

**Electronic Services System
Johnston, Iowa**

FINANCIAL REPORT

December 31, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

Electronic Services System Coordinating Committee
Electronic Services System
Johnston, Iowa

Opinion

We have audited the accompanying financial statements of Electronic Services System, as of and for the years ended December 31, 2024 and 2023, 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.

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, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with the financial reporting requirements of the County Electronic Services System 28E Agreement.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Electronic Services System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 2 of the financial statements, during the year ended December 31, 2024 Electronic Services System adopted new accounting guidance, GASB 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw your attention to Note 1 of 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, which 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Electronic Services System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Electronic Services System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Electronic Services System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 the 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.

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 and management of Electronic Services System. The report is not intended to be and should not be used by anyone other than those specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2025, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Electronic Services System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Electronic Services System's internal control over financial reporting and compliance.


Denman CPA LLP

West Des Moines, Iowa
April 11, 2025

**Electronic Services System
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2024**

Management of Electronic Services System (ESS) provides this Management's Discussion and Analysis of the ESS' annual financial statements. This narrative overview and analysis of the financial activities is for the years ended December 31, 2024 and 2023. We encourage readers to consider this information in conjunction with the ESS' financial statements, which follow.

2024 FINANCIAL HIGHLIGHTS

Electronic Services System's cash balance at December 31, 2024 was \$1,688,539, representing an increase of \$69,397 from December 31, 2023. Recording fee income increased 10.2% or approximately \$2,897,000 to \$31,343,703 for the year ended December 31, 2024. Recording distributions increased 10.2% or approximately \$2,896,000 to \$31,343,768 for the year ended December 31, 2024.

2023 FINANCIAL HIGHLIGHTS

The cash balance at December 31, 2023 was \$1,619,142, representing a decrease of \$419,999 from December 31, 2022. Recording fee income decreased 18.1% or approximately \$6,266,000 to \$28,446,716 for the year ended December 31, 2023. Recording distributions decreased 18.0% or approximately \$6,265,000 to \$28,447,549 for the year ended December 31, 2023.

The decreases in cash balances and recording fees and distributions are due primarily to operating losses in the current year resulting from high inflation, increasing interest rates, higher housing costs and a general slowdown in the real estate market. Cash balances were also affected by the planned expenditure of resources from a Software Development and Equipment Maintenance Reserve fund updates and enhancements to services provided through ESS software. More than \$270,000 in reserve funds were invested in software development in 2023.

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 ESS's financial activities.

The Special-Purpose Statements of Net Position present information on the ESS' 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 ESS's operating revenues and expenses.

The Special-Purpose Statements of Cash Flows present the change in ESS' cash during the years. This information can help describe how ESS 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.

**Electronic Services System
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2024**

FINANCIAL ANALYSIS

Special-Purpose Statements of Net Position

Net position serves as an indicator of Electronic Services System's overall financial position. ESS' net position decreased \$394,546 or 14.8% during the year ended December 31, 2024. The decrease is due predominately to a downturn in the real estate market in 2023 and 2024, which has resulted in a reduction in submittal fee income from previous fiscal periods while investments made by ESS over the past three fiscal years in internally developed software have resulted in increases in depreciation and amortization expense during the periods. A summary of the statements of net position is presented below.

	December 31		
	2024	2023	2022
ASSETS			
Cash	\$ 1,688,539	\$ 1,619,142	\$ 2,039,141
Other current assets	235,344	282,411	264,304
Capital assets, less accumulated depreciation	857,586	1,016,371	754,353
Total assets	<u>2,781,469</u>	<u>2,917,924</u>	<u>3,057,798</u>
LIABILITIES			
Current liabilities	401,629	260,155	308,435
Noncurrent liabilities	116,617	—	—
	<u>518,246</u>	<u>260,155</u>	<u>308,435</u>
NET POSITION			
Net investment in capital assets	857,586	1,016,371	754,353
Unrestricted	<u>1,405,637</u>	<u>1,641,398</u>	<u>1,995,010</u>
Total net position	<u>\$ 2,263,223</u>	<u>\$ 2,657,769</u>	<u>\$ 2,749,363</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 record management systems with the Electronic Services System. ESS' operational costs are in part reimbursed by the State of Iowa through the Electronic Transaction Fund administered by the Office of the Treasurer of State in addition to the operating revenues received through the treasury management account at the financial institution designated by ESS.

