



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

Basic Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

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## **Independent Auditors' Report**

To the Board of Directors  
Iowa Title Guaranty  
Des Moines, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Iowa Title Guaranty (a division of Iowa Finance Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Iowa Title Guaranty'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 accounting principles generally accepted in the United States of America; 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 respective financial position of Iowa Title Guaranty, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the financial statements of Iowa Title Guaranty are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the Iowa Finance Authority that is attributable to the transactions of Iowa Title Guaranty. They do not purport to, and do not, present fairly the financial position of the Iowa Finance Authority or the State of Iowa as of June 30, 2017 and 2016, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Iowa Title Guaranty's Proportionate share of the Net Pension Liability, Schedule of Iowa Title Guaranty's Contributions, and Notes to Required Supplementary Information on pages 3 through 10 and 24 through 26 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 American, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017, on our consideration of Iowa Title Guaranty'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 Iowa Title Guaranty'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 Iowa Title Guaranty's internal control over financial reporting and compliance.



Aberdeen, South Dakota  
September 28, 2017

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

Management's discussion and analysis provides an overview of the financial activities of Iowa Title Guaranty, (ITG) for the fiscal year ended June 30, 2017. Please read it in conjunction with ITG's financial statements and accompanying notes.

ITG was created in 1986 by the Iowa Legislature and operates as a Division of the Iowa Finance Authority. ITG is a self-supporting entity and follows enterprise fund accounting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. ITG operates a program offering guaranties of real property titles in the state of Iowa. ITG sets its fees to allow it to operate on a self-sustaining basis, including payment of administrative costs and the maintenance of an adequate reserve against claims under the title guaranty program. Funds collected under this program are available to pay all claims, necessary reserves and all administrative costs of the title guaranty program. Surplus funds, after providing for adequate reserves and operating expenses of ITG, are transferred to the housing assistance program to support affordable housing initiatives in Iowa. Since inception in 1986, ITG has transferred \$57.4 million to Iowa's housing assistance program.

Lenders generally require assurance of a valid and clear land title as a condition to making a loan on real estate, including securitized lending. This is to assure lenders of the priority of their lien position. Similarly, purchasers of real estate want protection against claims that may arise against the title to the property they are purchasing. The Iowa Title Guaranty program is authorized by Chapter 16 of the Code of Iowa and the program guarantees the priority of Iowa lenders' lien position and provides Iowa homeowners protection from claims against the titles to their real property. ITG provides guaranties of Iowa real property titles to facilitate lenders' participation in the secondary market and to add to the integrity of the Iowa land transfer system.

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

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

The financial strength and stability of ITG are important factors in maintaining and increasing business, particularly commercial business. Iowa Title Guaranty has a Financial Stability Rating from Demotech, Inc. of "A<sup>1</sup>-Unsurpassed."

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

Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

**Overview of the Financial Statements**

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

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

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

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

Table 1 – Total Condensed Information of Iowa Title Guaranty

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net position:			
Assets and deferred outflows:			
Cash and cash equivalents	\$ 10,406,451	\$ 13,813,463	\$ 9,254,442
Accounts receivable and other current assets	181,209	282,810	146,471
Noncurrent assets and deferred outflows	285,748	244,749	223,038
Total assets and deferred outflows	<u>10,873,408</u>	<u>14,341,022</u>	<u>9,623,951</u>
Liabilities and deferred inflows:			
Accounts payable and other current liabilities	1,112,335	1,165,443	946,125
Escrow deposits	1,954,570	6,135,618	2,327,823
Reserve for claims	462,765	707,053	303,625
Noncurrent liabilities and deferred inflows	1,126,625	1,011,028	1,001,370
Total liabilities and deferred inflows	<u>4,656,295</u>	<u>9,019,142</u>	<u>4,578,943</u>
Total net position	<u>\$ 6,217,113</u>	<u>\$ 5,321,880</u>	<u>\$ 5,045,008</u>

