

**Electronic Services System  
Johnston, Iowa**

**FINANCIAL REPORT**

**December 31, 2014**

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## INDEPENDENT AUDITOR'S REPORT

Electronic Services System Coordinating Committee  
Electronic Services System  
Johnston, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Electronic Services System, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Electronic Services System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting requirements of the County Electronic Services System 28E Agreement, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Services System as of December 31, 2014 and 2013, and changes in its financial position, and its cash flows for the years then ended, on the basis of accounting described in Note 1.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 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.

### **Basis of Accounting**

We draw attention to Note 1 to the financial statements, which describes that the financial statements are prepared to present the operations of the Electronic Services System pursuant to the 28E agreement described in Note 1, and is not intended to be a complete presentation of the financial statements of Electronic Services System. Our opinion is not modified with respect to that matter.

### **Restriction on Use**

This report, a public record by law, is intended solely for the information and use of the Electronic Services System Coordinating Committee, management of Electronic Services System, members of the Iowa County Recorders Association and other parties to whom they report. This report is not intended to be used and should not be used by anyone other than these specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2015 on our consideration of Electronic Services System'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Electronic Services System's internal control over financial reporting and compliance.



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 22, 2015

**Electronic Services System**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2014**

Management of Electronic Services System (the Organization) provides this Management's Discussion and Analysis of the Organization's annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2014. We encourage readers to consider this information in conjunction with the Organization's financial statements, which follow.

**FINANCIAL HIGHLIGHTS**

Electronic Services System's cash balance at December 31, 2014 was \$524,048, representing an increase of \$38,646 from December 31, 2013.

Recording revenues increased 15.54% or \$950,379 to \$7,066,083 for the year ended December 31, 2014.

Recording distributions increased 15.04% or \$924,408 to \$7,070,947 for the year ended December 31, 2014.

Variance in the amounts for revenues and distributions are related to cash flow.

**USING THIS REPORT**

The report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Organization's financial activities.

The Special—Purpose Statements of Net Position present information on the Organization's assets and liabilities, along with the composition of its net position.

The Special—Purpose Statements of Revenues, Expenses, and Changes in Net Position present information on the Organization's operating revenues and expenses.

The Special—Purpose Statements of Cash Flows present the change in the Organization's cash during the year. This information can help describe how the Organization generated and used cash through its operating and investing activities.

The Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

## FINANCIAL ANALYSIS

### *Special–Purpose Statements of Net Position*

Net position serves as an indicator of the Organization’s overall financial position. The Organization’s net position increased \$20,680 or 4.11% over the year ended December 31, 2013. A summary of the statements of net position is presented below.

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash	\$ 524,048	\$ 485,402
Other current assets	127,165	129,558
Capital assets, less accumulated depreciation	<u>23,950</u>	<u>53,996</u>
Total assets	<u>675,163</u>	<u>668,956</u>
<b>LIABILITIES</b>		
Current liabilities	<u>150,970</u>	<u>165,443</u>
<b>NET POSITION</b>		
Net investment in capital assets	23,950	53,996
Unrestricted	<u>500,243</u>	<u>449,517</u>
Total net position	<u>\$ 524,193</u>	<u>\$ 503,513</u>

### *Special–Purpose Statements of Revenues, Expenses, and Changes in Net Position*

Operating revenues are received from the electronic submission of real estate documents for official recording and processing fees from credit card transactions performed at local county recorders’ offices.

Electronic Services System is reimbursed by the local counties for service maintenance associated with the integration of county land records management system with the Electronic Services System. A majority of the Organization’s operational costs are reimbursed by the State of Iowa through Fund 255 administered by the Office of the Treasurer of State.

Electronic Services System distributes electronic recording fees and taxes to the local counties on a daily basis.