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

**Electronic Services System
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2024**

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

	December 31		
	2024	2023	2022
REVENUES			
Recording fees	\$ 31,343,703	\$ 28,446,716	\$ 34,712,696
Point-of-Sale (POS) payment system	3,831,729	3,927,256	4,763,159
Other fees and income	1,229,871	1,081,903	1,235,532
Draws from Electronic Transaction Fund	482,552	519,490	807,685
Total revenues	<u>36,887,855</u>	<u>33,975,365</u>	<u>41,519,072</u>
EXPENSES			
Recording distributions	31,343,768	28,447,549	34,712,204
POS payment system distributions	3,725,539	3,791,118	4,627,513
Depreciation	398,809	165,758	244,544
Salaries and payroll	702,260	540,256	441,070
Transaction fees and bank charges	185,331	161,222	230,636
Other operating expenses	880,772	961,056	1,050,974
Total expenses	<u>37,236,479</u>	<u>34,066,959</u>	<u>41,306,941</u>
LOSS ON DISPOSAL OF CAPITAL ASSETS	<u>(45,922)</u>	—	—
CHANGE IN NET POSITION	(394,546)	(91,594)	212,131
NET POSITION, beginning	<u>2,657,769</u>	<u>2,749,363</u>	<u>2,537,232</u>
NET POSITION, ending	<u>\$ 2,263,223</u>	<u>\$ 2,657,769</u>	<u>\$ 2,749,363</u>

Total revenues increased by 8.6% or \$2,912,490 in 2024, primarily due to increases in overall recording activity and any associated recording service fee income. Expenses increased by 9.3% or \$3,169,520 in 2024, primarily due to increases in recording distributions. Total documents processed increased by 12.1% or 35,400 documents to a total of 327,309 in 2024. The percent of documents filed electronically statewide increased from approximately 62% in 2023 to 67% in 2024. Despite the proportional increase in the use of Electronic Services, the decline in revenue and cash position from 2022 is attributed to inflationary pressures which have weakened the economy and higher mortgage interest rates which have affected the real estate market.

ECONOMIC FACTORS

Changes in the real estate market and the State economy as a whole may result in changes in recording activity and revenue. The COVID-19 pandemic clearly influenced business practices and subsequent changes in federal fiscal policy to control inflation have also had substantial effects, particularly with real estate. The adoption of remote work and “contact-free” transactions, coupled with ESS efforts to promote electronic submissions resulted in revenue growth during the first three quarters of 2022. Those gains were lost in 2023 and the economic headwinds have been sustained and potentially appear to represent a new normal despite income rebounding somewhat in the last quarter of 2024. Impacts of higher tariffs may also have disruptive effects on the general economy in 2025 and beyond. For the immediate future, income will be primarily affected by changes in market conditions which may both positively and negatively affect future revenue. ESS anticipated a leveling of submittal fee income during the first half of 2025. Increases in base recording fees may be explored in 2025 in order to provide long-term stability to the financial condition of Electronic Services System.

CONTACTING ELECTRONIC SERVICES SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the ESS' financial and operating activities to all those with an interest in its finances. 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	
	2024	2023
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,688,539	\$ 1,619,142
Accounts receivable	–	1,978
Due from Electronic Transaction Fund	42,869	103,483
Prepaid expenses	192,475	176,950
Total current assets	1,923,883	1,901,553
CAPITAL ASSETS		
Computer equipment	–	151,854
Internally developed software	1,447,072	1,447,072
Subscription-based IT arrangements	269,286	–
Software development in progress	165,282	148,622
	1,881,640	1,747,548
Accumulated depreciation and amortization	(1,024,054)	(731,177)
Total capital assets	857,586	1,016,371
Total assets	2,781,469	2,917,924
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	29,840	15,172
Accrued compensation	54,912	23,676
Customer deposits	74,636	72,508
Unearned revenues	153,558	148,799
IT subscriptions, current	88,683	–
Total current liabilities	401,629	260,155
IT SUBSCRIPTIONS , noncurrent	116,617	–
Total liabilities	518,246	260,155
NET POSITION		
Net investment in capital assets	857,586	1,016,371
Unrestricted	1,405,637	1,641,398
Net position	\$ 2,263,223	\$ 2,657,769

See Notes to Financial Statements.

