



Electronic Services System Coordinating Committee
Electronic Services System
Johnston, Iowa

We have audited the financial statements of Electronic Services System for the year ended December 31, 2018, and have issued our report thereon dated June 19, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 1, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Electronic Services System are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the accounting estimates used and found them reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We evaluated the disclosures and found them reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 19, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Electronic Services System Coordinating Committee and management of Electronic Services System, and is not intended to be and should not be used by anyone other than these specified parties.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
June 19, 2019

Entity:

Statement of Financial Position Date:

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Financial Statement Effect—Amount of Over (Under) Statement of: \$14,050						
		Total Assets	Total Liabilities	Net Assets	Revenues	Expenses	Change in Net Assets	Working Capital
							-	
							-	
December 2018 Fund 255 Reimbursement	F	(20,544)		(20,544)	(20,544)		(20,544)	
							-	
							-	
							-	
							-	
							-	
							-	
Total		(20,544)	-	(20,544)	(20,544)	-	(20,544)	-
Less Audit Adjustments Subsequently Booked							-	
Unadjusted AD—Current Year (Iron Curtain Method)		(20,544)	-	(20,544)	(20,544)	-	(20,544)	-
Effect of Unadjusted AD—Prior Years					19,083		19,083	
Combined Current and Prior Year AD (Rollover Method)		(20,544)	-	(20,544)	(1,461)	-	(1,461)	-
Financial Statement Caption Totals		1,210,503	207,375	1,003,128	19,325,032	19,084,337	\$240,695	
Current Year AD as % of FS Captions (Iron Curtain Method)		-1.70%	0.00%	-2.05%	-0.11%	0.00%	-8.54%	0.00%
Current and Prior Year AD as % of FS Captions (Rollover Method)		-1.70%	0.00%	-2.05%	-0.01%	0.00%	-0.61%	0.00%

**Electronic Services System
Johnston, Iowa**

FINANCIAL REPORT

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 June 19, 2019 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 solely 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
June 19, 2019

**Electronic Services System
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

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, 2018. 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, 2018 was \$705,469, representing an increase of \$49,714 from December 31, 2017. The increase in cash balance is due primarily to continued growth in submittal fees and a decrease in planned reserve expenses.

Recording fee income increased 13.1% or approximately \$1,911,000 to \$16,531,175 for the year ended December 31, 2018.

Recording distributions increased 13.0% or approximately \$1,902,000 to \$16,520,536 for the year ended December 31, 2018.

Variance in the amounts for recording fees and distributions are related to timing of 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 capital and related financing activities.

The Notes to 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 \$240,695 or 31.6% during the year ended December 31, 2018. The increase is due predominately to the capitalization of employee compensation pertaining to software development activities during the fiscal year. A summary of the statements of net position is presented below.

	December 31		
	2018	2017	2016
ASSETS			
Cash	\$ 705,469	\$ 655,755	\$ 830,356
Other current assets	161,838	167,872	169,427
Capital assets, less accumulated depreciation	343,196	174,811	68,819
Total assets	<u>1,210,503</u>	<u>998,438</u>	<u>1,068,602</u>
LIABILITIES			
Current liabilities	<u>207,375</u>	<u>236,005</u>	<u>226,814</u>
NET POSITION			
Net investment in capital assets	343,196	174,811	68,819
Unrestricted	<u>659,932</u>	<u>587,622</u>	<u>772,969</u>
Total net position	<u>\$1,003,128</u>	<u>\$ 762,433</u>	<u>\$ 841,788</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. The Organization's operational costs are in part reimbursed by the State of Iowa through Fund 255 administered by the Office of the Treasurer of State in addition to the operating revenues received from the Bank of America treasury management account.

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

A summary of the statements of revenues, expenses, and changes in net position is presented below:

	Year ended December 31		
	2018	2017	2016
REVENUES			
Recording fees	\$16,531,175	\$14,619,913	\$12,103,258
Over the Counter (OTC) payment system	1,605,639	1,380,996	1,784,641
Other fees and income	892,788	866,441	786,795
Reimbursements from State of Iowa	<u>295,430</u>	<u>293,101</u>	<u>343,408</u>
Total revenues	<u>19,325,032</u>	<u>17,160,451</u>	<u>15,018,102</u>
EXPENSES			
Recording distributions	16,520,536	14,618,533	12,103,324
Over the counter (OTC) payment system	1,549,769	1,315,855	1,705,982
Depreciation	53,567	43,800	33,633
Budgeted operational and payroll expenses	387,065	649,923	377,380
Planned reserve expenses	4,948	47,963	-
Other operating expenses	276,997	272,445	278,320
Project reimbursed expenses	<u>291,455</u>	<u>291,287</u>	<u>328,183</u>
Total expense	<u>19,084,337</u>	<u>17,239,806</u>	<u>14,826,822</u>
INCREASE (DECREASE) IN NET POSITION	240,695	(79,355)	191,280
NET POSITION, beginning	<u>762,433</u>	<u>841,788</u>	<u>650,508</u>
NET POSITION, ending	<u>\$ 1,003,128</u>	<u>\$ 762,433</u>	<u>\$ 841,788</u>

Total revenues increased by 12.6% or \$2,164,581 in 2018, primarily due to increases in recording fee income. Expenses increased by 10.7% or \$1,844,531 in 2018, primarily due to increases in recording distributions to local counties. Total documents processed increased by 3.9% or 8,763 documents to 236,040 in 2018. This increase is due to the percent of documents filed electronically statewide increasing from approximately 37% in 2017 to 41% in 2018.

