KPMG

IOWA TITLE GUARANTY

(A Division of Iowa Finance Authority)

Basic Financial Statements

June 30, 2015

(With Independent Auditors' Reports Thereon)

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

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KPMG LLP
2500 Ruan Center
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Independent Auditors' Report

The Board of Directors
Iowa Title Guaranty:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Iowa Title Guaranty (ITG), a division of Iowa Finance Authority, which comprise the statement of net position as of June 30, 2015, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 Iowa Title Guaranty as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in note 1(c) to the financial statements, the financial statements of ITG are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the Iowa Finance Authority that is attributable to the transactions of ITG. The financial statements do not purport to, and do not, present fairly the financial position of the Iowa Finance Authority as of June 30, 2015, the changes in its financial position or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Additionally, as discussed in note 1(m) to the financial statements, in 2015, ITG adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 4 through 8, Schedule of ITG's Proportionate Share of the Net Pension Liability, Schedule of ITG's Contributions, and Notes to Required Supplementary Information – Pension Liability on pages 21 to 24 to 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 on our consideration of ITG'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 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 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 ITG's internal control over financial reporting and compliance.

KPMG LLP

Des Moines, Iowa
November 18, 2015

Management's discussion and analysis provides an overview of the financial activities of Iowa Title Guaranty, (ITG) for the fiscal year ended June 30, 2015. Please read it in conjunction with ITG's financial statements and accompanying notes.

ITG was created in 1986 by the Iowa Legislature and operates as a Division of the Iowa Finance Authority. ITG is a self-supporting entity and follows enterprise fund accounting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. ITG operates a program offering guaranties of real property titles in the state of Iowa. ITG sets its fees to allow it to operate on a self-sustaining basis, including payment of administrative costs and the maintenance of an adequate reserve against claims under the title guaranty program. Funds collected under this program are available to pay all claims, necessary reserves, and all administrative costs of the title guaranty program. Surplus funds, after providing for adequate reserves and operating expenses of ITG, are transferred to the housing assistance program to support affordable housing initiates in Iowa.

Lenders outside of Iowa generally require title insurance as a condition to making a loan on real estate, including securitized lending. This is to assure lenders of the priority of their lien position. Similarly, purchasers of real estate want insurance to protect against claims that may arise against the title to the property. In states other than Iowa, a title insurance policy is issued to provide the assurances to lenders and purchasers. The Iowa Title Guaranty program is authorized by Chapter 16 of the Code of Iowa and the program guarantees Iowa lenders of the priority of their lien position and provides Iowa homeowners protection from claims against the titles to their real property.

ITG provides guaranties of Iowa real property titles to facilitate lenders' participation in the secondary market and to add to the integrity of the Iowa land-transfer system. Surplus funds generated from the program are transferred to the Iowa Housing Assistance Program to support affordable home ownership in Iowa. During the last five fiscal years, Iowa Title Guaranty transferred $10.6 million to the housing assistance program as follows:

Transfers to housing assistance		Amount
Fiscal year ending:		
June 30, 2015	$	1,012,000
June 30, 2014		1,169,000
June 30, 2013		2,517,000
June 30, 2012		2,302,679
June 30, 2011		3,613,000
	$	10,613,679

ITG revenues are closely related to the level of activity in the real estate markets in the State of Iowa and the prices at which real estate sales are made. Real estate sales are directly affected by the availability and cost of money to finance purchases. Other factors include consumer confidence and demand by buyers.

ITG sets performance standards for all field participants and closely monitors compliance. Additionally, attorneys are governed and audited by the Iowa Supreme Court and independent escrow closers are regulated and audited by the Iowa Division of Banking. These layers of oversight provide additional assurance of financial stability and are one of the reasons ITG does not have a history of defalcations.

The financial strength and stability of ITG are important factors in maintaining and increasing business, particularly commercial business. Iowa Title Guaranty has a Financial Stability Rating from Demotech, Inc. of "A1-Unsurpassed".

