer fraud - \$2 million
 - Cyber Liability - \$1 million

(9) 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 post-retirement 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 post-retirement 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.

(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, 2020, the SRF reported a liability of \$37 for its proportionate share of the total OPEB liability and is recorded within other liabilities in the statement of net position. The total OPEB liability was based upon an actuarial valuation performed as of January 1, 2020. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles. The SRF's proportion of the total OPEB liability was based on 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, 2020, the SRF's proportion was 0.017%, which was an increase of 0.708% from the prior measurement date.

For the year ended June 30, 2020, the SRF recognized OPEB expense of \$2. At June 30, 2020, the SRF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (expressed in thousands):

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ 1
Changes of assumptions	3	-
Change in proporate share	3	3
Total	<u>\$ 6</u>	<u>\$ 4</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>	
2021	\$ -
2022	-
2023	-
2024	-
2025	-
2026+	2
Total	<u>\$ 2</u>

(e) *Actuarial Assumptions*

The total OPEB liability in the January 1, 2020, 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
Rate of salary increase	3.25 to 14.25 percent average, including inflation Rates vary by membership group
Wage growth	3.00 percent per annum, based on 2.60 percent inflation and 0.40 percent real wage inflation
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)
Age of Spouse	Actual age, or if unavailable, males assumed to be 3 years older than females

Annual medical trends were based on industry observations and the current SOA-Getzen model, with initial trend rates starting at 6.0% (managed care plans) or 6.3% (non-managed care plans) in 2020 based on survey data and client market expectations, trending to 4.14% to 2075 and beyond.

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 (see Note 6). The plan participation assumption and other medical plan specific assumptions are based upon the recent experience of the State of Iowa Postretirement Medical Plan.

For the January 1, 2020, valuation, the following 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 discount rate decreased from 3.44% as of January 1, 2018, to 2.73% as of January 1, 2020.
- The pre-retirement and post-retirement mortality assumptions were updated to be consistent with the assumptions used for “State Employees” in the June 30, 2019 IPERS actuarial valuation for the general State population and the assumptions used for “Protection Occupation” for the SPOC population;
- The salary scale was updated to be consistent with the scale used for “State Employees” in the June 30, 2019 IPERS actuarial valuation for the general State population and the scale used for “Sheriffs/Deputies and Protection Occupation” for the SPOC population.
- The retirement rates assumption was updated to be consistent with the assumptions used for “State Employees” in the June 30, 2019 IPERS actuarial valuation for the general State population and the assumptions used for “Protection Occupation” for the SPOC population.
- The withdrawal rates assumption was updated to be consistent with the assumptions used for “State Employees” in the June 30, 2019 IPERS actuarial valuation for the general State population and the assumptions used for “Protection Occupation” for the SPOC population.

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

	Increase (decrease)
Balance at June 30, 2019	\$ 34
Changes for the year:	
Service cost	3
Interest	1
Employer contributions	(2)
New deferred outflows	1
Net change	3
Balance at June 30, 2020	\$ 37

(g) Sensitivity Analysis – Changes to the Discount Rate.

The proportionate share of the total OPEB liability was calculated using a discount rate of 2.21%, as well as a discount rate that is 1 percentage point lower (1.21%) and 1 percentage point higher (3.21%) 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 1.21%	Discount Rate 2.21%	1% Increase 3.21%
Authority's proportionate share of the total OPEB liability	\$ 39	\$ 37	\$ 34

(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 6.0% to 6.3% grading down to 4.1%, as well as a discount rate that is 1 percentage point lower (5.0% to 5.3% grading down to 3.1%) or 1 percentage point higher (7.0% to 7.3% grading down to 5.1%) 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
Authority's proportionate share of the total OPEB liability	\$ 32	\$ 37	\$ 41

(i) Payables to the OPEB Plan

The SRF makes no contributions to this plan; therefore, no payments are outstanding as of June 30, 2020.



Required Supplementary Information
June 30, 2020

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

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

	2020	2019	2018	2017	2016	2015
SRF's proportion of the net pension liability	0.007482%	0.007609%	0.006958%	0.005179%	0.006960%	0.007112%
SRF's proportionate share of the net pension liability	\$ 436	\$ 481	\$ 459	\$ 323	\$ 346	\$ 282
SRF's covered payroll	508	504	381	459	470	437
SRF's proportionate share of the net pension liability as a percentage of its covered payroll	85.83%	95.44%	120.47%	70.37%	73.62%	64.53%
Plan fiduciary net position as a percentage of the total pension liability	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.

