IOWA STATE ASSOCIATION OF COUNTIES

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2006 AND 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Iowa State Association of Counties

We have audited the accompanying statements of financial position of the Iowa State Association of Counties as of June 30, 2006 and 2005, and the related statements of activities, program activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa State Association of Counties as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 31, 2006, on our consideration of the Iowa State Association of Counties' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit of the basic financial statements as of and for the year ended June 30, 2006, was made primarily to form an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on page 14 is presented for the purposes of additional analysis and, although not required for a fair presentation of the financial position and changes in net assets, was subjected to the audit procedures applied in the audit of the basic financial statements. In our opinion, the supplemental information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

McGowen, Hurst, Clark & Smith, P.C.

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August 31, 2006

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IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

	Iowa State Association of Counties			Electronic Transactions		
	Association Activities	Program Activities	Total	Clearinghouse	Eliminations	Total
Cash and cash equivalents	$ 337,349	$ 2,165,945	$ 2,503,294	$ 1,316	$ -	$ 2,504,610
Investments	846,056	17,891,144	18,737,200	-	-	18,737,200
Accounts receivable	99,524	96,245	195,769	-	(36,494)	159,275
Due from Wellmark	-	67,723	67,723	-	-	67,723
Interest receivable	6,172	152,324	158,496	-	-	158,496
Property and equipment, net of accumulated depreciation of $206,306	68,070	-	68,070	2,300	-	70,370
TOTAL ASSETS	$ 1,357,171	$ 20,373,381	$ 21,730,552	$ 3,616	$ (36,494)	$ 21,697,674
Accounts payable and accrued liabilities	$ 16,857	$ 112,134	$ 128,991	$ 36,494	$ (36,494)	$ 128,991
Funds held for benefit of members	-	20,086,282	20,086,282	-	-	20,086,282
Unearned premium revenue	-	174,965	174,965	-	-	174,965
Compensated absences	107,199	-	107,199	-	-	107,199
TOTAL LIABILITIES	124,056	20,373,381	20,497,437	36,494	(36,494)	20,497,437
NET ASSETS	1,233,115	-	1,233,115	(32,878)	-	1,200,237
TOTAL LIABILITIES AND NET ASSETS	$ 1,357,171	$ 20,373,381	$ 21,730,552	$ 3,616	$ (36,494)	$ 21,697,674

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

	Iowa State Association of Counties			Electronic Transactions Clearinghouse		
	Association Activities	Program Activities	Total		Eliminations	Total
Cash and cash equivalents	$ 370,212	$ 853,893	$ 1,224,105	$ 33,827	$ -	$ 1,257,932
Investments	726,011	16,279,042	17,005,053	-	-	17,005,053
Accounts receivable	57,113	89,518	146,631	-	(17,050)	129,581
Due from Wellmark	-	566,455	566,455	-	-	566,455
Interest receivable	4,503	79,808	84,311	-	-	84,311
Property and equipment, net of accumulated depreciation of $165,710	81,315	-	81,315	15,384	-	96,699
TOTAL ASSETS	$ 1,239,154	$ 17,868,716	$ 19,107,870	$ 49,211	$ (17,050)	$ 19,140,031
Accounts payable and accrued liabilities	$ 12,896	$ 60,882	$ 73,778	$ 17,050	$ (17,050)	$ 73,778
Funds held for benefit of members	-	17,636,491	17,636,491	-	-	17,636,491
Unearned premium revenue	-	171,343	171,343	-	-	171,343
Compensated absences	93,867	-	93,867	-	-	93,867
TOTAL LIABILITIES	106,763	17,868,716	17,975,479	17,050	(17,050)	17,975,479
NET ASSETS	1,132,391	-	1,132,391	32,161	-	1,164,552
TOTAL LIABILITIES AND NET ASSETS	$ 1,239,154	$ 17,868,716	$ 19,107,870	$ 49,211	$ (17,050)	$ 19,140,031