**IOWA TITLE GUARANTY**  
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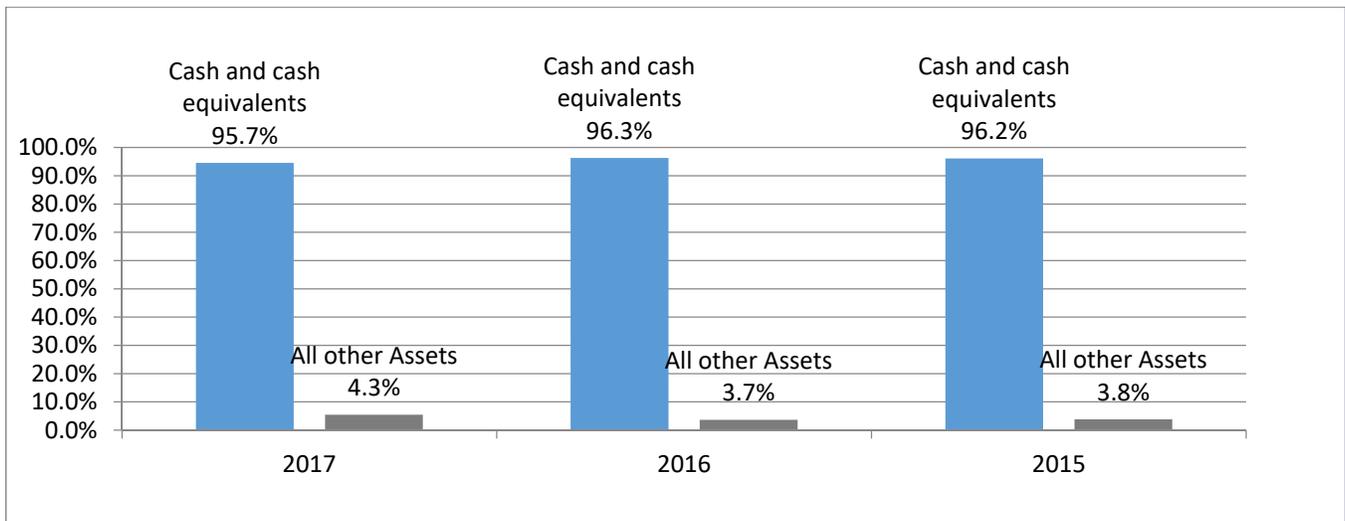
Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues, expenses and changes in net position:			
Operating revenues	\$ 8,303,046	\$ 7,413,359	\$ 5,536,999
Operating expenses	<u>6,053,689</u>	<u>5,906,134</u>	<u>4,168,590</u>
Net operating income	2,249,357	1,507,225	1,368,409
Net position beginning of year	5,321,880	5,045,008	5,510,527
Transfers to Housing Assistance Program	(1,354,124)	(1,230,353)	(1,012,000)
Cummulative effect of accounting change	—	—	(821,928)
Net position end of year	<u><u>\$ 6,217,113</u></u>	<u><u>\$ 5,321,880</u></u>	<u><u>\$ 5,045,008</u></u>

**Total Iowa Title Guaranty Assets and Deferred Outflows as of June 30, 2017 - \$10.9 million, June 30, 2016 - \$14.3 million and as of June 30, 2015 - \$9.6 million.**

**Figure 1- Total Assets and Deferred Outflows as of June 30, 2017, 2016 and 2015**



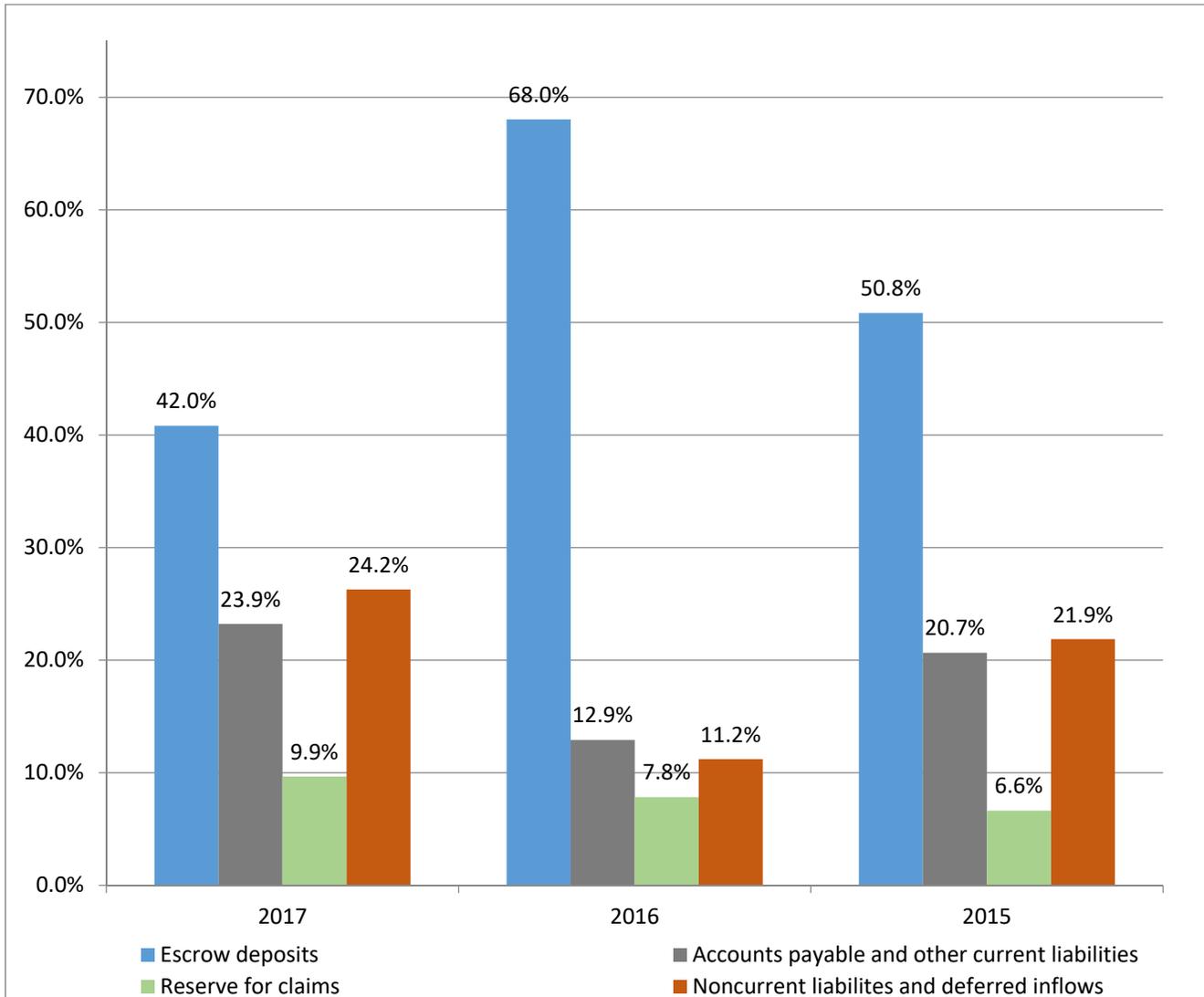
**IOWA TITLE GUARANTY**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

