IOWA STATE REVOLVING FUND

A Fund of the Iowa Finance Authority

Basic Financial Statements

June 30, 2023

(With Independent Auditors' Report Thereon)

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
Jennifer Cooper	Vice Chair
John Eisenman	Member
Gretchen McLain	Ex-officio Voting
Michel Nelson	Chair
Amy Reasner	Member
Gilbert Thomas	Treasurer
Michael Van Milligen	Member
Nate Wheaton	Member

Environmental Protection Commission

Rebecca Dostal	
Amy Echard	Vice Chair
Patricia Foley	
Lisa Gochenour	
Harold Hommes	Chair
Mark Stutsman	Secretary
Kyle Tobiason	
Roger Zylstra	

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, 2023, 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, 2023, 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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, 2023, 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 opinion. 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 GAAS, 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 opinions on the financial statements that collectively comprise the State Revolving Fund of the Iowa Finance Authority's basic financial statements. The combining financial schedules on pages 35 and 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 GAAS. 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 October 26, 2023, 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.

Eide Bailly LLP

Aberdeen, South Dakota
October 26, 2023

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, 2023. 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 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 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.

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 2023 and 2022.

State Revolving Fund
Net Position
(Dollars in thousands)

	2023	2022	Change	%
Assets:				
Cash and cash equivalents	$ 722,545	$ 597,800	$ 124,745	20.9%
Investments	91,386	68,394	22,992	33.6%
Loans to municipalities or water systems, net	2,463,530	2,336,832	126,698	5.4%
Other assets	7,502	4,850	2,652	54.7%
Total assets	3,284,963	3,007,876	277,087	9.2%
Deferred outflows	3,106	5,638	(2,532)	-44.9%
Total assets and deferred outflows	$ 3,288,069	$ 3,013,514	$ 274,555	9.1%
Liabilities:				
Bonds payable, net	$ 2,136,413	$ 1,938,057	$ 198,356	10.2%
Other liabilities	29,486	31,786	(2,300)	-7.2%
Total liabilities	2,165,899	1,969,843	196,056	10.0%
Deferred inflows	8,296	343	7,953	2318.7%
Total liabilities and deferred inflows	2,174,195	1,970,186	204,009	10.4%
Net position:				
Restricted net position	1,113,874	1,043,328	70,546	6.8%
Total net position	1,113,874	1,043,328	70,546	6.8%
Total liabilities, deferred inflows and net position	$ 3,288,069	$ 3,013,514	$ 274,555	9.1%

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

	2023	**2022**	Change	%
Operating revenues:				
Interest income	$ 56,608	$ 42,196	$ 14,412	34.2%
Net decrease in fair value of investments	(316)	(1,612)	1,296	-80.4%
Fee income	7,468	7,114	354	5.0%
Total operating revenues	63,760	47,698	16,062	33.7%
Operating expenses:				
Interest on bonds	54,255	51,611	2,644	5.1%
General and administrative	11,216	8,976	2,240	25.0%
Provision (recoveries) for losses	(37)	(25)	(12)	48.0%
Total operating expenses	65,434	60,562	4,872	8.0%
Net operating loss	(1,674)	(12,864)	11,190	-87.0%
Non-operating revenue (expense):				
Grant income	79,805	39,591	40,214	101.6%
Grants and aid	(7,585)	(2,994)	(4,591)	153.3%
Net non-operating revenue	72,220	36,597	35,623	97.3%
Change in net position	70,546	23,733	46,813	197.2%
Net position at beginning of year	1,043,328	1,019,595	23,733	2.3%
Net position at end of year	$ 1,113,874	$ 1,043,328	$ 70,546	6.8%

Financial Analysis – State Revolving Fund 2023 (dollars in thousands)

- Assets and deferred outflows increased 9.1% or $274,555 to $3,288,069 due to the strategic goal of increasing loans to municipalities and water systems.
- Liabilities and deferred inflows increased by 10.4% or $204,009 to $2,174,195 in order to finance the additional loans mentioned above.
- The State Revolving Fund issued debt with proceeds totaling $617,005; and made bond payments of $356,540.

