



IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Basic Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017, 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 financial position of Iowa Title Guaranty, as of June 30, 2018 and 2017, and the 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 Matters

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, 2018 and 2017, the changes in their financial position, or their 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.

As discussed in Notes 1 and 5 to the financial statements, Iowa Title Guaranty has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. 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, Schedule of Iowa Title Guaranty's Proportionate Share of the Total OPEB Liability, and Notes to Required Supplementary Information on pages 3 through 11 and 32 through 36 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 24, 2018 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 24, 2018

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

Management's discussion and analysis provides an overview of the financial position and results of operations of Iowa Title Guaranty, (ITG) for the fiscal years ended June 30, 2018, 2017 and 2016. 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 \$58.6 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, attorney participants 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 - Unsurpassed."

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

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>2018</u>	<u>2017</u>	<u>2016</u>
Net position:			
Assets and deferred outflows:			
Operating cash	\$ 9,233,813	\$ 8,451,881	\$ 7,677,845
Escrow deposits	708,392	1,954,570	6,135,618
Accounts receivable and other current assets	170,558	181,209	282,810
Noncurrent assets and deferred outflows	395,491	285,748	244,749
Total assets and deferred outflows	<u>10,508,254</u>	<u>10,873,408</u>	<u>14,341,022</u>
Liabilities and deferred inflows:			
Accounts payable and other current liabilities	1,322,127	1,112,335	1,165,443
Escrow obligations	708,392	1,954,570	6,135,618
Reserve for claims	821,501	462,765	707,053
Noncurrent liabilities and deferred inflows	1,512,852	1,126,625	1,011,028
Total liabilities and deferred inflows	<u>4,364,872</u>	<u>4,656,295</u>	<u>9,019,142</u>
Total net position	<u>\$ 6,143,382</u>	<u>\$ 6,217,113</u>	<u>\$ 5,321,880</u>

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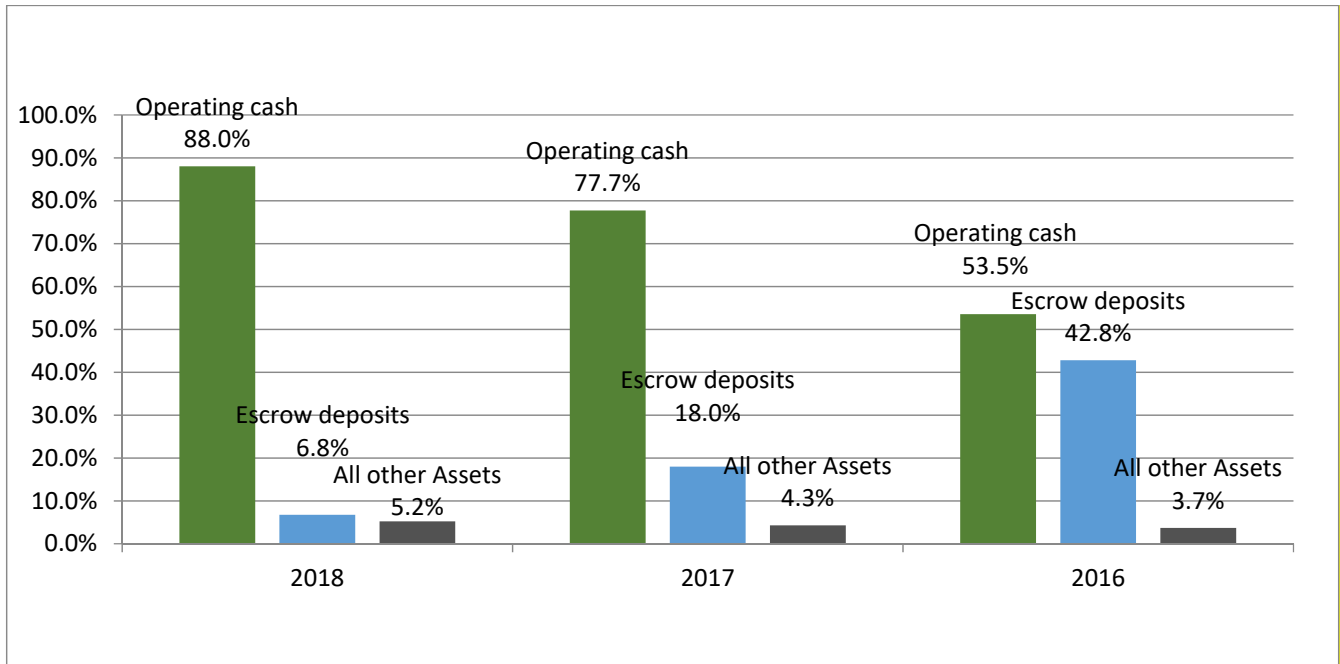
Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues, expenses and changes in net position:			
Operating revenues	\$ 7,830,404	\$ 8,303,046	\$ 7,413,359
Operating expenses	<u>6,508,575</u>	<u>6,053,689</u>	<u>5,906,134</u>
Net operating income	1,321,829	2,249,357	1,507,225
Net position beginning of year, before GASB 75	6,217,113	5,321,880	5,045,008
Adoption of GASB 75	<u>(159,940)</u>	—	—
Net position beginning of year, after GASB 75	6,057,173	5,321,880	5,045,008
Transfers to Housing Assistance Program	<u>(1,235,620)</u>	<u>(1,354,124)</u>	<u>(1,230,353)</u>
Net position end of year	<u>\$ 6,143,382</u>	<u>\$ 6,217,113</u>	<u>\$ 5,321,880</u>

Total Iowa Title Guaranty Assets and Deferred Outflows as of June 30, 2018 - \$10.5 million, June 30, 2017 - \$10.9 million and as of June 30, 2016 - \$14.3 million.