**Total Iowa Title Guaranty Liabilities and Deferred Inflows as of June 30, 2017 – \$4.7 million, as of June 30, 2016 - \$9.0 million and as of June 30, 2015 - \$4.6 million.**

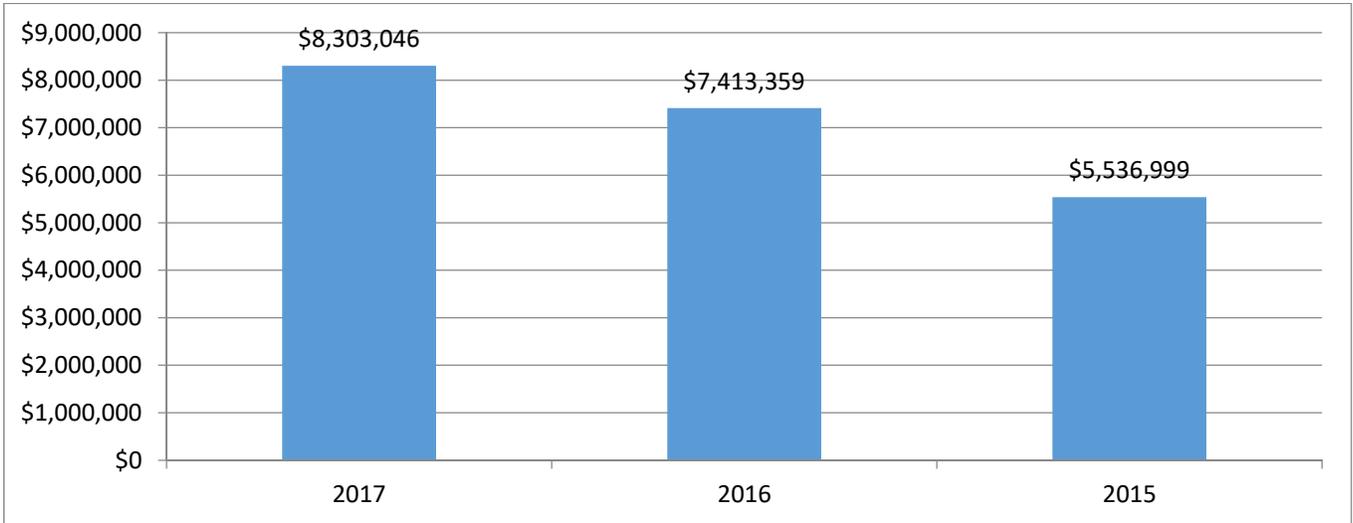
**Figure 2 - Total Liabilities and Deferred Inflows as of June 30, 2017, 2016 and 2015**