Series	**Date**	**Proceeds**	**Rating**
SRF 2022C	06/28/2023	$ 36,000	No Rating (Private Placement with BofA)
SRF 2022D	09/15/2022	43,525	No Rating (Private Placement with BofA)
SRF 2023 AB	06/15/2023	390,977	Aaa by Moody's; AAA by Fitch
SRF 2023 C	06/15/2023	146,503	Aaa by Moody's; AAA by Fitch
Total		$ 617,005	

See Note 4 - Bonds Payable for more detail on SRF's debt.

- Interest income increased 34.2% to $56,608 due to higher interest rates throughout the year on investments and cash balances.
- Fee income increased 5.0% to $7,468 due to the higher loan balances.
- Interest expense increased 5.1% to $54,255 due to the higher bond balances.
- General and administrative expenses increased 25.0% to $11,216 due to additional cost of issuance on the above referenced bond issues.
- Grant income increased 101.6% to $79,805 due to additional capitalization grant funding from the Environmental Protection Agency as part of the Bipartisan Infrastructure Law (BIL), including Clean Water General Supplemental Capitalization Grants of $26,490 and Drinking Water General Supplemental Capitalization Grants of $31,350.
- Grants and aid expense increased 153.3% to $7,585 due to additional subsidization requirements related to the BIL funding described above.
- As a result, net position increased 6.8% or $70,546 to $1,113,874.

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 closed on June 28, 2023, and will refund the State Revolving Fund Series 2013 Bonds on August 1, 2023.

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

(Dollars in thousands)

Assets	
Current assets (substantially restricted):	
Cash and cash equivalents	$ 722,545
Other investments	69,750
Loans to municipalities or water systems, net	169,163
Accrued interest receivable	5,968
Other current assets	1,534
Total current assets	968,960
Noncurrent assets (substantially restricted):	
Other investments	21,636
Loans to municipalities or water systems, net	2,294,367
Total noncurrent assets	2,316,003
Total assets	3,284,963
Deferred Outflows of Resources	
Other post employment benefits	19
Pension plan	80
Loss on bond refunding	3,007
Total deferred outflows of resources	3,106
Liabilities	
Current liabilities:	
Bonds payable, net	77,195
Accrued interest payable	28,288
Accounts payable and other liabilities	899
Total current liabilities	106,382
Noncurrent liabilities:	
Bonds payable, net	2,059,218
Other liabilities	299
Total noncurrent liabilities	2,059,517
Total liabilities	2,165,899
Deferred Inflows of Resources	
Other post employment benefits	18
Pension plan	57
Gain on bond refunding	8,221
Total deferred inflows of resources	8,296
Net Position	
Restricted net position:	
Per bond resolutions	923,011
Per other agreements	190,863
Total restricted net position	1,113,874
Unrestricted net position	-
Total net position	$ 1,113,874

Statement of Revenues, Expenses, and Changes in Net Position
(Dollars in thousands)
Year ended June 30, 2023

Operating revenues:	
Interest on loans	$ 41,501
Interest on investments	15,107
Net decrease in fair value of investments	(316)
Fee income	7,468
Total operating revenues	63,760
Operating expenses:	
Interest on bonds	54,255
General and administrative	11,216
Provision (recoveries) of losses	(37)
Total operating expenses	65,434
Net operating loss	(1,674)
Non-operating revenue (expense):	
Grant income	79,805
Grants and aid	(7,585)
Net non-operating revenue	72,220
Change in net position	70,546
Net position at July 1, 2022	1,043,328
Net position at June 30, 2023	$ 1,113,874

(Dollars in thousands)

Cash flows from (used in) operating activities:	
Cash receipts for fees and other income	$ 7,458
Interest received on loans	39,703
Principal payments on loans	178,870
Purchase of loans	(312,118)
Cash payments for salaries and related benefits	(1,066)
Cash payments to suppliers	(10,814)
Net cash used in operating activities	(97,967)
Cash flows from (used in) noncapital financing activities:	
Proceeds from issuance of bonds	617,005
Repayment of bonds	(356,540)
Interest paid	(66,566)
Payments for cost of issuance	(3,215)
Receipts for grant programs	79,040
Payments for grant programs	(1,037)
Net cash provided by noncapital financing activities	268,687
Cash flows from (used in) investing activities:	
Purchases of investments	(119,455)
Interest received on investments	15,107
Sales/maturities of investments	58,373
Net cash used in investing activities	(45,975)
Change in cash and cash equivalents	124,745
Cash and cash equivalents, beginning of year	597,800
Cash and cash equivalents, end of year	$ 722,545
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (1,674)
Interest on investments	(15,107)
Interest on bonds	51,040
Payments for cost of issuance	3,215
Net decrease in fair value of investments	316
Increase on loans to municipalities or water systems	(133,248)
Increase in interest receivable on loans	(1,797)
Increase in other assets and deferred outflows	(105)
Decrease in accounts payable, other liabilities and deferred inflows	(607)
Net cash used in operating activities	$ (97,967)