Figure 1- Total Assets and Deferred Outflows as of June 30, 2018, 2017 and 2016



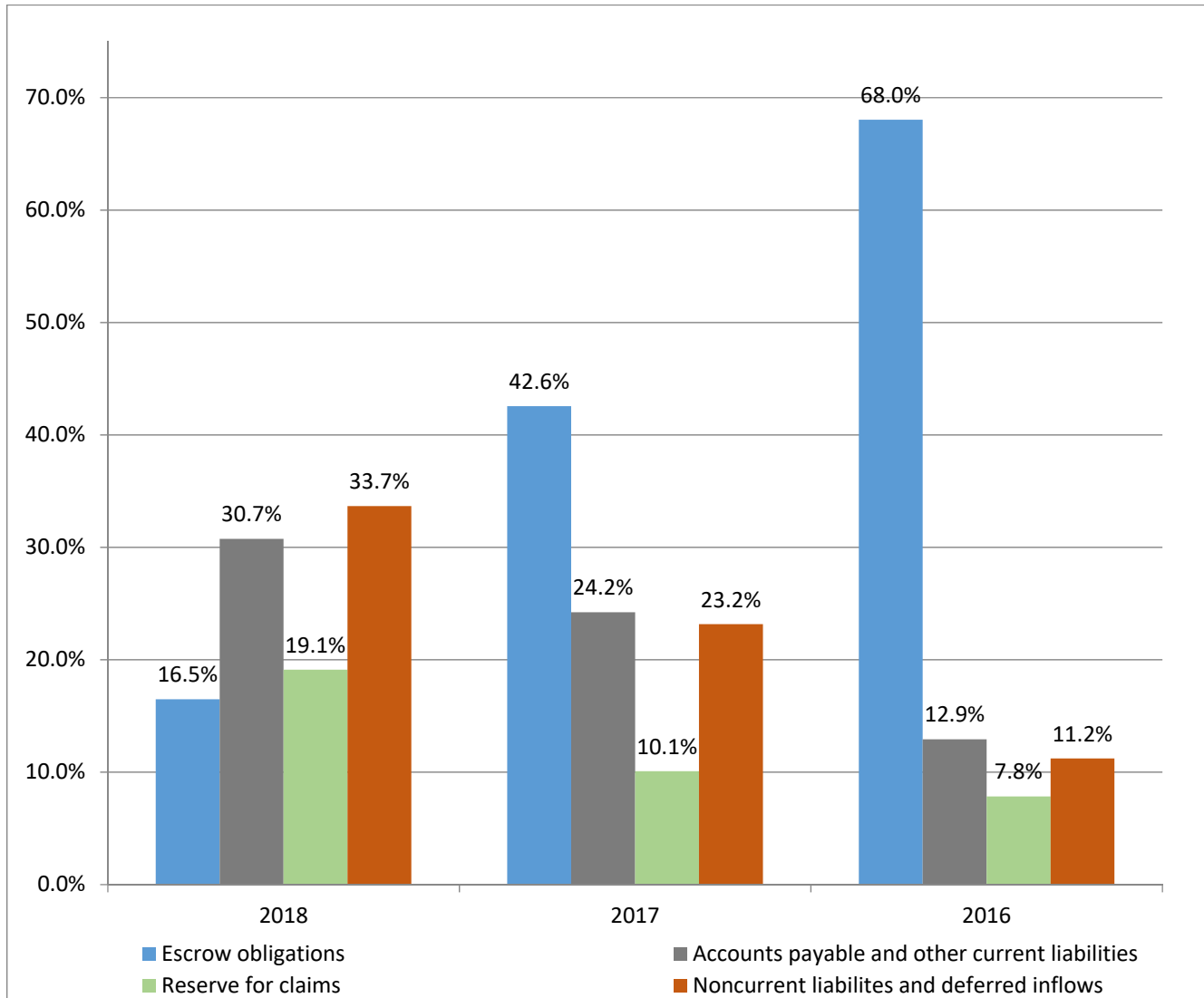
IOWA TITLE GUARANTY
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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

Total Iowa Title Guaranty Liabilities and Deferred Inflows as of June 30, 2018 – \$4.4 million, as of June 30, 2017 - \$4.7 million and as of June 30, 2016 - \$9.0 million.