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

	<u>Year ended December 31</u>	
	<u>2024</u>	<u>2023</u>
REVENUES		
Recording fees	\$ 31,343,703	\$ 28,446,716
Point-of-Sale (POS) payment system	3,831,729	3,927,256
Submitting fees	1,011,084	915,382
Draws from Electronic Transaction Fund	482,552	519,490
Local service maintenance fees, net of discounts \$125,127, 2024; \$168,941, 2023	174,317	129,760
Miscellaneous income	44,470	36,761
Total revenues	<u>36,887,855</u>	<u>33,975,365</u>
EXPENSES		
Recording distributions	31,343,768	28,447,549
POS payment system distributions	3,725,539	3,791,118
Local service maintenance	305,002	293,978
Transaction fees and bank charges	185,331	161,222
Project management	147,200	162,575
Salaries and payroll	702,260	540,256
Education and outreach	68,630	98,474
Depreciation and amortization	398,809	165,758
Office	99,544	126,071
Technology	180,087	191,419
Professional fees	80,309	88,539
Total expenses	<u>37,236,479</u>	<u>34,066,959</u>
LOSS ON DISPOSAL OF CAPITAL ASSETS	<u>(45,922)</u>	<u>—</u>
CHANGE IN NET POSITION	(394,546)	(91,594)
NET POSITION, beginning	<u>2,657,769</u>	<u>2,749,363</u>
NET POSITION, ending	<u>\$ 2,263,223</u>	<u>\$ 2,657,769</u>

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

	Year ended December 31	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from recording fees, submitting fees and POS payment services	\$ 36,188,644	\$ 33,286,301
Cash received from counties for maintenance fees	181,054	135,870
Reimbursements received from Electronic Transaction Fund	543,166	489,306
Cash received from other revenue	44,470	36,761
Cash paid to employees for services	(671,024)	(542,557)
Cash paid to suppliers for goods and services	(1,066,960)	(1,159,237)
Recording and POS distributions to counties	<u>(35,069,307)</u>	<u>(32,238,667)</u>
Net cash provided by operating activities	<u>150,043</u>	<u>7,777</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(16,660)	(427,776)
Payments on IT subscription arrangements	<u>(63,986)</u>	<u></u>
Net cash flows from capital and related financing activities	<u>(80,646)</u>	<u>(427,776)</u>
NET INCREASE (DECREASE) IN CASH	69,397	(419,999)
CASH		
Beginning	<u>1,619,142</u>	<u>2,039,141</u>
Ending	<u>\$ 1,688,539</u>	<u>\$ 1,619,142</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net position	\$ (394,546)	\$ (91,594)
Adjustments to reconcile change in net position to net cash provided by operating activities		
Depreciation and amortization	398,809	165,758
Loss on disposal of capital assets	45,922	-
Change in assets and liabilities		
Accounts receivable	1,978	2,491
Due from Electronic Transaction Fund	60,614	(30,184)
Prepaid expenses	(15,525)	9,586
Accounts payable	14,668	(46,545)
Accrued compensation	31,236	(2,301)
Customer deposits	2,128	(3,053)
Unearned revenues	<u>4,759</u>	<u>3,619</u>
Net cash provided by operating activities	<u>\$ 150,043</u>	<u>\$ 7,777</u>

See Notes to Financial Statements.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS**

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 Recorders 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. In 2021, the Iowa legislature authorized the Electronic Services System to simplify its governance structure and contracting authority (House File 527). Iowa counties unanimously approved an amendment to the 28E agreement in December 2021. The governing board of the Electronic Services System is appointed by the Executive Board of the Iowa County Recorders Association (ICRA).

Measurement Focus and Basis of Accounting

The financial statements include the financial activities of 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, also known as Fund 255, administered by the Office of the Treasurer of State to be used for the payment of claims approved by the Electronic Services System Finance subcommittee. 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 draws from Electronic Transaction Fund and are included in revenue.

ESS has elected to apply all applicable Governmental Accounting Standards Board (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.

Capital Assets

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. Software reported on the special-purpose statements of net position has been internally developed by ESS and recorded at cost. Software is amortized over a three year useful life.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subscription-Based Information Technology Arrangements (SBITA)

ESS has entered into contracts that convey control of the right-of-use information technology software. ESS has recognized an IT subscription liability and an intangible right-of-use IT subscription asset in the financial statements.