(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. In 2021, Congress passed the Infrastructure Investment and Jobs Act ("IIJA"), otherwise known as the Bipartisan Infrastructure Law ("BIL"), allowing states to receive additional capitalization grants under the Clean Water Act and Safe Drinking Water Act. The BIL supplemental capitalization grants for federal fiscal years 2022, 2023, and 2024 are subject to a ten percent (10%) State match requirement. BIL supplemental capitalization grants for federal fiscal years 2025 and 2026 will be subject to a twenty percent (20%) State match requirement. The Authority is further authorized to issue and has issued revenue bonds to meet the State match required to receive the BIL supplemental capitalization grants. 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:

i. 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.

ii. 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 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 $13.5 million was netted against loans to municipalities or water systems at June 30, 2023.

(i) Bond Issuance Costs

Bond issuance costs are expensed in the period incurred.

(j) Bond Premiums, Discounts, and Gains 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. Gains and losses on bond refunding are recorded as deferred inflows of resources or deferred outflows of resources, respectively, 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, 2023, the SRF incurred $107.8 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, 2023, the SRF had an amount due to the Authority of $34.4 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, 2023		
	Total	**% of total**	**Average Maturity (years)**
Cash and cash equivalents			
Cash in banks	$ 32,618	4%	
Money market funds	689,927	85%	
Total	722,545	89%	
Investments			
Certificates of deposit	461	0%	1.73
State and local government series (SLGS) securities	36,000	4%	2.50
U.S. government agency securities	32,336	4%	1.12
Municipal securities	10,607	1%	2.23
U.S. Treasury securities	11,982	2%	2.50
Total	91,386	11%	
Total	$ 813,931	100%	

(a) Deposits

At June 30, 2023, the SRF had $32.6 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, 2023			
	Credit ratings			
Type/Provider	**S&P**	**Moody's**	**State Revolving Fund**	**% of total**
Money market funds:				
BlackRock	AAAm	Aaa-mf	$ 600,410	76.8%
Goldman Sachs Group	AAAm	Aaa-mf	89,517	11.5%
Certificates of deposit	NR	NR	461	0.1%
SLGS securites	A-1+	P-1	36,000	4.6%
U.S. government agency securities	AA+	Aaa	32,336	4.1%
U.S. Treasury securities	AA+	Aaa	11,982	1.5%
Municipal securities	AA to AAA	Aa2 to Aaa	10,607	1.4%
Total			$ 781,313	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, 2023, are as follows (dollars in thousands):

	2023		
	Cost	Allowance for losses	Net
State Revolving Fund Loans			
Loans backed by municipal bonds	$ 2,420,229	$ (1,226)	$ 2,419,003
Unsecured planning and design loans	27,885	-	27,885
Unsecured nonpoint source loans	16,642	-	16,642
Forgivable portion of SRF loans	12,323	(12,323)	-
Total State Revolving Fund Loans	$ 2,477,079	$ (13,549)	$ 2,463,530

(4) Bonds Payable

Outstanding Bonds Payable at June 30, 2023, are as follows (dollars in thousands):