A summary of revenues, expenses, and changes in net position for the years ended December 31, 2014 and December 31, 2013 is presented below:

	<b><u>Year ended December 31</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>REVENUES</b>		
Recording fees	\$7,066,083	\$6,115,704
Over the Counter (OTC) payment system	882,506	1,102,254
Other fees and income	423,045	482,911
Reimbursements from State of Iowa	<u>395,395</u>	<u>466,634</u>
Total revenues	<u>8,767,029</u>	<u>8,167,503</u>
<b>EXPENSES</b>		
Payroll expense	297,944	343,534
Recording distributions	7,070,947	6,146,539
OTC payment system	851,906	1,053,339
Other operating expenses	342,599	413,825
Depreciation	31,396	50,338
Budgeted operational expenses	<u>151,557</u>	<u>144,451</u>
Total expenses	<u>8,746,349</u>	<u>8,152,026</u>
<b>INCREASE IN NET POSITION</b>	20,680	15,477
<b>NET POSITION, beginning</b>	<u>503,513</u>	<u>488,036</u>
<b>NET POSITION, ending</b>	<u>\$ 524,193</u>	<u>\$ 503,513</u>

Total revenues increased by 7.34% or \$599,526 over 2013, primarily due to increases in recording revenues. Expenses increased by 7.29% or \$594,323 over year 2013, primarily due to increases in recording distributions to local counties. Total documents processed decreased by 14.1% or 22,233 documents to 135,171 in 2014. While total documents processed decreased during 2014, Electronic Services System did experience increases in the electronic filing of real estate conveyances. Real estate transfer taxes and related fees resulted in an Organization-wide revenue increase over 2013.

#### **ECONOMIC FACTORS**

Several economic factors will affect the financial future of Electronic Services System. Changes in the real estate market and State economy as a whole may result in additional recording activity and revenue growth. Organizational efforts to promote electronic submissions may also result in revenue growth. Potential future changes in service fees for e-submission may both positively and negatively affect future revenue. The Organization continually monitors economic and other factors to protect the financial condition of Electronic Services System.

#### **CONTACTING ELECTRONIC SERVICES SYSTEM FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Organization's financial and operating activities. If you have any questions or require additional information, please contact the Project Manager at Electronic Services System, 8711 Windsor Parkway, Suite 2, Johnston, IA 50131

**Electronic Services System**  
**SPECIAL-PURPOSE STATEMENTS OF NET POSITION**

	<b>December 31</b>	
<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 524,048	\$ 485,402
Accounts receivable	1,836	3,141
Prepaid expenses	<u>125,329</u>	<u>126,417</u>
Total current assets	<u>651,213</u>	<u>614,960</u>
<b>CAPITAL ASSETS</b>		
Computer equipment	325,444	324,094
Accumulated depreciation	<u>(301,494)</u>	<u>(270,098)</u>
Total capital assets	<u>23,950</u>	<u>53,996</u>
 Total assets	 <u>675,163</u>	 <u>668,956</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	4,211	3,637
Customer deposits	21,430	35,389
Unearned revenues	<u>125,329</u>	<u>126,417</u>
Total current liabilities	<u>150,970</u>	<u>165,443</u>
<b>NET POSITION</b>		
Net investment in capital assets	23,950	53,996
Unrestricted	<u>500,243</u>	<u>449,517</u>
 Net position	 <u>\$ 524,193</u>	 <u>\$ 503,513</u>

See Notes to Financial Statements.

**Electronic Services System**  
**SPECIAL-PURPOSE STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**

	<b>Year ended December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Submitting fees	\$ 202,178	\$ 227,684
Recording fees	7,066,083	6,115,704
Local service maintenance fees, (net of discounts \$37,072, 2014; \$-0-, 2013)	220,331	255,156
Over the Counter (OTC) payment system	882,506	1,102,254
Reimbursements from State of Iowa	395,395	466,634
Miscellaneous income	536	71
Total revenues	8,767,029	8,167,503
<b>EXPENSES</b>		
Payroll expense	297,944	343,534
Recording distributions	7,070,947	6,146,539
Local service maintenance distributions	255,228	252,834
OTC payment system	851,906	1,053,339
Depreciation	31,396	50,338
Budgeted operational expenses	151,557	144,451
Project reimbursed expenses	87,371	160,991
Total expenses	8,746,349	8,152,026
<b>INCREASE IN NET POSITION</b>	20,680	15,477
<b>NET POSITION</b> , beginning of year	503,513	488,036
<b>NET POSITION</b> , end of year	\$ 524,193	\$ 503,513

See Notes to Financial Statements.