Overview of the Financial Statements

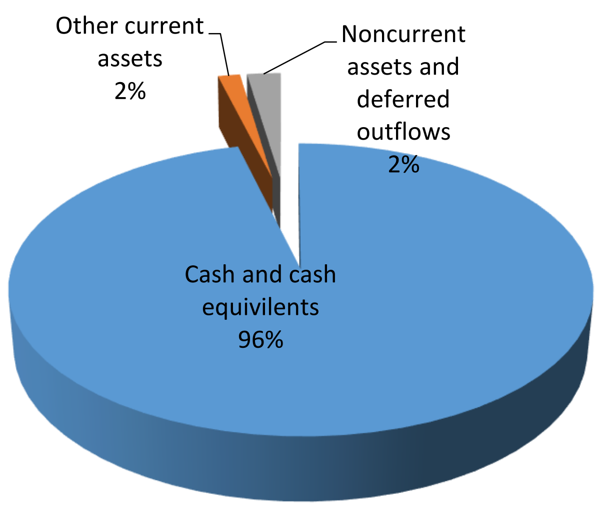
This annual financial report consists of Management's Discussion and Analysis (this section) and the Basic Financial Statements, including notes to the financial statements. The Basic Financial Statements include the following statements:

The statement of net position which details the assets and liabilities of ITG based on their liquidity, utilizing current and noncurrent categories. The resulting net position in these statements is displayed as restricted. Under Government Accounting Standards (GAS) assets are restricted when their use is subject to external restrictions, such as bond resolutions, legal agreements, statues, etc.). The net position of ITG is restricted per legislation.

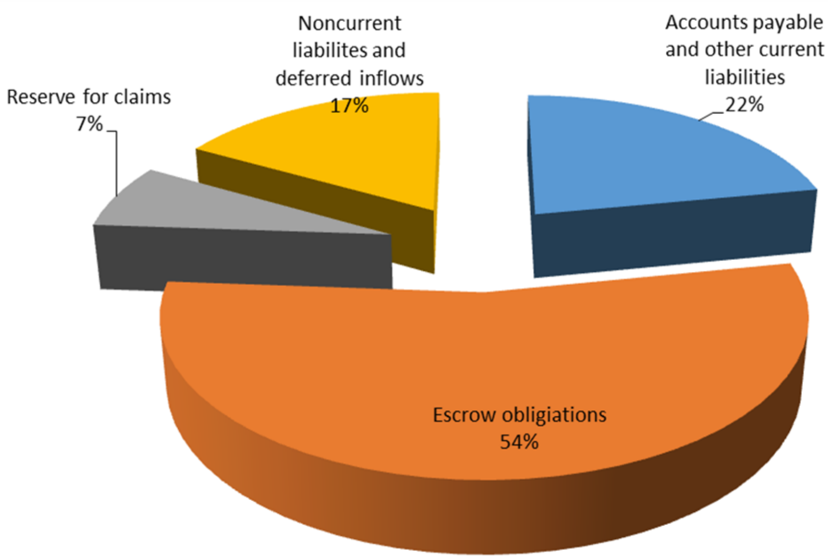
The statement of revenues, expenses, and changes in net position present operating revenues less operating expenses and the resultant net operating income or loss and the changes in net position.

The statement of cash flows report the net increase or decrease in cash and cash equivalents. These statements include cash flows from operating activities, cash flows from noncapital financing activities, and cash flows from capital financing activities.

Total Iowa Title Guaranty Assets and Deferred Outflows as of June 30, 2015 – $9.6 million



Total Iowa Title Guaranty Liabilities and Deferred Inflows as of June 30, 2015 – $4.3 million



IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Management's Discussion and Analysis (Unaudited)

June 30, 2015

Table 1 – Total Condensed Information of Iowa Title Guaranty

		2015	2014
Net position:			
Assets and deferred outflows:			
Cash and cash equivalents	$	9,254,442	11,204,841
Accounts receivable and other current assets		146,471	132,386
Noncurrent assets and deferred outflows		223,038	244
Total assets and deferred outflows		9,623,951	11,337,471
Liabilities and deferred outflows:			
Accounts payable and other current liabilities		946,125	818,719
Escrow obligations		2,327,823	4,201,225
Reserve for claims		303,625	807,000
Noncurrent liabilities and deferred inflows		1,001,370	—
Total liabilities and deferred inflows		4,578,943	5,826,944
Total net position	$	5,045,008	5,510,527