Description		Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	Balance 2023
2010 - Serial Bonds		$ 215,725	08/01/23	08/01/25	2.780	2.982	$ 41,185
2010 - Term Bonds		77,165		08/01/30		3.550	77,165
2013 - Serial Bonds		115,450	08/01/23	08/01/33	4.000	5.000	37,595
2015 - Serial Bonds		321,530	08/01/23	08/01/29	4.000	5.000	89,855
2016 - Serial Bonds		163,275	08/01/26	08/01/39		5.000	40,015
2017 - Serial Bonds		272,990	08/01/23	08/01/37		5.000	205,090
2017 - Term Bonds		54,815		08/01/42		5.000	22,370
2017 - Term Bonds		19,655		08/01/47		5.000	19,655
2019 A - Serial Bonds		215,990	08/01/23	08/01/42	2.250	5.000	132,600
2019 B - Serial Bonds		42,015	08/01/23	08/01/28	2.905	3.354	39,190
2020 - Serial Bonds		168,740	08/01/23	08/01/40		5.000	166,355
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	08/01/23	08/01/41		5.000	161,220
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	08/01/23	08/01/26	0.258	1.014	27,765
2022A - Serial Bonds		165,530	08/01/23	08/01/42		5.000	165,530
2022A - Term Bonds		15,755		08/01/47		5.000	15,755
2022A - Term Bonds		16,740		08/01/52		5.000	16,740
2022B - Serial Bonds		8,155	08/01/23	08/01/27	2.620	3.250	8,155
2022C - Term Bonds	D	36,000		08/01/33		3.540	36,000
2022D - Term Bonds	D	43,525		08/01/35		4.400	43,525
2023A - Serial Bonds		300,000	08/01/27	08/01/42		5.000	300,000
2023B - Serial Bonds		44,450	08/01/26	08/01/32	4.340	4.490	44,450
2023C - Serial Bonds		94,810	08/01/25	08/01/43	5.000	5.250	94,810
2023C - Term Bonds		17,040		08/01/48		5.250	17,820
2023C - Term Bonds		13,910		08/01/53		5.250	14,990
Unamortized Premium		—					262,833
Total State Revolving Fund Revenue Bonds		$2,674,640					$2,136,413

(a) Rollforward

The following table summarizes the bonds payable (net of premium and discount) activity for the SRF for the year ended June 30, 2023 (dollars in thousands):

	July 1, 2022	**Additions**	**Reductions**	**June 30, 2023**	**Due within one year**
SRF Revenue Bonds:					
Revenue bonds	$1,938,057	$ 537,480	$ (418,649)	$2,056,888	$ 77,195
Direct placement	-	79,525	-	79,525	-
State Revolving Fund	$1,938,057	$ 617,005	$ (418,649)	$2,136,413	$ 77,195

(b) Maturity

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

	State Revolving Fund					
Year ending	**Revenue Bonds**			**Revenue Bonds - Direct Placement**		
June 30, 2023	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2024	$ 77,195	$ 74,907	$ 152,102	$ -	$ 3,393	$ 3,393
2025	79,005	80,492	159,497	-	3,190	3,190
2026	84,885	77,170	162,055	-	3,190	3,190
2027	91,620	73,509	165,129	285	3,183	3,468
2028	93,745	69,458	163,203	295	3,170	3,465
2029-2033	479,225	280,443	759,668	44,885	13,546	58,431
2034-2038	429,125	170,016	599,141	34,060	1,699	35,759
2039-2043	323,845	69,725	393,570	-	-	-
2044-2048	83,295	24,718	108,013	-	-	-
2049-2053	50,260	7,511	57,771	-	-	-
2054-2058	1,855	47	1,902	-	-	-
Total	$ 1,794,055	$ 927,996	$ 2,722,051	$ 79,525	$ 31,371	$ 110,896

Year ending	**Total State Revolving Fund**		
June 30, 2023	**Principal**	**Interest**	**Total**
2024	$ 77,195	$ 78,300	$ 155,495
2025	79,005	83,682	162,687
2026	84,885	80,360	165,245
2027	91,905	76,692	168,597
2028	94,040	72,628	166,668
2029-2033	524,110	293,989	818,099
2034-2038	463,185	171,715	634,900
2039-2043	323,845	69,725	393,570
2044-2048	83,295	24,718	108,013
2049-2053	50,260	7,511	57,771
2054-2058	1,855	47	1,902
Total	$ 1,873,580	$ 959,367	$ 2,832,947

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, 2023.

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.

Direct placement bonds have been issued to Bank of America, N.A. These bonds are secured with loans purchased with the bond proceeds in the State Revolving Fund.

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) Bond Refundings

On September 15, 2022, the Authority issued SRF bonds with a face value of $43.5 million 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 $41.8 million of SRF bonds. The funds required for this transaction exceeded the net carrying value of the defeased debt by $6.3 million. 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 $3.85 million. However, the refunding resulted in an economic gain of $2.6 million.