**IOWA TITLE GUARANTY**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

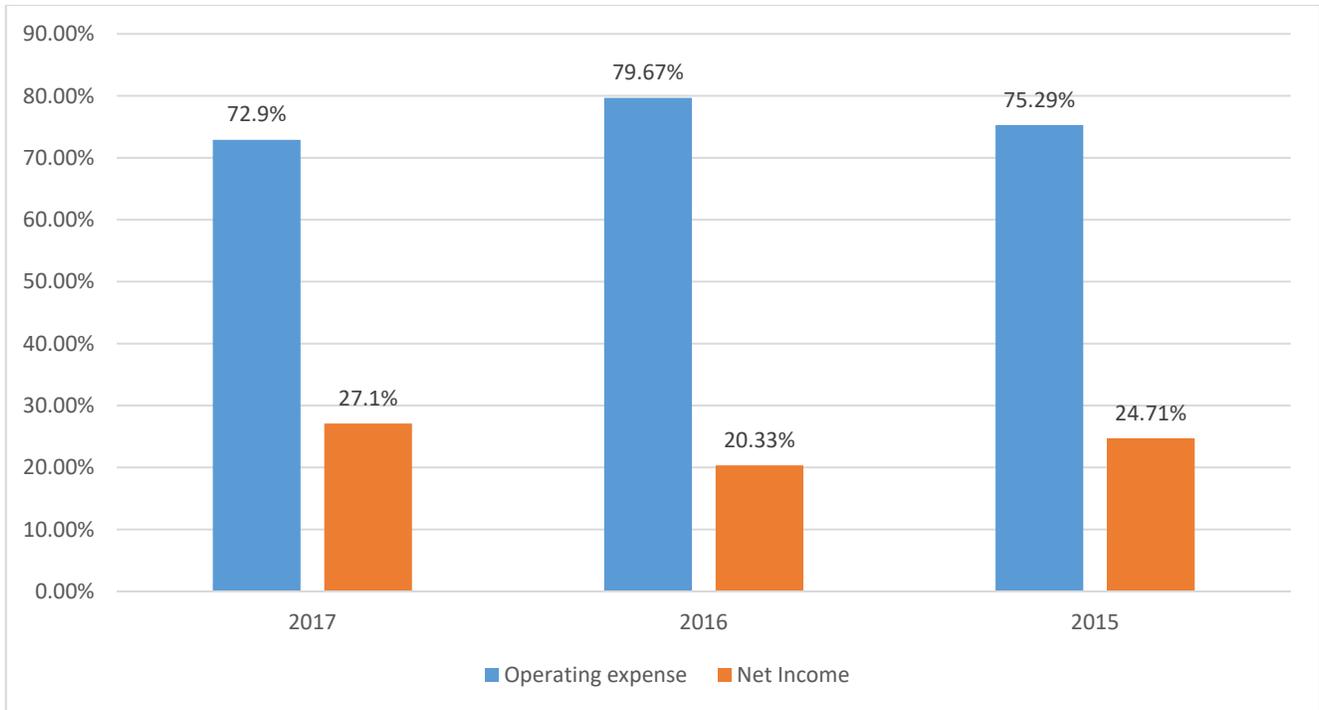
**Figure 3 - Total Operating Revenue Trends Fiscal Years Ended June 30, 2017, 2016 and 2015**



**IOWA TITLE GUARANTY**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

**Figure 4 - Operating Expenses and Net Income % of Total Operating Revenues Fiscal Years Ended June 30, 2017, 2016 and 2015**



**IOWA TITLE GUARANTY**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

**Financial Analysis**

1. At June 30, 2017 ITG's cash and cash equivalents are \$10.4 million, which is a decrease of \$3.4 million compared to the balance at June 30, 2016 of \$13.8 million. Escrow activities decreased cash by \$4.2 million during the fiscal year ending June 30, 2017. Operations, excluding escrow activities, generated \$2.1 million in cash during fiscal year 2017 to partially offset the reduction from escrow activities. ITG transferred \$1.3 million to the Iowa Housing Assistance Program during the fiscal year ending June 30, 2017. During fiscal year ended June 30, 2016, escrow activities increased cash by \$3.8 million and operations, excluding escrow activities, provided \$2.0 million of net cash. ITG transferred \$1.2 to the Iowa Housing Assistance Program during the fiscal year ending June 30, 2016. Cash and equivalents were \$9.3 million at June 30, 2015 and included escrow deposits of \$2.3 million.
2. Cash equivalents less escrow obligations, funds ITG has available to pay all claims, reserves and administrative costs , total \$8.5 million at June 30, 2017, \$7.7 million at June 30, 2016 and \$6.9 million at June 30, 2015. The cash equivalents balances, net of escrow deposits, represent 5.4 times ITG's accounts payable, other current liabilities and reserves for claims at June 30, 2017 and 4.1 times and 5.5 times at June 30, 2016 and June 30, 2015, respectively.
3. Net position is \$6.2 million at June 30, 2017, an increase of \$0.9 million compared to net position at June 30, 2016. The increase is due to \$2.2 million of net operating income during the fiscal year offset by the transfer of \$1.3 million of surplus funds to the Iowa Housing Assistance Program. Net position was \$5.0 million at June 30, 2015 and increased to \$5.3 million at June 30, 2016 when \$1.5 million of net operating income was offset by the transfer of \$1.2 million to the Iowa Housing Assistance Program.
4. Operating revenues are \$8.3 million for the year ended June 30, 2017, an increase of \$0.9 million compared to fiscal year 2016 when revenues were \$7.4 million and an increase of \$2.8 million compared to fiscal year 2015 when revenues were \$5.5 million. Title guaranty transactions and coverage volume during fiscal years 2017, 2016 and 2015 are as follows:

	Number of transactions			Coverage volume		
	2017	2016	2015	2017	2016	2015
Purchase	35,526	33,954	27,658	\$ 5,695,484,950	\$ 5,333,607,068	\$ 4,124,665,890
Refinance	26,330	20,962	16,942	4,421,120,380	3,285,137,961	2,501,277,231
Other	24,218	22,723	19,281	4,846,614,370	4,831,977,278	3,805,155,864
Total	<u>86,074</u>	<u>77,639</u>	<u>63,881</u>	<u>\$ 14,963,219,700</u>	<u>\$ 13,450,722,307</u>	<u>\$ 10,431,098,985</u>