		2015	2014
Revenues, expenses, and changes in net position:			
Operating revenues	$	5,536,999	6,575,769
Operating expenses		4,168,590	4,886,566
Net operating income		1,368,409	1,689,203
Transfers to Housing Assistance Program		(1,012,000)	(1,169,000)
Net position beginning of year, before GASB 68		5,510,527	4,990,324
Adoption of GASB 68		(821,928)	—
Net position beginning of year, after GASB 68		4,688,599	4,990,324
Net position end of year	$	5,045,008	5,510,527

Financial Analysis

1. At June 30, 2015, ITG's cash and cash equivalents is $9.3 million, which is a decrease of $1.9 million compared to the balance of $11.2 million at June 30, 2014. Cash decreased at June 30, 2015 compared June 30, 2014 due to increased escrow settlements of $1.9 million and transfers of $1.0 million to the Iowa Housing Assistance Program, offset by other net cash provided by operations during the year ended June 30, 2015.

2. Cash equivalents, less escrow obligations, represent 5.5 times and 4.3 times ITG's accounts payable and other current liabilities and reserves for claims at June 30, 2015 and June 30, 2014, respectively.

3. Net position decreased $0.4 million at June 30, 2015 compared to June 30, 2014 as a result of the following:

   a) Increased $1.4 million due to net operating income for fiscal year 2015
   b) Decreased $1.0 million due to transfers of surplus funds to the Iowa Housing Assistance Program
   c) Decreased $0.8 million due to adoption of GASB 68

4. Operating revenues are $5.5 million for the year ended June 30, 2015, a decrease of $1.1 million compared to fiscal year 2014 when revenues were $6.6 million. Title guaranty transactions and volumes decreased in fiscal year 2015 compared to 2014 as follows:

	Number of transactions			**Coverage volume**		
	2015	**2014**	**Change**	**2015**	**2014**	**Change**
Purchase	27,658	29,894	(2,236)	4,124,665,890	4,465,328,734	(340,662,844)
Refinance	16,942	25,586	(8,644)	2,501,277,231	3,522,173,869	(1,020,896,638)
Other	19,281	19,829	(548)	3,805,155,864	3,849,524,095	(44,368,231)
Total	63,881	75,309	(11,428)	10,431,098,985	11,837,026,698	(1,405,927,713)

5. Operating expenses are $4.2 million in the year ended June 30, 2015 compared to $4.9 million in the year ended June 30, 2014.

   a) Guaranty issuing expenses paid to field participants is $2.0 million in the year ended June 30, 2015 compared to $2.5 million in the year ended June 30, 2014. Guaranty issuing expenses represent 37.2% and 39.9% of title guaranty fee revenues in the years ending June 30, 2015 and 2014, respectively.

   b) Claim losses and expense activity produced income of $0.5 million in the year ended June 30, 2015 compared to $0.1 million of income in the year ended June 30, 2014. ITG was able to generate income from claims activity due to favorable settlement and resolution of certain known claims and a continuing trend of low claim experience.

6. Net operating income for the fiscal year ended June 30, 2015 is $1.4 million compared to $1.7 million for the fiscal year ended June 30, 2014, a decrease of $0.4 million.

7. Operating ratio is 80.0% for the fiscal year ended June 30, 2015 compared to 80.1% for the fiscal year ended June 30, 2014.