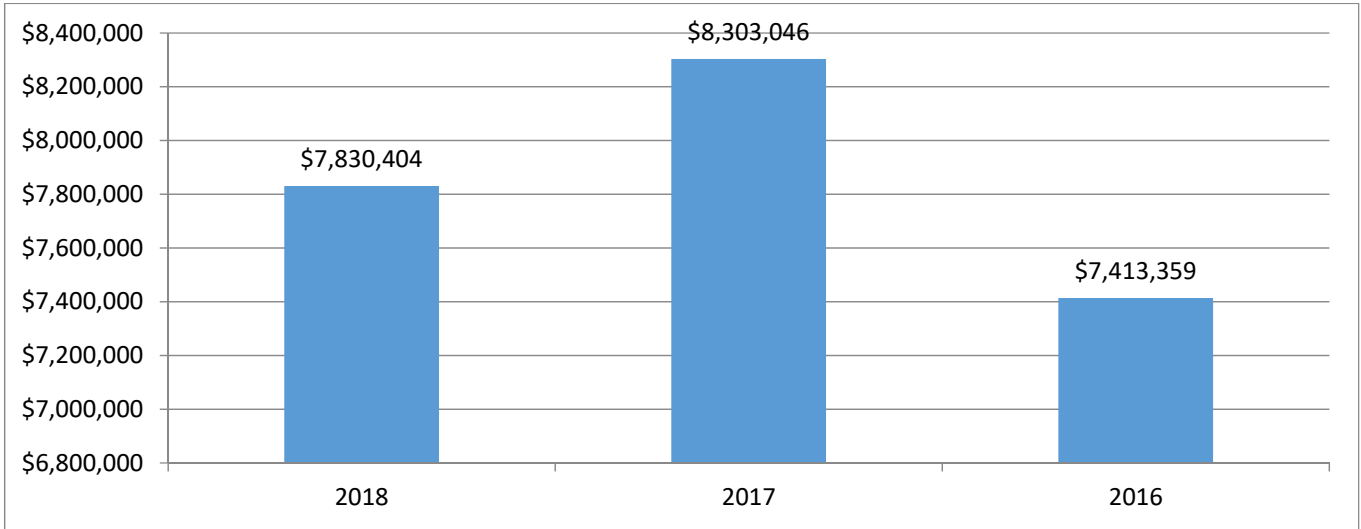
Figure 2 - Total Liabilities and Deferred Inflows as of June 30, 2018, 2017 and 2016



IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)
Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

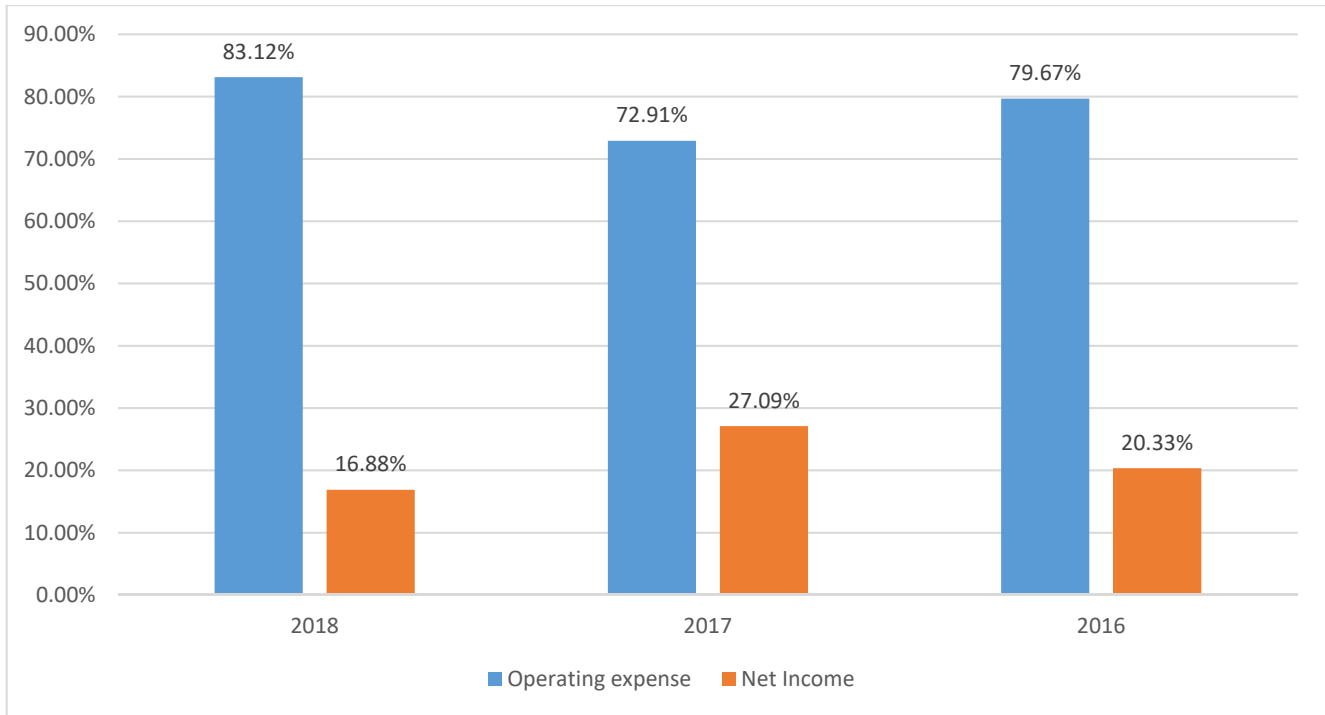
Figure 3 - Total Operating Revenue Trends Fiscal Years Ended June 30, 2018, 2017 and 2016



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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

Figure 4 - Operating Expenses and Net Income % of Total Operating Revenues Fiscal Years Ended June 30, 2018, 2017 and 2016



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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