On June 28, 2023, the Authority issued SRF bonds with a face value of $36 million to provide resources to purchase State and Local Government Series (SLGS) securities that were placed into an escrow to provide funds for a debt payment of $36 million of 2013 SRF bonds on August 1, 2023. The aggregate difference in debt service between the refunding debt and the refunded debt was $3.6 million. This refunding resulted in an economic gain of $2.95 million.

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

The amount of defeased debt outstanding at June 30, 2023, is shown below (dollars in thousands):

	June 30, 2023
State Revolving Fund defeased bonds:	
Series 2013	$ 37,560
Series 2015	41,810
Series 2016	24,160
Total defeased bonds	$ 103,530

(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, 2023:

Investments Measured at Fair Value
(Dollars in thousands)

		Fair Value Measurments Using:		
	2023	**(Level 1)**	**(Level 2)**	**(Level 3)**
Investments by Fair Value Level				
U.S. Treasury securities	$ 11,982	$ -	$ 11,982	$ -
U.S. government agency securities	32,336	-	32,336	-
SLGS securities	36,000	-	36,000	-
Municipal bonds	10,607	-	10,607	-
Negotiable certificates of deposit	461	-	461	-
Total investments by fair value level	91,386	$ -	$ 91,386	$ -
Investments Valued Using Cost-based Measures				
Governmental money market mutual funds	689,927			
Total investments	$ 781,313			

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, SLGS 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, 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 year 2022, 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 years ended June 30, 2023, 2022, and 2021, were $55, $48, and $50 thousand, respectively.

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

At June 30, 2023, the SRF reported a liability of $252 thousand for its proportionate share of the net pension liability which is recorded within other liabilities in the statement of net position. The net pension liability was measured as of June 30, 2022, 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, 2023, the SRF's collective proportion was 0.006357 percent, which was an increase of 0.0004384 from its proportion measured as of June 30, 2022.

For the year ended June 30, 2023, the SRF recognized pension expense of ($39) thousand. At June 30, 2023, 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	$ 11	$ 3
Changes of assumptions	1	-
Net difference between projected and actual earnings on pension plan investments	-	27
Changes in proportion and differences between SRF contributions and proportionate share of contributions	13	27
SRF contributions subsequent to the measurement date	55	-
Total	$ 80	$ 57

$55 thousand 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, 2024.

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,		
2024	$	(33)
2025		(23)
2026		(32)
2027		56
2028		-
Total	$	(32)

There were no non-employer contributing entities at IPERS.

(f) Actuarial Assumptions

The total pension liability in the June 30, 2022, 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, 2022, valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the PubG-2010 Employee and Healthy Annuitant Tables adjusted using MP-2021 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 %	3.57 %
Non-U.S. equity	18	4.79
Global smart beta equity	6	4.16
Core-plus fixed income	20	1.66
Public credit	4	3.77
Cash	1	0.77
Private equity	13	7.57
Private real assets	8	3.55
Private credit	8	3.63
Total	100.0 %	

(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	$ 470	$ 252	$ 60

(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, 2023, 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 $534.2 million have not been disbursed as of June 30, 2023.

(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, 2023, 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 - $18.5 million
    - Personal Property – 1963 Bell - $2.2 million
    - Crime Policy, including computer fraud - $2 million
    - Cyber Liability - $1 million

(9) 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 $109 million in SRF loans outstanding with the City of Dubuque.

(10) 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 17,074 active and 2,045 retired participants in the plan as of January 1, 2022.

(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, 2023, the SRF reported a liability of $54 for its proportionate share of the total OPEB liability. The total OPEB liability was based upon an actuarial valuation performed as of June 30, 2022. 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, 2022, the SRF's proportion was 0.0243%, which was an increase of 0.0003% from the prior measurement date.

For the year ended June 30, 2023, the SRF recognized OPEB expense of $5. At June 30, 2023, the SRF reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13	$ 2
Changes of assumptions	2	13
Change in proportionate share	4	3
Total	$ 19	$ 18

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

Year Ended June 30,	
2024	$ -
2025	-
2026	-
2027	-
2028+	1
Total	$ 1

(e) *Actuarial Assumptions*

The total OPEB liability in the June 30, 2022, 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) 3.54 percent (as of June 30, 2022)
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, 2022. 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, 2022, valuation, the following changes were made:

- The pre-retirement and post-retirement mortality assumptions were updated to be consistent with the assumptions used for “State Employees” in the June 30, 2022, IPERS actuarial valuation.
- Salary, turnover, and retirement rates assumptions were updated to be consistent with the assumptions used for “State Employees” in the June 30, 2022, IPERS actuarial valuation.
- 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 2.16% to 3.54%.