IOWA TITLE GUARANTY
(A Division of the Iowa Finance Authority)

Statement of Net Position

June 30, 2015

Assets (Restricted)		
Current assets:		
Cash and cash equivalents	$	9,254,442
Accounts receivable, net of allowance for doubtful accounts		145,971
Other current assets		500
Total current assets		9,400,913
Noncurrent assets:		
Capital assets, net of accumulated depreciation		3,313
Total assets		9,404,226
Deferred Outflows of Resources		
Pension plan		219,725
Liabilities		
Current liabilities:		
Accounts payable and other liabilities		828,274
Due to Iowa Finance Authority		117,851
Escrow deposits		2,327,823
Total current liabilities		3,273,948
Noncurrent liabilities:		
Reserve for claims		303,625
Other liabilities		724,910
Total noncurrent liabilities		1,028,535
Total liabilities		4,302,483
Deferred Inflows of Resources		
Pension plan		276,460
Net Position		
Net investment in capital assets		3,313
Restricted net position:		
Per legislation		5,041,695
Total net position	$	5,045,008

See accompanying notes to basic financial statements.

IOWA TITLE GUARANTY
(A Division of the Iowa Finance Authority)

Statement of Revenues, Expenses and Changes in Net Position

Year ended June 30, 2015

Operating revenues:	
Title guaranty fees	$ 5,364,467
Escrow fees	136,168
Other income	36,364
Total operating revenues	5,536,999
Operating expenses:	
Salaries, wages, and related expenses	1,805,969
Guaranty issuing expenses	1,997,380
Occupancy expense	145,245
Depreciation and amortization	272
Claim (income) losses and expenses	(457,688)
Other operating and general expenses	677,412
Total operating expenses	4,168,590
Net operating income	1,368,409
Transfers to Iowa Housing Assistance Program	(1,012,000)
Change in net position	356,409
Net position at June 30, 2014	4,688,599
Net position at June 30, 2015	$ 5,045,008

See accompanying notes to basic financial statements.

IOWA TITLE GUARANTY
(A Division of the Iowa Finance Authority)

Statement of Cash Flows

Year ended June 30, 2015

Cash flows from operating activities:		
Cash receipts for fees and other income	$	5,579,679
Cash payments for salaries and related benefits		(1,866,058)
Cash payments for claims, losses, and settlement expenses		(45,686)
Cash payments for escrow settlements		(1,873,402)
Cash payments to suppliers		(2,729,591)
Net cash provided by (used by) operating activities		(935,058)
Cash flows from noncapital financing activities:		
Transfers to Iowa Housing Assistance Program		(1,012,000)
Net cash provided by (used in) noncapital financing activities		(1,012,000)
Cash flows from capital financing activities:		
Purchases of capital assets		(3,341)
Net cash provided by (used in) capital financing activities		(3,341)
Net increase (decrease) in cash and cash equivalents		(1,950,399)
Cash and cash equivalents, beginning of year		11,204,841
Cash and cash equivalents, end of year	$	9,254,442
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Net operating income	$	1,368,409
Depreciation of capital assets		272
(Increase) decrease in other assets		1,000
(Increase) decrease in accounts receivable		(15,086)
Increase (decrease) in other liabilities, net of pension plan deferred inflows and outflows		(40,283)
Increase (decrease) in accounts payable and other liabilities		(2,249,370)
Net cash provided by (used in) by operating activities	$	(935,058)

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Iowa Legislature created Iowa Title Guaranty (ITG) as a Division of the Iowa Finance Authority (the Authority) in 1986. The Authority is a component unit of the State of Iowa and ITG is not a separate legal entity from the Authority. ITG is authorized by Chapter 16 of the Code of Iowa. The purposes of ITG are to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guarantees of real-property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the State of Iowa. A title guaranty certificate is an obligation of ITG, and claims are payable solely out of the assets and revenues of the Iowa Title Guaranty Program. The title guaranties do not constitute a debt of the State of Iowa, and consequently, the State is not liable for any repayments. The State, and not the Authority or ITG, is liable for any claims arising as the result of releasing a mortgage in error.

Section 16.93 of the Code of Iowa authorizes ITG to issue closing protection letters, which may indemnify a person to whom a proposed title guaranty is to be issued against loss of settlement funds due to certain listed acts of ITG's named participating attorney or participating abstractor.