Financial Analysis

1. At June 30, 2018 ITG's operating cash is \$9.2 million, an increase of \$0.7 million compared to the June 30, 2017 balance of \$8.5 million. Title guaranty operations generated \$2.0 million in operating cash during fiscal year 2018. ITG transferred \$1.2 million from its operating cash to the Iowa Housing Assistance Program during the fiscal year ending June 30, 2018. During fiscal year ended June 30, 2017 ITG's operating cash increased \$0.8 million compared to the June 30, 2016 balance of \$7.7. ITG operating activities generated \$2.1 million of operating cash and ITG transferred \$1.4 from its operating cash to the Iowa Housing Assistance Program during the fiscal year ending June 30, 2017.
2. Operating cash, funds ITG has available to pay all claims, reserves and administrative costs, total \$9.2 million at June 30, 2018, \$8.5 million at June 30, 2017 and \$7.7 million at June 30, 2016. The operating cash balances represent 4.3 times ITG's accounts payable, other current liabilities and reserves for claims at June 30, 2018 and 5.4 times and 4.1 times at June 30, 2017 and June 30, 2016, respectively.
3. Escrow deposits are \$0.7 million at June 30, 2018 and \$2.0 million and \$6.1 million at June 30, 2017 and 2016, respectively. Escrow deposit balances vary due to timing of the receipt of project deposits and settlement of project obligations.
4. Net position is \$6.1 million at June 30, 2018, a decrease of \$0.1 million compared to net position at June 30, 2017. The Net operating income of \$1.3 million during the fiscal year was offset by the transfer of \$1.2 million to the Iowa Housing Assistance Program and a reduction of \$0.2 million for the effect of adopting of an accounting standard related to retiree employee benefits. Net position was \$5.3 million at June 30, 2016 and increased to \$6.2 million at June 30, 2017 when ITG generated \$2.2 million of net operating income and transferred \$1.4 million to the Iowa Housing Assistance Program.
5. Operating revenues are \$7.8 million for the year ended June 30, 2018, a decrease of \$0.5 million compared to fiscal year 2017 when revenues were \$8.3 million and an increase of \$0.4 million compared to fiscal year 2016 when revenues were \$7.4 million. Title guaranty transactions and coverage volume during fiscal years 2018, 2017 and 2016 are as follows:

	Number of transactions			Coverage volume		
	2018	2017	2016	2018	2017	2016
Purchase	36,640	35,526	33,954	\$ 5,974,249,461	\$ 5,695,484,950	\$ 5,333,607,068
Refinance	18,294	26,330	20,962	2,919,167,577	4,421,120,380	3,285,137,961
Other	28,937	24,218	22,723	6,294,649,224	4,846,614,370	4,831,977,278
Total	83,871	86,074	77,639	\$ 15,188,066,262	\$14,963,219,700	\$ 13,450,722,307

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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

6. Operating expenses are \$6.5 million in the year ended June 30, 2018 and \$6.1 million and \$5.9 million in the years ended June 30, 2017 and 2016, respectively.
 - a. Operating expenses increased \$0.4 million in FY 2018 compared to FY 2017 due to:
 - i. Guaranty issuing expenses paid to field participants decreased \$0.4 million in FY 2018 compared to FY 2017 due to lower title guaranty fee revenue. Guaranty issuing expenses represent 41.9% and 44.5% of title guaranty fee revenues in the years ending June 30, 2018 and 2017, respectively. The decrease in guaranty issuing expense as a percent of title fee revenue in 2018 is due to a higher mix of purchase business in 2018 compared to 2017.
 - ii. Claim losses (income) and expenses increased \$0.6 million during the fiscal year ending June 30, 2018 compared to FY 2017. Claim losses and expenses are \$0.5 million in FY 2018 while claims activities produced income of \$0.1 million in FY 2017. During FY 2018 ITG increased its claim reserves, estimated incurred but not reported reserves and estimate allocated loss adjusting expense in response to an uptick in claims activity. During FY 2017, ITG settled certain known claims favorably and reduced its estimated incurred but not reported reserves accordingly.
 - iii. Salaries, wages and related expenses are \$2.2 million in FY 2018, an increase of \$0.1 million compared to FY 2017. The increase is due to the timing of filling administrative staff vacancies, increased pension expense and merit salary increases.
 - iv. Other operating and general expenses increased \$0.1 million, from \$0.6 million in FY 2017 to \$0.7 million in FY 2018. The increase is due to increase insurance expense as ITG obtained additional liability coverage during FY 2018.
 - b. 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 increase and decrease with title guaranty fee revenues and represent 44.5% and 41.0% of title guaranty fee revenues in 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 ongoing low cost of claims activity.

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Management's Discussion and Analysis (Unaudited)

June 30, 2018, 2017 and 2016

- 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.
- 7. Net operating income for the fiscal year ended June 30, 2018 is \$1.3 million compared to \$2.2 million for the fiscal year ended June 30, 2017, and \$1.5 million for the fiscal year ended June 30, 2016.
- 8. Operating ratio is 83.0% for the fiscal year ended June 30, 2018, 72.9% for the fiscal year ended June 30, 2017 and 79.7% for the fiscal year ended June 30, 2016.

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.

Requests for Information

This financial report is intended to provide an overview of Iowa Title Guaranty's Finances. Questions concerning the information provided or requests for additional financial information should be addressed to:

Iowa Title Guaranty
Attention: ITG Controller
2015 Grand Avenue
Des Moines, IA 50312