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Iowa State Association of Counties			
	Association Activities		Program	
	Budget	Actual	Activities	Total
REVENUE				
Schools, workshops, committees & seminars	$ 239,700	$ 245,956	$ -	$ 245,956
Contributions	-	-	25,764	25,764
Grants	-	-	-	-
Dues	456,650	460,735	-	460,735
Royalties	192,400	239,913	-	239,913
Investment income	8,000	37,356	508,768	546,124
Magazine advertising and subscriptions	38,600	44,918	-	44,918
Administration fees	735,576	758,066	-	758,066
County premiums	-	-	17,413,340	17,413,340
Miscellaneous	-	16,140	-	16,140
Total Revenues	1,670,926	1,803,084	17,947,872	19,750,956
EXPENSES				
Salaries and fringe benefits	1,289,968	1,155,229	-	1,155,229
Schools, workshops and meetings	94,500	107,063	-	107,063
Board of Directors' meeting expenses	21,000	30,089	-	30,089
Other board authorized expense	5,000	2,614	-	2,614
NACO conference	15,000	7,417	-	7,417
Staff travel and training	55,000	63,309	-	63,309
Public relations	4,000	1,610	-	1,610
Consulting/professional services	39,500	11,689	-	11,689
Rents and utilities	152,189	138,889	-	138,889
Supplies, printing and postage	31,500	37,020	-	37,020
Computer supplies	10,000	4,851	-	4,851
Equipment rental and repair	4,000	3,222	-	3,222
Depreciation expense	-	28,037	-	28,037
Maintenance agreements	18,000	18,017	-	18,017
Professional membership	3,000	3,129	-	3,129
Library	9,000	7,706	-	7,706
Magazine	34,000	39,719	-	39,719
Insurance and bonds	14,000	13,771	-	13,771
Acquisition of property and equipment	15,000	-	-	-
Miscellaneous	1,000	28,911	136,043	164,954
Scholarships	-	-	34,450	34,450
Claims and premiums paid	-	-	14,989,095	14,989,095
Administration	-	-	260,857	260,857
Wellness program	-	-	77,636	77,636
Project management and development	-	-	-	-
Total Expenses	1,815,657	1,702,292	15,498,081	17,200,373
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	$ 2,449,791	2,449,791
INCREASE (DECREASE) IN NET ASSETS	$ (144,731)	100,792		100,792
NET ASSETS, BEGINNING OF YEAR		1,132,323		1,132,323
NET ASSETS, END OF YEAR		$ 1,233,115		$ 1,233,115

The accompanying notes are an integral part of these financial statements.

Electronic Transactions Clearinghouse	Eliminations	Total	*Prior Year Total*
$ -	$ -	$ 245,956	*$ 257,199*
-	-	25,764	60,344
-	-	-	80,000
-	-	460,735	441,359
-	-	239,913	190,515
311	-	546,435	306,648
-	-	44,918	34,716
-	(4,944)	753,122	688,813
-	-	17,413,340	18,556,810
-	-	16,140	12,471
311	(4,944)	19,746,323	*20,628,875*
-	-	1,155,229	*1,051,070*
-	-	107,063	*120,673*
-	-	30,089	*27,449*
-	-	2,614	*3,550*
-	-	7,417	*19,466*
-	-	63,309	*53,615*
-	-	1,610	*4,336*
-	-	11,689	*9,866*
-	-	138,889	*140,737*
-	-	37,020	*22,483*
-	-	4,851	*2,000*
-	-	3,222	*3,852*
13,084	-	41,121	*44,599*
-	-	18,017	*15,234*
-	-	3,129	*3,533*
-	-	7,706	*7,776*
-	-	39,719	*31,552*
-	-	13,771	*12,096*
-	-	-	-
271	-	165,225	*149,309*
-	-	34,450	*12,050*
-	-	14,989,095	*15,591,113*
8,494	(4,944)	264,407	*280,573*
-	-	77,636	*89,392*
43,502	-	43,502	*44,687*
65,351	(4,944)	17,260,780	*17,741,011*
-		2,449,791	*2,789,605*
(65,040)		35,752	*98,259*
32,162		1,164,485	*1,066,226*
$ (32,878)		$ 1,200,237	*$ 1,164,485*