At the commencement of the IT subscription term, ESS initially measures the subscription liability at the present value of payment expected to be made during the subscription term. Subsequently, the IT subscription liability is reduced by the principal portion of payments made. The right-of-use IT subscription asset is initially measured as the sum of the initial IT subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus capitalized implementation costs less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subsequently, the right-of-use IT subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to IT subscription arrangements include how ESS determines the discount rate it uses to discount the expected payments to present value, and the subscription term as follows:

- ESS uses the interest rate charged by the IT subscription vendor as the discount rate. When the interest rate charged by the vendor is not provided, ESS generally uses its estimated incremental borrowing rate as the discount rate.
- The subsequent term includes the noncancellable period of the subscription. Payments included in the measurement of the liability are composed of fixed payments

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, 2024 and 2023.

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.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Compensated Absences

ESS recognizes a liability for compensated absences when the leave is earned, accumulates, and it is more likely than not that the leave will be used or paid out. ESS' compensated absences liability includes vacation, sick, and other paid time off. The liability represents the estimated cost of the unused leave balances, calculated using the employees' current pay rates and including applicable salary-related payments. The compensated liability balance at December 31, 2024 and 2023 is considered to be current and is estimated to be due within one year.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

Government Accounting Standards Board Statement No. 101 *Compensated Absences* was implemented during fiscal year 2024. The new standard requires a change in reporting of compensated absences liabilities including the recognition of leave which is earned, accumulates, and is more likely than not to be used by the employee or paid out to the employee. The change in accounting principle was not material to Electronic Services System's financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

Electronic Services System's deposits at December 31, 2024 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

ESS is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Coordinating Committee; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As to interest rate risk, Electronic Services System's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of ESS.

**Electronic Services System
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2024 and 2023 is as follows:

	2024				Ending Balance
	Beginning balance	Additions	Deletions	Transfers	
Computer equipment	\$ 151,854	\$ –	\$ (151,854)	\$ –	\$ –
Internally developed software	1,447,072	–	–	–	1,447,072
Subscription-based IT arrangements	–	269,286	–	–	269,286
Software development in progress	148,622	16,660	–	–	165,282
Total capital assets	1,747,548	285,946	(151,854)	–	1,881,640
Less accumulated depreciation	731,177	398,809	(105,932)	–	1,024,054
Net capital assets	<u>\$ 1,016,371</u>	<u>\$ (112,863)</u>	<u>\$ (45,922)</u>	<u>\$ –</u>	<u>\$ 857,586</u>
	2023				Ending Balance
	Beginning balance	Additions	Deletions	Transfers	
Computer equipment	\$ 151,854	\$ –	\$ –	\$ –	\$ 151,854
Internally developed software	786,940	–	–	660,132	1,447,072
Software development in progress	380,978	427,776	–	(660,132)	148,622
Total capital assets	1,319,772	427,776	–	–	1,747,548
Less accumulated depreciation	565,419	165,758	–	–	731,177
Net capital assets	<u>\$ 754,353</u>	<u>\$ 262,018</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,016,371</u>

NOTE 5 SUBSCRIPTION-BASED IT ARRANGEMENTS

ESS has entered into a three year agreement for cloud-based data services. As of December 31, 2024, the value of the lease liability was \$205,300. The components of lease expense for the year ended December 31, 2024 is as follows:

The ESS has entered into subscription-based information technology arrangements (SBITAs) for various subscription-based services under terms expiring within three years. The total of the ESS' subscription assets are recorded at a cost of \$269,286, less accumulated amortization of \$67,322. The future subscription payments under the SBITA arrangements are as follows:

<u>Year ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 88,683	\$ 7,092	\$ 95,775
2026	92,430	3,345	95,775
2027	24,187	179	24,366
Totals	<u>\$ 205,300</u>	<u>\$ 10,616</u>	<u>\$ 215,916</u>

NOTE 6 RETIREMENT PLAN

ESS has a retirement plan covering employees who have met certain eligibility requirements. Contributions to the plan for the years ended December 31, 2024 and 2023 were \$14,728 and \$13,309, respectively.

**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 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 Electronic Services System, which comprise the special-purpose statement of net position as of December 31, 2024, 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, which collectively comprise Electronic Services System's basic financial statements, and have issued our report thereon dated April 11, 2025.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Electronic Services System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Electronic Services System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Denman CPA LLP
Denman CPA LLP

West Des Moines, Iowa
April 11, 2025