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

	Increase (Decrease)
Balance at July 1, 2022	$ 42
Changes for the year:	
Service cost	13
Interest	4
Differences between expected and actual experience	4
Changes in assumptions	(4)
Benefit payments - implicit subsidy	(2)
Recognition of net current and deferred outflows/(inflows) due to changes in proportion and differences between employer's contributions and proporationate share of contributions	(3)
Net change	12
Balance at June 30, 2023	$ 54

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

The proportionate share of the total OPEB liability was calculated using a discount rate of 3.54%, 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 2.54%	Discount Rate 3.54%	1% Increase 4.54%
SRF's proportionate share of the total OPEB liability	$ 58	$ 54	$ 51

(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 8.0% 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 6.00%	Healthcare Cost Trend Rate 7.00%	1% Increase 8.00%
SRF's proportionate share of the total OPEB liability	$ 49	$ 54	$ 61

(i) Payables to the OPEB Plan

The SRF makes no contributions to this plan; therefore, no payments are outstanding as of June 30, 2023.

(11) Subsequent Events

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

Required Supplementary Information
June 30, 2023

State Revolving Fund

(A Fund of the Iowa Finance Authority)

(Dollars in thousands)

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
SRF's proportion of the net pension liability	0.006357%	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	$ 252	$ 8	$ 420	$ 436	$ 481	$ 459	$ 323	$ 346	$ 282
SRF's covered payroll	508	530	572	508	504	381	459	470	437
SRF's proportionate share of the net pension liability as a percentage of its covered payroll	49.61%	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	91.41%	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.

(Dollars in thousands)

(2) Schedule of SRF's Contributions

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	$ 55	$ 48	$ 50	$ 54	$ 48	$ 45	$ 34	$ 41	$ 42
Contributions in relation to the statutorily required contribution	(55)	(48)	(50)	(54)	(48)	(45)	(34)	(41)	(42)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
SRF's covered payroll	583	508	530	572	508	504	381	459	470
Contribution as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%	9.44%	8.93%	8.93%	8.93%	8.94%

(Dollars in thousands)

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

	2023	2022	2021	2020	2019	2018
SRF's proportion of the total OPEB liability	0.024%	0.024%	0.017%	0.017%	0.017%	0.018%
SRF's proportionate share of the total OPEB liability	$ 54	$ 42	$ 37	$ 37	$ 34	$ 34
SRF's covered-employee payroll	583	508	508	508	504	381
SRF's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	9.26%	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 2022 valuation implemented the following changes:

- Changed mortality tables to PubG-2010 with generational adjustments for all groups.
- Modified retirement rates to reflect fewer early retirements and more normal retirement rates in the 55-60 age group.
- Lowered disability rates for all groups.
- Increased termination rates specifically for employees working less than 10 years.

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, 2022, actuarial valuation, the following methodology and assumption changes were made:

- The mortality tables, turnover rates, retirement rates, and salary scale were updated to be consistent with the assumptions used for “State Employees” in the June 30, 2022, IPERS actuarial valuation.
- 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 2.16% to 3.54%.

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 17,074 active participants and 2,045 inactive participants as of January 1, 2022.

Other Supplementary Information
June 30, 2023

State Revolving Fund

(A Fund of the Iowa Finance Authority)