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Operating cash	\$ 9,233,813	\$ 8,451,881
Escrow deposits	708,392	1,954,570
Accounts receivable, net of allowance for doubtful accounts of \$16,846 at June 30, 2018 and 2017	124,583	151,185
Other current assets	45,975	30,024
Total current assets	10,112,763	10,587,660
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,311	2,645
Total assets	10,115,074	10,590,305
Deferred Outflows		
Pension and OPEB plans	393,180	283,103
Total Assets and Deferred Outflows	10,508,254	10,873,408
Liabilities		
Current liabilities:		
Accounts payable and other liabilities	1,174,505	1,030,827
Accounts payable to Iowa Finance Authority	147,622	81,508
Escrow obligations	708,392	1,954,570
Reserves for claims, current	189,578	110,715
Total current liabilities	2,220,097	3,177,620
Noncurrent Liabilities:		
Reserves for claims	631,923	352,050
Other liabilities	1,447,710	1,063,879
Total noncurrent liabilities	2,079,633	1,415,929
Total liabilities	4,299,730	4,593,549
Deferred Inflows		
Pension and OPEB plans	65,142	62,746
Total Liabilities and Deferred Inflows	4,364,872	4,656,295
Net Position		
Net investment in capital assets	2,311	2,645
Restricted net position:		
Per legislation	6,141,071	6,214,468
Total net position	\$ 6,143,382	\$ 6,217,113

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2018 and 2017

Revenues:	<u>2018</u>	<u>2017</u>
Title guaranty fees	\$ 7,344,657	\$ 7,838,900
Escrow fees	200,313	206,611
Other income	<u>285,434</u>	<u>257,535</u>
Total revenues	<u>7,830,404</u>	<u>8,303,046</u>
Expenses:		
Salaries, wages, and related expenses	2,211,108	2,094,456
Guaranty issuing expenses	3,077,390	3,485,353
Other operating and general expenses	706,481	590,757
Claim (income) losses and expenses	<u>513,596</u>	<u>(116,877)</u>
Total operating expenses	<u>6,508,575</u>	<u>6,053,689</u>
Net operating income	1,321,829	2,249,357
Net position balance beginning of year, before GASB 75	6,217,113	5,321,880
Adoption of GASB 75	<u>(159,940)</u>	<u>-</u>
Net position beginning of year, after GASB 75	6,057,173	5,321,880
Transfers to Iowa Housing Assistance Program	<u>(1,235,620)</u>	<u>(1,354,124)</u>
Net Position balance end of year	<u>\$ 6,143,382</u>	<u>\$ 6,217,113</u>

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts for premiums and other income	\$ 7,997,590	\$ 8,499,122
Cash payments for salaries and related benefits	(2,106,898)	(1,968,687)
Cash receipts (payments) for claims, losses and settlement expenses	(154,860)	(127,411)
Cash receipts (payments) for escrow settlements	(1,246,178)	(4,181,048)
Cash payments to suppliers	(3,718,280)	(4,274,864)
Net cash provided by (used in) by operating activities	771,374	(2,052,888)
 Cash flows from noncapital financing activities:		
Transfers to Iowa Housing Assistance Program	(1,235,620)	(1,354,124)
Net cash used in financing activities	(1,235,620)	(1,354,124)
Net increase (decrease) in cash and cash equivalents	(464,246)	(3,407,012)
Cash and cash equivalents at beginning of year	10,406,451	13,813,463
Cash and cash equivalents at end of year	\$ 9,942,205	\$ 10,406,451
Cash and cash equivalents consist of:		
Operating cash	\$ 9,233,813	\$ 8,451,881
Escrow deposits	708,392	1,954,570
	\$ 9,942,205	\$ 10,406,451
 Reconciliation of operating income to net cash provided by (used in) operating activities:		
Net operating income	\$ 1,321,829	\$ 2,249,357
Depreciation and amortization	334	334
Increase in other assets	(15,951)	(1,199)
Decrease in accounts receivable	26,602	102,800
Change in pension liability, net of pension related deferred inflows and outflows	103,670	74,264
Change in OPEB liability, net of OPEB related deferred inflows and outflows	12,540	-
Decrease in accounts payable and other liabilities	(677,650)	(4,478,444)
Net cash provided by (used in) operating activities	\$ 771,374	\$ (2,052,888)

IOWA TITLE GUARANTY
(A Division of Iowa Finance Authority)

Notes to Basic Financial Statements

June 30, 2018 and 2017

(1) 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 an ITG 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, 2018. Iowa Title Guaranty's ten largest customers generated 28.8% of its total revenue during fiscal year 2018 compared to 32.1% during fiscal year 2017. No one single customer generated at least 10% of total revenues during fiscal year 2018 or 2017. 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 the portion of the business type activities of the Authority attributable to transactions of ITG.

IOWA TITLE GUARANTY
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Notes to Basic Financial Statements

June 30, 2018 and 2017

(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, customer payments held in a bank and escrow deposits.

(f) Cash Held for Escrow Deposits and Escrow Obligations

ITG administers escrow deposits as a service to its customers. Cash held for escrow totaled \$708,392 at June 30, 2018 and \$1,954,570 at June 30, 2017. 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 \$189,518 at June 30, 2018 and are reported on the statement of net position as reserves for claims, current. Estimated incurred but not reported claims are \$631,923 at June 30, 2018 and are reported as reserves for claims on the statement of net position. At June 30, 2017 estimated known claims and incurred but not reported claims were \$110,715 and \$352,050, 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 selects its best estimate of the total amount of the claims reserve requirement.

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(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, 2018 and June 30, 2017.

(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.

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(l) Adoption of New Accounting Standard - Postemployment Benefits Other Than Pensions (OPEB)

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), as amended, and No. 57, *OPEB Measurements By Agent Employers and Agent Multiple-Employer Plans, for OPEB*.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This Statement requires employers to recognize OPEB amounts for all benefits provided through the plan which include the total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense and including additional note disclosures (see Note 5) and required supplementary information. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

As of July 1, 2017, ITG adopted GASB 75 and beginning net position for ITG was restated to retroactively report the beginning total OPEB liability as follows:

Net position June 30, 2017 as previously reported	\$ 6,217,113
Total OPEB liability at June 30, 2017	<u>(159,940)</u>
Net Position July 1, 2017, as restated	<u><u>\$ 6,057,173</u></u>

(m) 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.