(b) Operations

Iowa Title Guaranty functions as a small state sponsored regional underwriter. Approximately 91% of the production volume is processed through participating attorneys, abstractors, and independent escrow closers, referred to as field participants. There are 137 participating field issuers; attorneys, abstractors, and escrow closers, that each granted at least 6 Iowa Title Guaranty Closing Protection Letters during the fiscal year ended June 30, 2015. Iowa Title Guaranty's ten largest customers generated 36% of its total revenue during fiscal year 2015. One customer generated 12% of total revenue during the fiscal year and no one other customer generated more than 10% of total revenues. All revenues are generated in the state of Iowa.

The primary sources of title insurance business are attorneys, builders, developers, home buyers and home sellers, lenders and real estate brokers and agents. Titles insured include residential and commercial properties, undeveloped acreage, farms, ranches, other energy-related projects, and water rights.

(c) Basis of Presentation

The financial statements are prepared using the economic resources measurements focus and accrual basis of accounting in accordance with the Government 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. The financial statements of ITG are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business type activities of the Authority that is attributable to the transactions of ITG.

(d) Fund Accounting

A title guaranty fund is created in the office of the treasurer of state. Funds collected under this program are placed in the title guaranty fund and are available to pay all claims, necessary reserves, and all administrative costs of the Iowa title guaranty program. Moneys in the fund do not revert to the State's general fund and interest on the moneys in the fund are deposited in the housing trust fund and do not accrue to the State's general fund. Any monies in the title guaranty fund determined to be surplus, after providing for adequate reserves and operating expenses of the ITG, are transferred to the Iowa Housing Assistance Program, a program of the Authority.

(e) Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with original maturity of three months or less from the date of purchase are considered to be cash equivalents. These investments include the moneys deposited in the State's interest-bearing pooled money funds.

(f) Cash Held for Escrow and Escrow Deposits

ITG administers escrow deposits as a service to its customers. Cash held for escrow totaled $2,327,823 at June 30, 2015 and is included as cash and cash equivalents. An offsetting liability is recorded as escrow obligations in the accompanying statement of net position.

(g) Reserves for Known Claims and Reserves for Incurred But Not Reported Claims

ITG's liability for estimated title losses comprises both losses and settlement expenses related to known claims and an estimate for claims that may be reported in the future. The estimate of claims that may be reported in the future is often referred to as incurred but not reported claims. The loss reserves represent the aggregate future payments that are expected to be incurred on claim losses and for costs to settle both known claims and incurred but not reported claims. The amounts are not discounted to their present values.

ITG provides for estimated incurred but not reported losses by a charge to expense when the related guaranty fee revenue is recognized. The amount charged to expense is determined by applying a rate (the loss provision rate) to total title guaranty fee revenue. Known claims are $90,625 at June 30, 2015 and are reported on the statement of net position as reserves for claims. Estimated incurred but not reported claims are $213,000 at June 30, 2015 and are also reported as reserves for claims on the statement of net position.

ITG also engages an independent actuarial firm to review and assess the estimated loss provision rate, known claims reserves, and incurred but not reported reserves. The independent actuarial firm performs a reserve analysis utilizing generally accepted actuarial methods and other tests and analyses deemed necessary to provide a professional opinion. ITG's management uses the independent actuaries' review and opinion and other relevant information it may have concerning claims to determine what it considers to be the best estimate of the total amount required as a reserve for claims.

(h) Capital Assets

Furniture and equipment that exceed $2,500 are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Leasehold improvements that exceed $2,500 are recorded at cost and are amortized using the straight-line method over the lesser of the estimated useful lives of the asset or the term of the lease

(i) Revenues

Title fees on guaranties issued directly by Iowa Title Guaranty are recognized on the effective date of the title policy and escrow fees are recorded upon close of the escrow. Revenues from title guaranties issued by Iowa Title Guaranty's network of field issuers are recorded when notice of issuance is received from the field participant, which is also generally when cash payment is received.

(j) Accounts Receivable

Accounts receivable are due upon issuance of the guaranty and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated by considering a number of factors, including the length of time accounts receivable are past due and previous loss history. The allowance for doubtful accounts is $7,576 at June 30, 2015.