**IOWA TITLE GUARANTY**  
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Management's Discussion and Analysis (Unaudited)

June 30, 2017, 2016 and 2015

5. Operating expenses are \$6.1 million in the year ended June 30, 2017 and \$5.9 million and \$4.2 million in the years ended June 30, 2016 and 2015, respectively.
  - a. Operating expenses increased \$0.2 million in FY 2017 compared to FY 2016 due to:
    - i. Guaranty issuing expenses paid to field participants are \$3.5 million in the year ended June 30, 2017 compared to \$2.9 million in the year ended June 30, 2016. Guaranty issuing expenses represent 44.5% and 41.0% of title guaranty fee revenues in the years ending June 30, 2017 and 2016, respectively. The increase in guaranty issuing expense as a percent of title fee revenue in 2017 is due largely to a higher proportion of refinance business in 2017 compared to 2016.
    - ii. During the fiscal year ending June 30, 2017, claim activities produced income of \$0.1 million compared to an expense of \$0.4 million in the fiscal year 2016. During FY 2017 ITG settled certain known claims favorably and reduced its estimated incurred but not reported reserves to reflect its ongoing low cost of claims activity.
    - iii. Salaries, wages and related expenses increased \$0.4 million in FY 2017 compared to FY 2016 due to filling administrative staff vacancies. The increase in salaries, wages and related expenses in FY 2017 compared to FY 2016 are offset by reductions in other operating and general expenses related to lower accounting and information technology consulting costs.
  - b. Operating expenses increased \$1.7 million in FY 2016 compared to FY 2015 due to:
    - i. Guaranty issuing expenses paid to field participants are \$2.9 million in the year ended June 30, 2016 compared to \$2.0 million in the year ended June 30, 2015. The increase in guaranty issuing expense as a percent of title guaranty fee revenue in 2016 is due to ITG increasing its field issuer incentive rates on mortgages recorded on or after July 1, 2015.
    - ii. Claim losses and expenses are \$0.4 million in the year ended June 30, 2016. In the year ended June 30, 2015 claim losses and expense activity produced income of \$0.5 million. During 2015 ITG was able to generate income from claims activity due primarily to favorable settlement and resolution of certain known claims.
6. Net operating income for the fiscal year ended June 30, 2017 is \$2.2 million compared to \$1.5 million for the fiscal year ended June 30, 2016, and \$1.4 million for the fiscal year ended June 30, 2015.
7. Operating ratio is 72.9% for the fiscal year ended June 30, 2017, 79.7% for the fiscal year ended June 30, 2016 and 75.3% for the fiscal year ended June 30, 2015.

**Currently Known Facts, Decisions, or Conditions**

At this time, ITG is not aware of any facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

**IOWA TITLE GUARANTY**  
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Statements of Net Position

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents	\$ 10,406,451	\$ 13,813,463
Accounts receivable, net of allowance for doubtful accounts of \$16,846 and \$10,546 at June 30, 2017 and 2016, respectively	151,185	253,985
Other current assets	30,024	28,825
Total current assets	10,587,660	14,096,273
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,645	2,979
Total assets	10,590,305	14,099,252
<b>Deferred Outflows</b>		
Pension plan	283,103	241,770
Total Assets and Deferred Outflows	10,873,408	14,341,022
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and other liabilities	1,030,827	991,367
Accounts payable to Iowa Finance Authority	81,508	174,076
Escrow obligations	1,954,570	6,135,618
Reserves for claims, current	110,715	209,284
Total current liabilities	3,177,620	7,510,345
Noncurrent Liabilities:		
Reserves for claims	352,050	497,769
Other liabilities	1,063,879	803,630
Total noncurrent liabilities	1,415,929	1,301,399
Total liabilities	4,593,549	8,811,744
<b>Deferred Inflows</b>		
Pension plan	62,746	207,398
Total Liabilities and Deferred Inflows	4,656,295	9,019,142
<b>Net Position</b>		
Net investment in capital assets	2,645	2,979
Restricted net position:		
Per legislation	6,214,468	5,318,901
Total net position	\$ 6,217,113	\$ 5,321,880

**IOWA TITLE GUARANTY**  
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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2017 and 2016

<b>Revenues:</b>	<u>2017</u>	<u>2016</u>
Title guaranty fees	\$ 7,838,900	\$ 7,106,973
Escrow fees	206,611	176,194
Other income	257,535	130,192
Total revenues	<u>8,303,046</u>	<u>7,413,359</u>
<b>Expenses:</b>		
Salaries, wages, and related expenses	2,094,456	1,664,311
Guaranty issuing expenses	3,485,353	2,912,570
Occupancy expense	158,079	163,561
Depreciation and amortization	334	334
Claim (income) losses and expenses	(116,877)	376,392
Other operating and general expenses	432,344	788,965
Total operating expenses	<u>6,053,689</u>	<u>5,906,133</u>
Net operating income	2,249,357	1,507,226
Net Position balance beginning of year	5,321,880	5,045,007
Transfers to Iowa Housing Assistance Program	(1,354,124)	(1,230,353)
Net Position balance end of year	<u>\$ 6,217,113</u>	<u>\$ 5,321,880</u>