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 changes in recording activity and revenue. 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	2018	2017
CURRENT ASSETS		
Cash	\$ 705,469	\$ 655,755
Accounts receivable	3,091	1,143
Due from State of Iowa	9,151	21,044
Prepaid expenses	<u>149,596</u>	<u>145,685</u>
Total current assets	<u>867,307</u>	<u>823,627</u>
CAPITAL ASSETS		
Computer equipment	566,393	566,393
Software development in progress	<u>221,952</u>	<u>—</u>
	788,345	566,393
Accumulated depreciation	<u>(445,149)</u>	<u>(391,582)</u>
Total capital assets	<u>343,196</u>	<u>174,811</u>
 Total assets	 <u>1,210,503</u>	 <u>998,438</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	8,597	20,034
Accrued compensation	23,491	41,173
Customer deposits	37,616	39,088
Unearned revenues	<u>137,671</u>	<u>135,710</u>
Total current liabilities	<u>207,375</u>	<u>236,005</u>
NET POSITION		
Net investment in capital assets	343,196	174,811
Unrestricted	<u>659,932</u>	<u>587,622</u>
 Net position	 <u>\$1,003,128</u>	 <u>\$ 762,433</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	<u>2018</u>	<u>2017</u>
REVENUES		
Submitting fees	\$ 730,458	\$ 686,632
Recording fees	16,531,175	14,619,913
Over the counter (OTC) payment system	1,605,639	1,380,996
Reimbursements from State of Iowa	295,430	293,101
Local service maintenance fees, (net of discounts \$111,369, 2018; \$101,881, 2017)	162,289	175,609
Miscellaneous income	<u>41</u>	<u>4,200</u>
Total revenues	<u>19,325,032</u>	<u>17,160,451</u>
EXPENSES		
Recording distributions	16,520,536	14,618,533
Over the Counter payment system distributions	1,549,769	1,315,855
Local service maintenance	276,997	272,445
Depreciation	53,567	43,800
Budgeted operational expenses	376,632	342,643
Budgeted payroll expenses	10,433	307,280
Planned reserve expenses	4,948	47,963
Project reimbursed expenses	81,453	87,606
Project reimbursed payroll expenses	<u>210,002</u>	<u>203,681</u>
Total expenses	<u>19,084,337</u>	<u>17,239,806</u>
CHANGE IN NET POSITION	240,695	(79,355)
NET POSITION, beginning	<u>762,433</u>	<u>841,788</u>
NET POSITION, ending	<u>\$ 1,003,128</u>	<u>\$ 762,433</u>

See Notes to Financial Statements.

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

	Year ended December 31	
	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from recording fees, submitting fees and OTC payment services	\$18,865,800	\$16,683,220
Cash received from counties for maintenance fees	162,302	178,326
Reimbursements received from State of Iowa	307,323	291,939
Cash received from other revenue	41	5,100
Cash paid to employees for services	(238,117)	(498,051)
Cash paid to suppliers for goods and services	(774,880)	(751,057)
Recording and OTC distributions to counties	<u>(18,050,803)</u>	<u>(15,934,286)</u>
Net cash provided by (used in) operating activities	<u>271,666</u>	<u>(24,809)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(221,952)</u>	<u>(149,792)</u>
NET INCREASE (DECREASE) IN CASH	49,714	(174,601)
CASH		
Beginning	<u>655,755</u>	<u>830,356</u>
Ending	<u>\$ 705,469</u>	<u>\$ 655,755</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net position	\$ 240,695	\$ (79,355)
Adjustments to reconcile change in net position to net cash provided by (used in) operating activities		
Depreciation	53,567	43,800
Change in assets and liabilities		
Accounts receivable	(1,948)	(609)
Due from State of Iowa	11,893	(1,162)
Prepaid expenses	(3,911)	3,326
Accounts payable	(11,437)	3,152
Accrued compensation	(17,682)	12,910
Customer deposits	(1,472)	(3,421)
Unearned revenues	<u>1,961</u>	<u>(3,450)</u>
Net cash provided by (used in) operating activities	<u>\$ 271,666</u>	<u>\$ (24,809)</u>

See Notes to Financial Statements.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

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.

Measurement Focus and 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 and software 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.

ESS has elected to apply all applicable GASB pronouncements. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred; regardless of the timing of related 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.

Income Taxes

ESS is a governmental subdivision of the State of Iowa and is exempt from federal and state income taxes.

Computer Equipment

Computer equipment is stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets which are three to five years.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

The Special-Purpose Statements of Net Position present 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, 2018 and 2017.

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.

Customer Deposits

Electronic Services System allows customers to hold funds on account with ESS for future electronic submittals. These funds are recorded as a liability on the Special-Purpose Statements of Net Position until an electronic submission is initiated by the customer, at which time it is recorded to revenue.

Unearned Revenues

Electronic Services System is reimbursed for costs associated with local service maintenance contracts by local county recorders offices. These local service maintenance contracts are paid for in advance by ESS, resulting in prepaid expenditures for services not yet performed at the end of the reporting period. In order to match the period of recognition for both revenues and expenses associated with these service contracts, ESS has recorded as a liability the payments made by county recorders associated with services which have not yet been performed as of the end of the reporting period.

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.

NOTE 3 RETIREMENT PLAN

ESS has a retirement plan covering employees who have met certain eligibility requirements. Contributions to the plan for the year ended December 31, 2018 and 2017 were \$5,881 and \$3,789, respectively.

Electronic Services System
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 4 SOFTWARE DEVELOPMENT IN PROCESS

Electronic Services System is currently developing a new electronic submission system. The costs of this system's development have been capitalized by ESS and reported as software development in process on the Special-Purpose Statements of Net Position until the system is placed in service at which time the capitalized costs will be amortized over the system's estimated useful life. The system is expected to be placed in service during 2019.



**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, 2018, 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 June 19, 2019.

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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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
June 19, 2019