(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 benefit terms.

(l) Net Position

Net position represents funds set aside under Iowa Code Section 16.91 for adequate reserves and operating expenses. Surplus funds in excess of these requirements are to be transferred to the Iowa Housing Assistance Program created pursuant to section 16.40 of the Iowa Code.

(m) Accounting Changes – Implementation Adjustment

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources, and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. An adjustment to net position was made at the beginning of year in the amount of $821,928 to reflect this accounting change.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. general accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Accordingly, actual results could differ from those estimates.

(o) Restricted Assets

The assets of ITG are either held in escrow accounts or restricted by legislation.

(p) Income Taxes

ITG is recognized as tax-exempt, quasi-governmental organization under IRC Section 115(1). Accordingly, no provision for income taxes has been included in the accompanying financial statements.

(2) Deposits

At June 30, 2015, ITG has $1,551,366 deposited in an account at a commercial bank where customer payments are collected and accumulated. ITG also has $2,327,823 on deposit at June 30, 2015 with the same bank for monies held to settle escrow obligations. Deposits in excess of the FDIC limit of $250,000 for single ownership accounts are uninsured and uncollateralized.

(3) Related Party Transactions

ITG shares office space with the Authority. As part of the space sharing arrangement, ITG pays a proportion amount of the rent and facility operating expenses of the shared building. The Authority also provides shared accounts payable services to ITG. Through a shared services arrangement, the Authority pays routine operating expenses on behalf of ITG. The Authority also collects certain customer payments for ITG. ITG reimburses the Authority in the following month for the total amount of the beneficial payments net of any customer collections; At June 30, 2015, ITG has a balance due to the Authority of $117,851. The balance due at June 30, 2015 of $117,851 was paid to the Authority on July 23, 2015.

(Continued)

During fiscal year 2015, the related party transactions are summarized as follows:

Balance beginning of year	$	197,701
Occupancy expenses		145,245
Operating expenses		2,852,105
Capital asset purchases		3,341
Collection of customer payments		(28,259)
Reimbursement payments to the Authority		(3,052,282)
Balance due to the Authority – June 30, 2015	$	117,851

(4) Pension Plan

(a) Plan Description

Employees of ITG are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS membership is mandatory for employees of ITG, except for those covered by another retirement system. 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, anytime 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% 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% 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

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS each year following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. 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 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and ITG contributed 8.93% for a total rate of 14.88%. ITG's contribution to IPERS for the year ended June 30, 2015 was $110,601.

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

At June 30, 2015, ITG reported a liability of $724,910 for its proportionate share of the net pension liability and is recorded within other liabilities in the statement of net position. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. ITG's proportion of the net pension liability was based on the ITG's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, ITG's collective proportion was 0.0182785 percent, which was an increase of 0.002103 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the ITG recognized pension expense of $70,317. At June 30, 2015, ITG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 7,878	—
Changes of assumptions	31,992	—
Net difference between projected and actual earnings on pension plan investments	—	276,460
Changes in proportion and differences between ITG contributions and proportionate share of contributions	69,254	—
ITG contributions subsequent to the measurement date	110,601	—
Total	$ 219,725	276,460

The $110,601 reported as deferred outflows of resources related to pensions resulting from the ITG's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

	Year ended June 30
2016	$ (43,619)
2017	(43,619)
2018	(43,619)
2019	(43,619)
2020	7,140
Total	$ (167,336)

There were no nonemployer contributing entities at IPERS.

(f) Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 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 adjustments for mortality improvements based on Scale AA.

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 allocation	Long-term expected real rate of return
Asset class:		
U.S. equity	23%	6.31
Non U.S. equity	15	6.76
Private equity	13	11.34
Real estate	8	3.52
Core plus fixed income	28	2.06
Credit opportunities	5	3.67
TIPS	5	1.92
Other real assets	2	6.27
Cash	1	(0.69)
Total	100%	

(Continued)

(g) ***Discount Rate***

The discount rate used to measure the total pension liability was 7.5%. 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 ITG 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 ITG's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents ITG's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what ITG's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	**Discount rate (7.5%)**	**1% Increase (8.5%)**
ITG's proportionate share of the net pension liability	$ 1,369,697	724,910	180,643

(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, 2015, ITG had no legally required employer or employee contributions not yet remitted to IPERS.