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Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Cash receipts for premiums and other income	\$ 8,499,122	\$ 7,306,961
Cash payments for salaries and related benefits	(1,968,687)	(1,681,113)
Cash receipts (payments) for claims, losses and settlement expenses	(127,411)	27,036
Cash receipts (payments) for escrow settlements	(4,181,048)	3,807,795
Cash payments to suppliers	(4,274,864)	(3,671,305)
Net cash provided by (used in) by operating activities	(2,052,888)	5,789,374
 Cash flows from noncapital financing activities:		
Interfund transfers	(1,354,124)	(1,230,353)
Net cash used in financing activities	(1,354,124)	(1,230,353)
Net increase (decrease) in cash and cash equivalents	(3,407,012)	4,559,021
Cash and cash equivalents at beginning of year	13,813,463	9,254,442
Cash and cash equivalents at end of year	\$ 10,406,451	\$ 13,813,463
 Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	\$ 2,249,357	\$ 1,507,226
Depreciation and amortization	334	334
Increase in other assets	(1,199)	(28,325)
Decrease (increase) in accounts receivable	102,800	(108,014)
Change in pension liabilities, net of pension related deferred inflows and outflows	74,264	(12,387)
Increase (decrease) in accounts payable and other liabilities	(4,478,444)	4,430,540
Net cash provided by (used in) by operating activities	\$ (2,052,888)	\$ 5,789,374

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

Notes to Basic Financial Statements

June 30, 2017 and 2016

**Organization and Summary of Significant Accounting Policies**

**(a) Organization**

The Iowa Legislature created Iowa Title Guaranty (ITG) as a Division of the Iowa Finance Authority (the Authority) in 1986. The Authority is a component unit of the State of Iowa and ITG is not a separate legal entity from the Authority. ITG is authorized by Chapter 16 of the Code of Iowa. The purposes of ITG are to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guarantees of real-property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the State of Iowa. A title guaranty certificate is an obligation of ITG, and claims are payable solely out of the assets and revenues of the Iowa Title Guaranty Program. The title guaranties do not constitute a debt of the State of Iowa, and consequently, the State is not liable for any potential repayments. Section 16.93 of the Code of Iowa authorizes ITG to issue closing protection letters. Closing protection letters may indemnify a person to whom a proposed title guaranty is to be issued against loss of settlement funds due to certain listed acts of ITG's named participating attorney or participating abstractor.

**(b) Operations**

Iowa Title Guaranty functions as a small state sponsored regional underwriter. Approximately 91% of the production volume is processed through participating attorneys, abstractors and independent escrow closers, referred to as field participants. There are 162 participating field issuers; attorneys, abstractors and escrow closers, that each granted more than 6 Iowa Title Guaranty Closing Protection Letters during the fiscal year ended June 30, 2017. Iowa Title Guaranty's ten largest customers generated 32.1% of its total revenue during fiscal year 2017 compared to 31.5% during fiscal year 2016. No one single customer generated at least 10% of total revenues during fiscal year 2017 or 2016. All revenues are generated in the state of Iowa.

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

**(c) Basis of Presentation**

The financial statements are prepared using the economic resources measurements focus and accrual basis of accounting in accordance with the Government Accounting Standards Board (GASB). Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The financial statements of ITG are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business type activities of the Authority that is attributable to the transactions of ITG.

**IOWA TITLE GUARANTY**  
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Notes to Basic Financial Statements

June 30, 2017 and 2016

**(d) Fund Accounting**

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

**(e) Cash Equivalents**

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

**(f) Cash held for escrow and escrow obligations**

ITG administers escrow deposits as a service to its customers. Cash held for escrow totaled \$1,954,570 at June 30, 2017 and \$6,135,618 at June 30, 2016. Escrow deposits are reported as cash and cash equivalents. An offsetting liability, escrow obligations, is recorded in the accompanying statement of net position.

**(g) Reserves for known claims and reserves for incurred but not reported claims**

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

ITG records estimated incurred but not reported losses with a charge to expense when guaranty fee revenue is recognized. The amount charged to expense is determined by applying a rate (the loss provision rate) to total title guaranty fee revenue. Known claims are \$110,715 at June 30, 2017 and are reported on the statement of net position as reserves for claims. Estimated incurred but not reported claims are \$352,050 at June 30, 2017 and are reported as reserves for claims, noncurrent, on the statement of net position. At June 30, 2016 estimated known claims and incurred but not reported claims were \$209,284 and \$497,769, respectively.

ITG's management reviews and assesses the estimated loss provision rate, known claims reserves and incurred but not reported reserves. Based on historical trends and other relevant information available concerning claims, ITG, in conjunction with its Board of Directors, selects its best estimate of the total amount of the claims reserve requirement.

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(A Division of Iowa Finance Authority)

Notes to Basic Financial Statements

June 30, 2017 and 2016

**(h) Capital Assets**

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

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

**(i) Revenues**

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

**(j) Accounts receivable**

Accounts receivable are due upon issuance of the guaranty and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is estimated by considering a number of factors, including the length of time accounts receivable are past due and previous loss history. The allowance for doubtful accounts is \$16,846 at June 30, 2017 and \$10,546 at June 30, 2016.