(2) Schedule of SRF Contributions (Unaudited)

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
SRF's proportion			
of the total OPEB liability	0.017%	0.017%	0.018%
SRF's proportionate share			
of the total OPEB liability	\$ 37	\$ 34	\$ 34
SRF's covered-employee payroll	508	504	381
SRF's proportionate share of the			
total OPEB liability as a percentage			
of its covered-employee payroll	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. 75 requires 10 years of information to be presented in Table (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.
- Decreased the salary increase assumption by 0.75 percent.

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.

The 2010 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 at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

(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 January 1, 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 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.



Other Supplementary Information
June 30, 2020

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, 2020

	State Revolving Fund		
	Clean Water Programs	Drinking Water Programs	Total SRF
Assets			
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 361,207	\$ 151,828	\$ 513,035
Other investments	23,078	27,887	50,965
Loans to municipalities or water systems, net	88,732	42,229	130,961
Accrued interest receivable	2,480	921	3,401
Other current assets	591	494	1,085
Total current assets	<u>476,088</u>	<u>223,359</u>	<u>699,447</u>
Noncurrent assets (substantially restricted):			
Other investments	10,188	8,889	19,077
Loans to municipalities or water systems, net	1,438,200	445,272	1,883,472
Total noncurrent assets	<u>1,448,388</u>	<u>454,161</u>	<u>1,902,549</u>
Total assets	<u>1,924,476</u>	<u>677,520</u>	<u>2,601,996</u>
Deferred Outflows of Resources			
Other post employment benefits	6	-	6
Pension plan	72	37	109
Loss on bond refunding	6,755	3,155	9,910
Total deferred outflows	<u>6,833</u>	<u>3,192</u>	<u>10,025</u>
Total assets and deferred outflows	<u>\$ 1,931,309</u>	<u>\$ 680,712</u>	<u>\$ 2,612,021</u>
Liabilities			
Current liabilities:			
Bonds payable, net	\$ 43,550	\$ 20,590	\$ 64,140
Accrued interest payable	20,267	6,010	26,277
Accounts payable and other liabilities	878	634	1,512
Total current liabilities	<u>64,695</u>	<u>27,234</u>	<u>91,929</u>
Noncurrent liabilities:			
Bonds payable, net	1,186,751	337,065	1,523,816
Other liabilities	328	146	474
Total noncurrent liabilities	<u>1,187,079</u>	<u>337,211</u>	<u>1,524,290</u>
Total liabilities	<u>1,251,774</u>	<u>364,445</u>	<u>1,616,219</u>
Deferred Inflows of Resources			
Other post-employment benefits	4	-	4
Pension plan	71	37	108
Total deferred inflows of resources	<u>75</u>	<u>37</u>	<u>112</u>
Net Position			
Restricted net position:			
Per bond resolutions	544,871	277,775	822,646
Per other agreements	134,589	38,455	173,044
Total restricted net position	<u>679,460</u>	<u>316,230</u>	<u>995,690</u>
Unrestricted net position	-	-	-
Total net position	<u>679,460</u>	<u>316,230</u>	<u>995,690</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,931,309</u>	<u>\$ 680,712</u>	<u>\$ 2,612,021</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, 2020

	State Revolving Fund		
	Clean Water Programs	Drinking Water Programs	Total SRF
Operating revenues:			
Interest on loans	\$ 29,993	\$ 9,918	\$ 39,911
Interest on investments	2,646	2,135	4,781
Net increase in fair value of investments	243	264	507
Fee income	4,664	1,665	6,329
Total operating revenues	<u>37,546</u>	<u>13,982</u>	<u>51,528</u>
Operating expenses:			
Interest on bonds	34,104	10,019	44,123
General and administrative	4,611	4,408	9,019
Provision for (recoveries of) losses	-	(25)	(25)
Total operating expenses	<u>38,715</u>	<u>14,402</u>	<u>53,117</u>
Net operating loss	<u>(1,169)</u>	<u>(420)</u>	<u>(1,589)</u>
Non-operating revenue (expense):			
Grant income	28,613	16,329	44,942
Grants and aid	(2,940)	(1,724)	(4,664)
Inter-agency transfers	(4,104)	4,104	-
Net non-operating revenue	<u>21,569</u>	<u>18,709</u>	<u>40,278</u>
Change in net position	<u>20,400</u>	<u>18,289</u>	<u>38,689</u>
Net position at June 30, 2019	<u>659,060</u>	<u>297,941</u>	<u>957,001</u>
Net position at June 30, 2020	<u>\$ 679,460</u>	<u>\$ 316,230</u>	<u>\$ 995,690</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 (a fund of Iowa Finance Authority) as of and for the year ended June 30, 2020, 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 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State Revolving Fund'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Revolving Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund’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 may exist that have not been identified.

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 entity'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 "Eric Sully LLP".

Aberdeen, South Dakota
September 30, 2020