Combining Schedule of Net Position
(Dollars in thousands)
June 30, 2023

	State Revolving Fund		
Assets	**Clean Water Programs**	**Drinking Water Programs**	**Total SRF**
Current assets (substantially restricted):			
Cash and cash equivalents	$ 510,299	$ 212,246	$ 722,545
Other investments	38,400	31,350	69,750
Loans to municipalities or water systems, net	123,669	45,494	169,163
Accrued interest receivable	4,214	1,754	5,968
Other current assets	363	1,171	1,534
Total current assets	676,945	292,015	968,960
Noncurrent assets (substantially restricted):			
Other investments	9,536	12,100	21,636
Loans to municipalities or water systems, net	1,800,631	493,736	2,294,367
Total noncurrent assets	1,810,167	505,836	2,316,003
Total assets	2,487,112	797,851	3,284,963
Deferred Outflows of Resources			
Other post employment benefits	19	-	19
Pension plan	51	29	80
Loss on bond refunding	2,044	963	3,007
Total deferred outflows	2,114	992	3,106
Total assets and deferred outflows	$ 2,489,226	$ 798,843	$ 3,288,069
Liabilities			
Current liabilities:			
Bonds payable, net	$ 52,090	$ 25,105	$ 77,195
Accrued interest payable	22,787	5,501	28,288
Accounts payable and other liabilities	609	290	899
Total current liabilities	75,486	30,896	106,382
Noncurrent liabilities:			
Bonds payable, net	1,680,981	378,237	2,059,218
Other liabilities	207	92	299
Total noncurrent liabilities	1,681,188	378,329	2,059,517
Total liabilities	1,756,674	409,225	2,165,899
Deferred Inflows of Resources			
Other post employment benefits	18	-	18
Pension plan	37	20	57
Gain on bond refunding	6,272	1,949	8,221
Total deferred inflows of resources	6,327	1,969	8,296
Net Position			
Restricted net position:			
Per bond resolutions	583,420	339,591	923,011
Per other agreements	142,805	48,058	190,863
Total restricted net position	726,225	387,649	1,113,874
Unrestricted net position	-	-	-
Total net position	726,225	387,649	1,113,874
Total liabilities, deferred inflows, and net position	$ 2,489,226	$ 798,843	$ 3,288,069

Combining Schedule of Revenues, Expenses, and Changes in Net Position
(Dollars in thousands)
Year Ended June 30, 2023

	State Revolving Fund		
	Clean Water Programs	**Drinking Water Programs**	**Total SRF**
Operating revenues:			
Interest on loans	$ 31,921	$ 9,580	$ 41,501
Interest on investments	8,474	6,633	15,107
Net decrease in fair value of investments	(73)	(243)	(316)
Fee revenue	5,750	1,718	7,468
Total operating revenues	46,072	17,688	63,760
Operating expenses:			
Interest on bonds	44,504	9,751	54,255
General and administrative	5,673	5,543	11,216
Provision (recoveries) of losses	1,226	(1,263)	(37)
Total operating expenses	51,403	14,031	65,434
Net operating income (loss)	(5,331)	3,657	(1,674)
Non-operating revenue (expense):			
Grant income	39,798	40,007	79,805
Grants and aid	(6,225)	(1,360)	(7,585)
Inter-agency transfers	335	(335)	-
Net non-operating revenue	33,908	38,312	72,220
Change in net position	28,577	41,969	70,546
Net position at July 1, 2022	697,648	345,680	1,043,328
Net position at June 30, 2023	$ 726,225	$ 387,649	$ 1,113,874

CPAs & BUSINESS ADVISORS

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 Iowa Finance Authority, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise State Revolving Fund's basic financial statements and have issued our report thereon dated October 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Iowa Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described below, that we consider to be a material weakness.

Accounting for Bond Refunding Transactions

Criteria: An organization's internal control structure should provide for the correct and accurate reporting of all necessary material adjustments to financial statements prepared in accordance with generally accepted accounting principles.

Condition: GASB Codification Section D20 contains specific guidance as to generally accepted accounting principles related to the accounting treatment for bond refunding transactions. During our engagement, we discovered accounting errors related to the recording of bond refunding transactions which resulted in material adjustments being required to the financial statements.

Cause: The current system of internal controls did not provide for communication and review of the accounting for bond refunding transactions at a level sufficient to discover the accounting errors.

Effect: The need for audit adjustments indicates that interim financial information is not materially correct, which may affect management decisions made during the year.

Recommendation: We recommend increased communication within the accounting team and the implementation of a documented detailed review process following the occurrence of a bond refunding transaction to ensure appropriate accounting treatment is reflected in the financial statements.

Views of Responsible Officials: Management agrees with the finding.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.*

Iowa Finance Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Iowa Finance Authority's response to the findings identified in our audit and described previously. Iowa Finance Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Iowa Finance Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
October 26, 2023