**(k) Pensions**

For purposes of measuring the net pension liability; deferred outflows of resources and deferred inflows of resources related to pensions; and pension expense; information about the fiduciary net position of the Iowa Public Employees Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**(l) Net position**

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

**(m) Use of estimates**

The preparation of financial statements in conformity with General Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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Notes to Basic Financial Statements

June 30, 2017 and 2016

(n) **Restricted assets**

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

(o) **Income taxes**

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

**(2) Deposits and Investments**

At June 30, 2017 and 2016, ITG has deposits and investments as follows:

	<u>2017</u>	<u>2016</u>
Customer payment held in a bank	\$ 1,050,967	\$ 1,015,808
Monies held in a bank for escrow obligations	1,954,570	6,135,618
Cash in State Treasurer's pooled money account	<u>7,400,914</u>	<u>6,661,037</u>
Total cash and cash equivalents	<u>\$ 10,406,451</u>	<u>\$ 13,812,463</u>

The deposits held in banks are in excess of the FDIC limit of \$250,000 for single ownership accounts. In addition to federal deposit insurance, public deposits in Iowa are secured by collateral pledged by banks and further protected by assessments paid by banks if collateral is insufficient to cover losses pursuant to Chapters 12C and 13 of the Iowa Code. As such ITG has no uninsured or uncollateralized deposits as of June 30, 2017 and 2016. All ITG funds needed to pay claims, provide for adequate reserves and operating expenses are required by Chapter 16 of the Iowa Code to be invested in state pooled money accounts with the treasurer of the State of Iowa.

*Credit Risk*

Credit risk is if an issuer or counterparty will not fulfill their obligation to ITG. Custodial credit risk is if a depository institution fails it may not return ITG's deposits. ITG investment choices are governed by statute. Chapter 16 of the Iowa Code requires ITG to only invest its funds in the State of Iowa Treasurer Pooled Money account. The Treasurer of the State of Iowa manages the investments in the account, adhering to an investment policy with the following priorities; 1) safety of principal is the foremost objective, 2) maintain liquidity to enable State to meet all operating requirements and 3) prudently earn the highest amount of income achievable while preserving principal and ensuring liquidity.

*Concentration Risk*

Concentration of risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security or single issuer. As required by statute all of ITG's funds are invested in the State Treasurer Pooled Money account and diversification is managed by the Treasurer of the State of Iowa.

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*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of ITG's investments. As required by statute all of ITG's funds are invested in the State Treasurer Pooled Money account. The Treasurer of the State of Iowa manages the pool and risks in the pool.

**(3) Allocation of Shared Costs**

ITG shares office space with the Authority. ITG receives an allocation of shared costs incurred by the Authority. These are limited to consumable supplies, utilities, and facility costs; and are allocated based on the number of SRF employees housed at the Authority. For the years ended June 30, 2017 and 2016, ITG incurred \$158,079 and \$163,561, respectively, for shared costs. In addition, the Authority pays certain direct expenses of ITG and is reimbursed monthly for both the shared and direct costs. As of June 30, 2017 and 2016, ITG had an intercompany payable to the Authority of \$81,508 and \$174,076, respectively. ITG paid the June 30, 2017 balance due on July 27, 2017 and the June 30, 2016 balance due on July 20, 2016.

**(4) Pension Plan**

**(a) Plan Description**

Employees of ITG are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS membership is mandatory for employees of ITG, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**(b) Pension Benefits**

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- i. A multiplier (based on years of service).
- ii. The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

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If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

**(c) *Disability and Death Benefits***

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

**(d) *Contributions***

Contribution rates are established by IPERS each year following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board. In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of pay and ITG contributed 8.93% for a total rate of 14.88%. ITG's contribution to IPERS for the year ended June 30, 2017, 2016 and 2015 were \$111,998, \$95,221 and \$110,601, respectively.

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

At June 30, 2017 and June 30, 2016, ITG reported a liability of \$1,063,879 and \$803,630, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. ITG's proportion of the net pension liability was based on the ITG's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, ITG's collective proportion was .0170596 percent, an increase of 0.000895 percent from its proportion measured as of June 30, 2015. At June

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30, 2015, ITG's collective proportion was 0.01616495 percent, a decrease of 0.0021136 percent from its proportion measured as of June 30, 2014.

For the years ended June 30, 2017 and June 30, 2016, ITG recognized pension expense of \$74,264 and \$67,772, respectively. At June 30, 2017, ITG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 9,403	\$ 12,697
Changes of assumptions	16,231	—
Net difference between projected and actual earnings on pension plan investments	151,570	—
Changes in proportion and differences between ITG contributions and proportionate share of contributions	(6,099)	50,049
ITG contributions subsequent to the measurement date	<u>111,998</u>	<u>—</u>
Total	<u>\$ 283,103</u>	<u>\$ 62,746</u>

The \$111,998 reported as deferred outflows of resources related to pensions resulting from the ITG's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2017 will be recognized in pension expense as follows:

	<u>Year ended June 30</u>
2018	\$ 4,953
2019	4,953
2020	66,318
2021	35,516
2022	<u>(3,381)</u>
Total	<u>\$ 108,359</u>

At June 30, 2016, ITG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 12,143	\$ —
Changes of assumptions	22,126	—
Net difference between projected and actual earnings on pension plan investments	112,280	187,122
Changes in proportion and differences between ITG contributions and proportionate share of contributions	—	20,276
ITG contributions subsequent to the measurement date	95,221	—
Total	\$ 241,770	\$ 207,398

The \$95,221 reported as deferred outflows of resources related to pensions resulting from the ITG's contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2017.