**Electronic Services System  
SPECIAL-PURPOSE STATEMENTS OF CASH FLOWS**

	<b>Year ended December 31</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from recording fees, submitting fees and OTC payment services	\$8,132,321	\$7,465,722
Cash received from counties for maintenance fees	222,724	176,965
Reimbursements received from State of Iowa	395,395	466,634
Cash received from other revenue	5,023	1,771
Cash paid to employees for services	(297,944)	(343,533)
Cash paid to suppliers for goods and services	(508,915)	(429,323)
Recording and OTC distributions to counties	<u>(7,908,608)</u>	<u>(7,198,777)</u>
Net cash provided by operating activities	<u>39,996</u>	<u>139,459</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(1,350)</u>	<u>(8,895)</u>
<b>NET INCREASE IN CASH</b>	38,646	130,564
<b>CASH</b>		
Beginning	<u>485,402</u>	<u>354,838</u>
Ending	<u>\$ 524,048</u>	<u>\$ 485,402</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in net position	\$ 20,680	\$ 15,477
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	31,396	50,338
Change in assets and liabilities		
Accounts receivable	1,305	48,226
Prepaid expenses	1,088	-
Accounts payable	574	3,637
Customer deposits	(13,959)	21,781
Unearned revenues	<u>(1,088)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 39,996</u>	<u>\$ 139,459</u>

See Notes to Financial Statements.

**Electronic Services System  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Electronic Services System (ESS) was formed as a result of legislation adopted by the Iowa General Assembly. ESS is managed under an agreement (County Electronic Services System 28E Agreement), as executed within the meaning of Iowa Code Chapter 28E, between Iowa's ninety-nine counties and Iowa County Records Association (ICRA). ESS was formed to facilitate the submitting of real estate and other legal documents electronically to Iowa County Recorders for official recording, to provide public access to records through the Internet, and to provide other electronic services. The executed 28E agreement appoints ICRA with the authority to administer the operations of ESS.

**Basis of Accounting**

The financial statements include the financial activities administered by the ICRA and the Electronic Services System Coordinating Committee. They include all transactions of the Electronic Services System treasury management account and capital asset account. The treasury management account is used primarily as the central clearinghouse for receipt of payments to the ESS system and the distribution of funds to Iowa counties for recording and other services. The treasury management account is also used for certain operating expenses. The capital asset account includes the equipment used to host the Electronic Services System web site.

In accordance with State statute, a portion of all transaction fees recorded by Iowa county recorders is to be deposited to the State of Iowa's Electronic Transaction Fund, administered by the Office of the Treasurer of State to be used for the payment of claims approved by the Electronic Services System Coordinating Committee. The receipts and disbursements of this fund are not included in the financial statements of Electronic Services System, in accordance with the reporting requirements of the County Electronic Services System 28E Agreement. Receipts from the Electronic Transaction Fund to Electronic Services System's treasury management account are recorded as reimbursements from the State of Iowa and are included in revenue.

The financial statements are prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of cash flows.

**Use of Estimates**

The preparation of special-purpose financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Computer Equipment**

Computer equipment is stated at cost. Depreciation is computed using accelerated methods over their estimated useful lives.

**Electronic Services System**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Presentation**

The Special-Purpose Statement of Net Position presents the ESS's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

*Net investment in capital assets*, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Electronic Services System had no restricted net position at December 31, 2014 and 2013.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

**NOTE 2 RECLASSIFICATIONS**

Certain amounts have been reclassified in the 2013 financial statements in order to conform with the 2014 presentation, with no effect on net position.

**NOTE 3 CONCENTRATIONS OF CREDIT RISK**

Electronic Services System maintains a checking account at a commercial bank. Cash in this account at times exceeded the FDIC insurance limit of \$250,000.



**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**

Electronic Services System Coordinating Committee  
Electronic Services System  
Johnston, 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 Electronic Services System, which comprise the special-purpose statements of net position as of December 31, 2014, and the related special-purpose statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Electronic Services System's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Electronic Services System's internal control. Accordingly, we do not express an opinion on the effectiveness of Electronic Services System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Electronic Services System's financial statements are free of 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 Electronic Services System'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 Electronic Services System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 22, 2015