(n) 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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(o) Restricted Assets

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

(p) 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.

(q) Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation. Such reclassifications had no effect on net position or change in net position.

(2) Deposits and Investments

At June 30, 2018 and 2017, ITG has deposits and investments as follows:

	2018	2017
Customer payments held in a bank	\$ 1,301,296	\$ 1,050,967
Monies held in a bank for escrow obligations	708,392	1,954,570
Cash in State Treasurer's pooled money account	7,932,517	7,400,914
Total cash and cash equivalents	<u>\$ 9,942,205</u>	<u>\$ 10,406,451</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, 2018 and 2017. 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.

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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.

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 ITG employees housed at the Authority. For the years ended June 30, 2018 and 2017, ITG incurred \$161,621 and \$158,079, 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, 2018 and 2017, ITG had balances due to the Authority of \$147,622 and \$81,508, respectively. ITG paid the June 30, 2018 balance due on July 19, 2018 and the June 30, 2017 balance due on July 27, 2017.

(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.

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.

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(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, any time 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.)

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

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Amortization Method adopted by the Investment Board. In fiscal year 2018, 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 contributions to IPERS for the years ending June 30, 2018, 2017 and 2016 were \$122,821, \$111,998 and \$95,221, respectively.

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

At June 30, 2018 and June 30, 2017, ITG reported a liability of \$1,258,730 and \$1,063,879, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2017, ITG's collective proportion was 0.0190628 percent, an increase of 0.002004 percent from its proportion measured as of June 30, 2016. At June 30, 2016, ITG's collective proportion was 0.0170596 percent, an increase of 0.000895 percent from its proportion measured as of June 30, 2015.

For the years ended June 30, 2018 and June 30, 2017, ITG recognized pension expense of \$103,670 and \$74,264, respectively. At June 30, 2018, 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	\$ 11,556	\$ 10,906
Changes of assumptions	218,710	—
Net difference between projected and actual earnings on pension plan investments	—	13,147
Changes in proportion and differences between ITG contributions and proportionate share of contributions	22,713	40,209
ITG contributions subsequent to the measurement date	<u>122,821</u>	<u>—</u>
Total	<u>\$ 375,800</u>	<u>\$ 64,262</u>

The \$122,821 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, 2019.

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of June 30, 2018 will be recognized in pension expense as follows:

	Year ended June 30
2019	\$ 19,834
2020	88,349
2021	53,756
2022	10,047
2023	16,731
Total	\$ 188,717

At June 30, 2017, ITG reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
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	111,998	—
Total	\$ 283,103	\$ 62,746

The \$111,998 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, 2018.

There were no non-employer contributing entities at IPERS.

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(f) Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increase (effective June 30, 2017)	3.25% to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 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 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:

	<u>Asset allocation</u>	<u>Long-term expected real rate of return</u>	
Asset class:			
Domestic Equity	24.0%	6.25	%
International Equity	16.0%	6.71	
Core plus fixed income	27.0%	2.25	
Public credit	3.5%	3.46	
Public real assets	7.0%	3.27	
Cash	1.0%	(0.31)	
Private equity	11.0%	11.15	
Private real assets	7.5%	4.18	
Private credit	3.0%	4.25	
Total	<u>100.0%</u>		

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(g) Discount Rate

The discount rate used to measure the total pension liability was 7.0%. 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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	1% Decrease (6.0%)	Discount rate (7.0%)	1% Increase (8.0%)
ITG's proportionate share of the net pension liability	\$ 2,073,883	\$ 1,258,730	\$ 573,846

(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.

(j) Payables to the Pension Plan

At June 30, 2018 and June 30, 2017, ITG had remitted all of its legally required employer or employee contributions due to IPERS.

(5) Other Post-Employment Benefits (OPEB)

(a) Plan Description

ITG's employees are provided with OPEB through the State of Iowa Postretirement Medical Plan, a cost-sharing multiple-employer defined benefit OPEB plan administered by the State of Iowa. The State of Iowa provides access to postretirement medical benefits to all retirees as required by Chapter 509A.13 of the Code of Iowa. Although the retirees generally must pay 100% of the premium rate, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), requires that employers recognize the Implicit Rate Subsidy that exists in postretirement medical plans provided by governmental employers.

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The Implicit Rate Subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate higher claims on average than active participants. When a medical plan is self-insured or fully insured through a third-party administrator, a premium is usually determined by analyzing the claims of the entire population in the plan and adjusting for administrative costs. The resulting premium is called a blended premium because it blends the claims of active and retired participants. Since individuals generally have more and higher claims as they get older, the blended premium paid for retirees is lower than their expected claims. Another way of considering this is that if the retirees were removed from the plan, the premium for the active group would be lower; therefore, the retirees' premiums are being subsidized by the active group. Since the employer generally pays a large portion or all of the premiums for the active group, this subsidy creates a liability for the employer. The difference between the expected claims for the retiree group and the blended premium is called the Implicit Rate Subsidy.

No plan assets are accumulated in an irrevocable trust or equivalent arrangement that meets the criteria in paragraph 4 of GASB 75.