There were no nonemployer contributing entities at IPERS.

**(f) Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future

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June 30, 2017 and 2016

real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<b>Asset allocation</b>	<b>Long-term expected real rate of return</b>
Asset class:		
Domestic Equity	24%	5.85 %
International Equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Core plus fixed income	28	1.90
Credit opportunities	5	4.48
TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

**(g) Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from ITG will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**(h) Sensitivity of ITG's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate –**

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

	<b>1% Decrease (6.5%)</b>	<b>Discount rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
ITG's proportionate share of the net pension liability	\$ 1,721,213	\$ 1,063,879	\$ 509,081

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(A Division of Iowa Finance Authority)

Notes to Basic Financial Statements

June 30, 2017 and 2016

(i) ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

(j) ***Payables to the Pension Plan –***

At June 30, 2017 and June 30, 2016, ITG had remitted all of its legally required employer or employee contributions due to IPERS.

**(5) Transfers to Iowa Housing Assistance Program**

Iowa Title Guaranty and Iowa Finance Boards approved transfers of \$1,300,000 during the year ended June 30, 2017 and \$1,200,000 during the year ended June 30, 2016 to the Iowa Housing Assistance Program. The amounts transferred are deemed surplus to the funds needed by ITG for its reserves and operating expenses. Pursuant to section 16.91(1) of the Iowa Code, the surplus amounts were transferred to the Iowa Housing Assistance Program. Also pursuant to section 16.91(1) of the Iowa Code, the Iowa Housing Assistance Program received \$54,124 and \$30,353 during the years ending June 30, 2017 and 2016, respectively, from interest earned on ITG's fund balance with the state treasurer.

**(6) Commitments and Contingencies**

Title guaranty certificates are long-duration obligations with the majority of the claims reported to the ITG within the first few years following the issuance of a guaranty certificate. Changes in expected ultimate losses and corresponding loss rates for recent policy years are considered likely and could result in a material adjustment to the loss reserves, either higher or lower. A material change in expected ultimate losses and corresponding loss rates for older policy years is also possible. Reserve for claims is \$462,765 and \$707,053 at June 30, 2017 and June 30, 2016, respectively. The reserve for claims is ITG's estimate of losses and expense on known claims and incurred but not reported claims.

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

The schedule below details the changes in the claim reserve balances during the fiscal years ending June 30, 2017 and June 30, 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance July 1	\$ 707,053	\$ 303,625
Payments on claims	(127,411)	(27,520)
Expense accruals and changes in estimated settlement costs	(116,877)	430,948
Ending balance June 30	<u>\$ 462,765</u>	<u>\$ 707,053</u>

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

Iowa Public Employees' Retirement System

Last 3 Fiscal Years\*

Required Supplementary Information  
(Unaudited)

	2017	2016	2015
ITG's proportion of the net pension liability	0.017060%	0.016165%	1.878500%
ITG's proportionate share of the net pension liability	\$ 1,063,879	\$ 803,630	\$ 724,910
ITG's covered-employee payroll	\$ 1,066,305	\$ 1,238,533	\$ 1,200,963
ITG's proportionate share of the net pension liability as a percentage share of covered-employee payroll	99.77%	64.89%	58.53%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

\* The amounts presented were determined as of the measurement date, which is one year prior to ITG's fiscal year end.

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

**IOWA TITLE GUARANTY**  
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Schedule of ITG's Contributions  
Iowa Public Employees' Retirement System

Last 6 Fiscal Years\*

Required Supplementary Information  
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 111,998	\$ 95,221	\$ 110,601	\$ 107,246	\$ 92,165	\$ 77,529
Contributions in relation to the statutorily required contribution	<u>(111,998)</u>	<u>(95,221)</u>	<u>(110,601)</u>	<u>(107,246)</u>	<u>(92,165)</u>	<u>(77,529)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ITG's covered-employee payroll	\$ 1,254,177	1,066,305	\$ 1,238,533	\$ 1,200,963	\$ 1,063,033	\$ 960,706
Contribution as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

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

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Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2017

(Unaudited)

***Changes of benefit terms***

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

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

***Changes of assumptions***

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

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.



**Independent Auditors' Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

The Board of Directors  
Iowa Title Guaranty  
Des Moines, 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 Iowa Title Guaranty (ITG) (a Division of Iowa Finance Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise ITG's basic financial statements, and have issued our report thereon dated September 28, 2017.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Aberdeen, South Dakota  
September 28, 2017