(5) Transfers to Iowa Housing Assistance Program

On October 7, 2014 and June 2, 2015, the Iowa Title Guaranty Board approved the transfers of $512,000 and $500,000, respectively, to the Iowa Housing Assistance Program. The amounts transferred are deemed surplus to the funds needed by ITG for its reserves and operating expenses. Pursuant to section 16.91(1) of the Iowa Code, the surplus amounts were transferred to the Iowa Housing Assistance Program.

(6) Commitments and Contingencies

Title guaranty certificates are long-duration obligations with the majority of the claims reported to the ITG within the first few years following the issuance of a guaranty certificate. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the loss reserves, either higher or lower. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible. At June 30, 2015, ITG has $303,625 reserved for estimated known claim losses and incurred but not reported claims.

ITG maintains insurance to cover liability risk on certificates of guaranty it issues directly and for those issued by authorized field participants. Beginning May 1, 2015, the first $2,500,000 of liability risk is retained by Iowa Title Guaranty and the excess is covered by insurance up to $20,000,000. Prior to May 1, 2015, Iowa Title Guaranty retained the first $1,000,000 of liability risk. Additionally, ITG requires its field participants to provide up to $500,000 of liability insurance coverage.

The schedule below details the changes in the claim reserve balances from June 30, 2014 to June 30, 2015.

Beginning balance June 30, 2014	$	807,000
Payments on claims		(130,708)
Expense accruals and changes in estimated settlement costs		(372,667)
Ending balance June 30, 2015	$	303,625

(7) Subsequent Events

ITG has evaluated all subsequent events up to November 18, 2015, the date at which the financial statements were available to be issued, for consideration as to adjustment to or disclosure in the financial statements.

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Schedule of ITG's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System

Last Fiscal Year*

Required Supplementary Information
(Unaudited)

ITG's proportion of the net pension liability		0.018785%
ITG's proportionate share of the net pension liability	$	724,910
ITG's covered-employee payroll	$	1,238,533
ITG's proportionate share of the net pension liability as a percentage of its covered-employee payroll		58.53%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, ITG will present information for those years for which information is available.

See accompanying independent auditors' report.

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Schedule of ITG's Contributions

Iowa Public Employees' Retirement System

Last 4 Fiscal Years

Required Supplementary Information
(Unaudited)

		2015	2014	2013	2012
Statutorily required contribution	$	110,601	107,246	92,165	77,529
Contributions in relation to the statutorily required contribution		(110,601)	(107,246)	(92,165)	(77,529)
Contribution deficiency (excess)	$	—	—	—	—
ITG's covered-employee payroll	$	1,238,533	1,200,963	1,063,033	960,706
Contribution as a percentage of covered-employee payroll		8.93%	8.93%	8.67%	8.07%

See accompanying independent auditors' report.

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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

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

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- 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.

(Continued)

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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Independent Auditors' 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*

The Board of Directors
Iowa Title Guaranty:

We have audited, in accordance with the 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 Iowa Title Guaranty (ITG), a division of Iowa Finance Authority, as of June 30, 2015, and the related notes to the financial statements, which collectively comprise ITG's basic financial statements, and have issued our report thereon dated November 18, 2015. Our report includes references stating the financial statements of ITG are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the Iowa Finance Authority that is attributable to the transactions of ITG. The financial statements do not purport to, and do not, present fairly the financial position of the Iowa Finance Authority as of June 30, 2015, the changes in its financial position or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ITG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ITG's internal control. Accordingly, we do not express an opinion on the effectiveness of the ITG'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 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 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 ITG'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of 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 ITG'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 ITG's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Des Moines, Iowa
November 18, 2015