(b) Plan Membership and Benefits

There are 17,516 active 2,412 retired participants in the Iowa plan. The contribution requirements of the plan participants are established and may be amended by the State Legislature. The State currently offers three plans which are available to participants: Iowa Choice, National Choice and State Police Officers Council. The State of Iowa currently finances the retiree benefit plan on a pay-as-you-go cash basis.

(c) OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, ITG reported a liability of \$188,980 for its proportionate share of the total OPEB liability. The total OPEB liability was based upon an actuarial valuation performed as of January 1, 2018. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2018 using generally accepted actuarial principles. ITG's proportion of the total OPEB liability was based on its proportionate share of the total headcount of active employees and covered spouses enrolled in healthcare coverage. At January 1, 2018, ITG's proportion was 0.101%, which was an increase 10.55% from the prior measurement date.

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For the year ended June 30, 2018, ITG recognized OPEB expense of \$12,540. At June 30, 2018, the Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 880
Changes of assumptions	2,420	-
Change in proportionate share	14,960	-
Total	\$ 17,380	\$ 880

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows):

Year Ending June 30		
2019	\$	2,200
2020		2,200
2021		2,200
2022		2,200
2023		2,200
thereafter		5,500
Total	\$	16,500

(d) Actuarial Assumptions

Rate of inflation (effective June 30, 2017)	2.60 percent per annum
Rate of salary increase (effective June 30, 2017)	3.25 to 14.25 percent average, including inflation Rates vary by membership group
Wage growth (effective June 30, 2017)	3.25 percent per annum, based on 2.60 percent inflation and 0.65 percent real wage inflation
Discount rate (based on the 20-year municipal bond as of January 1, 2018)	3.87% percent
Healthcare cost trend rate (based on industry trends and the SOA Gretzen Model)	6.4% for managed care and 6.6% for non-managed care in 2018, decreasing to an ultimate rate of 4.1% for 2075 and later years
Age of Spouse	Actual age or, if unavailable, males assumed to be 3 years older than females

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

The actuarial assumptions used in the June 30, 2018 valuation are based on the results of the most recent actuarial experience study. The majority of State of Iowa employees are participants in the Iowa Public Employees' Retirement System. For this reason, the individual salary increase, mortality, withdrawal, and retirement assumptions are based on the assumptions used for the Iowa Public Employees' Retirement System (IPERS) actuarial valuation report as of June 30, 2017 (see Note 4). The plan participation assumption and other medical plan specific assumptions are based upon the recent experience of the State of Iowa Postretirement Medical Plan.

Significant changes in assumptions effective with the January 1, 2018 actuarial valuation, include: (1) updates to medical claim costs, premiums, medical trends based on recent experience and industry observations; (2) potential costs associated with the excise tax on "Cadillac Plans" were included; (3) coverage election at retirement assumptions were updated based on recent experience indicating a 5% change from single coverage to family coverage; (4) inflation updated from 3% to 2.6%; and (5) change in discount rate from 4.5% to 3.44%. There were no significant changes in benefit terms.

(e) Changes in OPEB Liability

		Increase (decrease)
Balance at June 30, 2017	\$	159,940
Changes for the year:		
Service cost		13,200
Interest		6,600
Change in assumptions		220
Differences between expected and actual experience		(220)
Change in proportionate share		1,980
Contributions - employer		(9,240)
New deferred outflows		1,540
Deferred outflows due to change in proportionate share		14,960
Net change		29,040
Balance at June 30, 2018	\$	188,980

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(f) Sensitivity of ITG's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate

The proportionate share of the total OPEB liability was calculated using a discount rate of 3.87%, as well as a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the discount rate is presented below:

	1% Decrease 2.87%	Discount Rate 3.87%	1% Increase 4.87%
ITG's proportionate share of the total OPEB liability	\$ 201,740	\$ 188,980	\$ 176,660

(g) Sensitivity of ITG's Proportionate Share of Total OPEB Liability to Changes in the Discount Rate

The proportionate share of the total OPEB liability was calculated using a healthcare trend rate of 6.4% to 6.6% grading down to 4.1%, as well as a trend rate that is 1 percentage point lower (5.4% to 5.6% grading down to 3.1%) and 1 percentage point higher (7.4% to 7.6% grading down to 5.1%) than the current trend rate. The sensitivity of the proportionate share of the total OPEB liability to changes in the healthcare cost trend rate is presented below:

	1% Decrease (5.5% decreasing to 3.1%)	Healthcare Cost Trend Rate (6.5% decreasing to 4.1%)	1% Increase (7.5% decreasing to 5.1%)
ITG's proportionate share of the total OPEB liability	\$ 212,300	\$ 188,980	\$ 169,180

(h) Payables to the OPEB Plan

ITG makes no contributions to Iowa Post-Retirement Medical Plan; therefore, no payments are outstanding as of June 30, 2018.

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(6) Transfers to Iowa Housing Assistance Program

Iowa Title Guaranty and Iowa Finance Boards approved transfers of \$1,150,000 during the year ended June 30, 2018 and \$1,300,000 during the year ended June 30, 2017 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 \$85,620 and \$54,124 during the years ending June 30, 2018 and 2017, respectively, from interest earned on ITG's fund balance with the state treasurer.

