

**Electronic Services System
Johnston, Iowa**

FINANCIAL REPORT

December 31, 2015

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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, 2015 and 2014, 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, 2015 and 2014, 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 the basis of accounting. 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 July 3, 2016 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
July 3, 2016

**Electronic Services System
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015**

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, 2015. 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, 2015 was \$616,514, representing an increase of \$92,466 from December 31, 2014.

Recording revenues increased 35.95% or \$2,540,000 to \$9,606,204 for the year ended December 31, 2015.

Recording distributions increased 35.91% or \$2,540,000 to \$9,610,217 for the year ended December 31, 2015.

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 \$126,315 or 24.10% over the year ended December 31, 2014. A summary of the statements of net position is presented below.

	December 31	
	2015	2014
ASSETS		
Cash	\$ 616,514	\$ 524,048
Other current assets	148,676	127,165
Capital assets, less accumulated depreciation	<u>102,451</u>	<u>23,950</u>
Total assets	<u>867,641</u>	<u>675,163</u>
LIABILITIES		
Current liabilities	<u>217,133</u>	<u>150,970</u>
NET POSITION		
Net investment in capital assets	102,451	23,950
Unrestricted	<u>548,057</u>	<u>500,243</u>
Total net position	<u>\$ 650,508</u>	<u>\$ 524,193</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, 2015 and 2014 is presented below:

	Year ended December 31	
	2015	2014
REVENUES		
Recording fees	\$ 9,606,204	\$7,066,083
Over the Counter (OTC) payment system	1,001,727	882,506
Other fees and income	521,557	423,045
Reimbursements from State of Iowa	<u>420,647</u>	<u>395,395</u>
Total revenues	<u>11,550,135</u>	<u>8,767,029</u>
EXPENSES		
Payroll expense	237,494	297,944
Recording distributions	9,610,217	7,070,947
OTC payment system	955,045	851,906
Other operating expenses	376,842	342,599
Depreciation	12,656	31,396
Budgeted operational expenses	<u>231,566</u>	<u>151,557</u>
Total expenses	<u>11,423,820</u>	<u>8,746,349</u>
INCREASE IN NET POSITION	126,315	20,680
NET POSITION, beginning	<u>524,193</u>	<u>503,513</u>
NET POSITION, ending	<u>\$ 650,508</u>	<u>\$ 524,193</u>

Total revenues increased by 31.75% or \$2,783,106 over 2014, primarily due to increases in recording revenues. Expenses increased by 30.61% or \$2,677,471 over year 2014, primarily due to increases in recording distributions to local counties. Total documents processed increased by 37.87% or 51,195 documents to 186,366 in 2015. This increase is due to the percent of documents filed electronically statewide increasing from approximately 25% in 2014 to 32% in 2015.

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**

	December 31	
ASSETS	2015	2014
CURRENT ASSETS		
Cash	\$ 616,514	\$ 524,048
Accounts receivable	1,146	1,836
Due from State of Iowa	12,835	-
Prepaid expenses	<u>134,695</u>	<u>125,329</u>
Total current assets	<u>765,190</u>	<u>651,213</u>
CAPITAL ASSETS		
Computer equipment	416,601	325,444
Accumulated depreciation	<u>(314,150)</u>	<u>(301,494)</u>
Total capital assets	<u>102,451</u>	<u>23,950</u>
 Total assets	 <u>867,641</u>	 <u>675,163</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	29,364	4,211
Accrued compensation	16,178	-
Customer deposits	36,896	21,430
Unearned revenues	<u>134,695</u>	<u>125,329</u>
Total current liabilities	<u>217,133</u>	<u>150,970</u>
NET POSITION		
Net investment in capital assets	102,451	23,950
Unrestricted	<u>548,057</u>	<u>500,243</u>
 Net position	 <u>\$ 650,508</u>	 <u>\$ 524,193</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	2015	2014
REVENUES		
Submitting fees	\$ 282,848	\$ 202,178
Recording fees	9,606,204	7,066,083
Local service maintenance fees, (net of discounts \$39,113, 2015; \$37,072, 2014)	235,178	220,331
Over the Counter (OTC) payment system	1,001,727	882,506
Reimbursements from State of Iowa	420,647	395,395
Miscellaneous income	3,531	536
Total revenues	<u>11,550,135</u>	<u>8,767,029</u>
EXPENSES		
Payroll expense	237,494	297,944
Recording distributions	9,610,217	7,070,947
Local service maintenance distributions	270,982	255,228
OTC payment system	955,045	851,906
Depreciation	12,656	31,396
Budgeted operational expenses	231,566	151,557
Project reimbursed expenses	105,860	87,371
Total expenses	<u>11,423,820</u>	<u>8,746,349</u>
INCREASE IN NET POSITION	126,315	20,680
NET POSITION , beginning of year	524,193	503,513
NET POSITION , end of year	<u>\$ 650,508</u>	<u>\$ 524,193</u>

See Notes to Financial Statements.

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

	<u>Year ended December 31</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from recording fees, submitting fees and OTC payment services	\$10,904,482	\$8,132,321
Cash received from counties for maintenance fees	213,667	222,724
Reimbursements received from State of Iowa	420,647	395,395
Cash received from other revenue	5,294	5,023
Cash paid to employees for services	(221,316)	(297,944)
Cash paid to suppliers for goods and services	(576,497)	(508,915)
Recording and OTC distributions to counties	<u>(10,562,654)</u>	<u>(7,908,608)</u>
Net cash provided by operating activities	<u>183,623</u>	<u>39,996</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(91,157)</u>	<u>(1,350)</u>
NET INCREASE IN CASH	92,466	38,646
CASH		
Beginning	<u>524,048</u>	<u>485,402</u>
Ending	<u>\$ 616,514</u>	<u>\$ 524,048</u>
RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net position	\$ 126,315	\$ 20,680
Adjustments to reconcile increase in net position to net cash provided by operating activities		
Depreciation	12,656	31,396
Change in assets and liabilities		
Accounts receivable	690	1,305
Due from State of Iowa	(12,835)	-
Prepaid expenses	(9,366)	1,088
Accounts payable	25,153	574
Accrued compensation	16,178	-
Customer deposits	15,466	(13,959)
Unearned revenues	<u>9,366</u>	<u>(1,088)</u>
Net cash provided by operating activities	<u>\$ 183,623</u>	<u>\$ 39,996</u>

See Notes to Financial Statements.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

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 on a straight-line basis over the estimated useful lives of the assets.

Electronic Services System
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015 and 2014.

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 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 statement of net position as of December 31, 2015, 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 July 3, 2016.

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
July 3, 2016