(7) 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 \$821,501 and \$462,765 at June 30, 2018 and June 30, 2017, 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, 2018 and June 30, 2017:

	<u>2018</u>	<u>2017</u>
Beginning balance July 1	\$ 462,765	\$ 707,053
Payments on claims	(154,860)	(127,411)
Expense accruals and changes in estimated settlement costs	513,596	(116,877)
Ending balance June 30	<u>\$ 821,501</u>	<u>\$ 462,765</u>

In the ordinary course of its business activities, ITG may be subject to claims or proceedings, including administrative actions involving rights of employees. Management believes any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of ITG.

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The Iowa Finance Authority has engaged a firm to perform a special internal investigation pertaining to sexual harassment claims associated with the termination of its former Executive Director. As a result of this investigation, ITG (a division of Iowa Finance Authority) may be subject to litigation which the financial impact, if any, is not determinable at this time.

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Required Supplementary Information
Year ended June 30, 2018
(Unaudited)

(1) Schedule of ITG's Proportionate Share of the Net Pension Liability

	2018	2017	2016	2015
ITG's proportion of the net pension liability	0.019063%	0.017060%	0.016165%	0.018785%
ITG's proportionate share of the net pension liability	\$ 1,258,730	\$ 1,063,879	\$ 803,630	\$ 724,910
ITG's covered payroll	\$ 1,254,177	\$ 1,066,305	\$ 1,238,533	\$ 1,200,963
ITG's proportionate share of the net pension liability as a percentage share of covered payroll	100.36%	99.77%	64.89%	58.53%
Plan fiduciary net position as a percentage of the total pension liability	82.21%	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, ITG will present information for those years for which information is available.

(2) Schedule for ITG's contributions to the Iowa Public Employees' Retirement System

	2018	2017	2016	2015	2014	2013	2012
Statutorily required contribution	\$ 122,821	\$ 111,998	\$ 95,221	\$ 110,601	\$ 107,246	\$ 92,165	\$ 77,529
Contributions in relation to the statutorily required contribution	(122,821)	(111,998)	(95,221)	(110,601)	(107,246)	(92,165)	(77,529)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
ITG's covered payroll	\$ 1,375,375	\$ 1,254,177	\$ 1,066,305	\$ 1,238,533	\$ 1,200,963	\$ 1,063,033	\$ 960,706
Contribution as a percentage of covered payroll	8.93%	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, ITG will present information for those years for which information is available.

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(3) Schedule of ITG's Proportionate Share of the Total OPEB Liability

	2018	2017
ITG's proportion of the total OPEB liability	0.101%	0.092%
ITG's proportionate share of the total OPEB liability	\$188,980	\$159,940
ITG's covered-employee payroll	\$1,702,360	\$1,690,040
ITG's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	2.44%	2.09%

* The amounts presented for each fiscal year were determined as of the calendar year end that occurred within the fiscal year.

Note: GASB Statement 75 requires 10 years of information to be presented in this table. However, until a full ten-year trend is compiled, ITG will present information for those years for which information is available.

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Notes to Required Supplementary Information

Year ended June 30, 2018

(Unaudited)

(1) Pension - 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.

(2) Pension - Changes of assumptions

The 2017 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.00 percent to 2.60 percent per year
- Decreased the assumed rate of interest on member accounts from 3.75 percent to 3.50 percent per year.
- Decreased the long-term rate of return assumption from 7.50 percent to 7.00 percent per year.
- Decreased the wage growth and payroll growth assumption from 4.00 percent to 3.25 percent per year.

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent per year
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent 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.

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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.

The 2007 valuation adjusted the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

(3) OPEB Funding:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

(4) OPEB Change of benefit terms:

There were no significant changes in benefit terms.

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Notes to Required Supplementary Information

Year ended June 30, 2018

(Unaudited)

(5) OPEB Changes of assumptions and demographic experience:

Effective with the January 1, 2018 actuarial valuation, the following methodology and assumption changes were made:

- Medical claim costs and premiums were updated on recent experience.
- Annual medical trends were updated on industry observations and the current SOA-Gretzen model.
- The potential cost associated with the excise tax on “Cadillac Plans” effective 2022 due to the implementation of the {Patient Protection and Affordable Care Act (“PPACA”) were included; the effective date was updated from 2018 to 2022 due to recent legislative changes to further delay the implementation of the excise tax.
- The coverage election at retirement assumption was updated based on recent experience of the plan, 65% of active members are assumed to elect single coverage at retirement and 35% are assumed to elect family coverage. The prior valuation assumed 70% and 30%, respectively.
- The salary scale was updated to be consistent with the assumption used for “State Employees” in the June 30, 2017 IPERS actuarial valuation.
- The future expectation of inflation was updated from 3.00% to 2.60% to be consistent with the assumption used in the June 30, 2017 IPERS actuarial valuation.
- The discount rate methodology was updated based on a 20-year municipal bond yield as of January 1, 2018. This resulted in a change in the discount rate from 4.5% to 3.44%.

Demographic experience – Effective January 1, 2018 the three State Universities (University of Iowa, Iowa State University, and University of Northern Iowa) were no longer covered under the Plan. The active and retired members of each university are covered separately. Due to this, the Plan experienced a reduction in liability of approximately \$40 million. After adjusting for the universities no longer covered by the Plan, The Plan experienced a small actuarial liability loss of approximately \$0.2 million during the year. This small loss was primarily due to an increase in the number of inactive participants, offset by fewer than expected covered participants and a reduction in the average age of covered active participants of approximately one year.



**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, 2018, and the related notes to the financial statements, which collectively comprise ITG's basic financial statements, and have issued our report thereon dated September 24, 2018.

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 opinion 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 Bailly LLP".

Aberdeen, South Dakota
September 24, 2018