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Iowa State Association of Counties			
	Association Activities		Program	
REVENUE	Budget	Actual	Activities	Total
Schools, workshops, committees & seminars	$ 213,700	$ 257,199	$ -	$ 257,199
Contributions	-	-	60,344	60,344
Grants	-	80,000	-	80,000
Dues	426,850	441,359	-	441,359
Royalties	176,000	190,515	-	190,515
Investment income	8,000	20,224	285,967	306,191
Magazine advertising and subscriptions	44,100	34,716	-	34,716
Administration fees	669,043	692,377	-	692,377
County premiums	-	-	18,556,810	18,556,810
Miscellaneous	-	12,374	-	12,374
Total Revenues	1,537,693	1,728,764	18,903,121	20,631,885
EXPENSES				
Salaries and fringe benefits	1,074,308	1,051,070	-	1,051,070
Schools, workshops and meetings	84,500	120,673	-	120,673
Board of Directors' meeting expenses	20,500	27,449	-	27,449
Other board authorized expense	5,000	3,550	-	3,550
NACO conference	25,000	19,466	-	19,466
Staff travel and training	50,000	53,615	-	53,615
Public relations	4,000	4,336	-	4,336
Consulting/professional services	15,500	9,866	-	9,866
Rents and utilities	146,852	140,737	-	140,737
Supplies, printing and postage	38,500	22,483	-	22,483
Computer supplies	10,000	2,000	-	2,000
Equipment rental and repair	4,000	3,852	-	3,852
Depreciation expense	-	31,461	-	31,461
Maintenance agreements	17,800	15,234	-	15,234
Professional membership	3,000	3,533	-	3,533
Library	9,000	7,776	-	7,776
Magazine	34,000	31,552	-	31,552
Insurance and bonds	13,000	12,096	-	12,096
Acquisition of property and equipment	15,000	-	-	-
Miscellaneous	1,000	4,601	143,888	148,489
Scholarships	-	-	12,050	12,050
Claims and premiums paid	-	-	15,591,113	15,591,113
Administration	-	-	277,073	277,073
Wellness program	-	-	89,392	89,392
Project management and development	-	-	-	-
Total Expenses	1,570,960	1,565,350	16,113,516	17,678,866
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	$ 2,789,605	2,789,605
INCREASE (DECREASE) IN NET ASSETS	$ (33,267)	163,414		163,414
NET ASSETS, BEGINNING OF YEAR		968,909		968,909
NET ASSETS, END OF YEAR		$ 1,132,323		$ 1,132,323

The accompanying notes are an integral part of these financial statements.

Electronic Transactions Clearinghouse	Eliminations	Total
$ -	$ -	$ 257,199
-	-	60,344
-	-	80,000
-	-	441,359
-	-	190,515
457	-	306,648
-	-	34,716
-	(3,564)	688,813
-	-	18,556,810
97	-	12,471
554	(3,564)	20,628,875
-	-	1,051,070
-	-	120,673
-	-	27,449
-	-	3,550
-	-	19,466
-	-	53,615
-	-	4,336
-	-	9,866
-	-	140,737
-	-	22,483
-	-	2,000
-	-	3,852
13,138	-	44,599
-	-	15,234
-	-	3,533
-	-	7,776
-	-	31,552
-	-	12,096
-	-	-
820	-	149,309
-	-	12,050
-	-	15,591,113
7,064	(3,564)	280,573
-	-	89,392
44,687	-	44,687
65,709	(3,564)	17,741,011
-		2,789,605
(65,155)		98,259
97,317		1,066,226
$ 32,162		$ 1,164,485

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005

Year Ended June 30, 2006

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Contributions	$ -	$ -	$ -
Investment income	459,549	1,157	46,277
County premiums	17,043,699	136,473	233,168
Total Revenues	17,503,248	137,630	279,445
EXPENSES			
Miscellaneous	132,867	435	244
Scholarships	-	-	-
Claims and premiums paid	14,686,940	126,868	175,287
Administration	242,636	10,287	7,934
Wellness program	77,636	-	-
Total Expenses	15,140,079	137,590	183,465
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	2,363,169	40	95,980
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	15,797,919	32,971	1,737,945
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	$ 18,161,088	$ 33,011	$ 1,833,925

Year Ended June 30, 2005

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Contributions	$ -	$ -	$ -
Investment income	251,810	451	33,192
County premiums	18,179,049	123,935	253,826
Total Revenues	18,430,859	124,386	287,018
EXPENSES			
Miscellaneous	126,919	497	81
Scholarships	-	-	-
Claims and premiums paid	15,299,480	124,563	167,070
Administration	242,704	10,071	24,298
Wellness program	89,392	-	-
Total Expenses	15,758,495	135,131	191,449
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	2,672,364	(10,745)	95,569
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	13,125,555	43,716	1,642,376
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	$ 15,797,919	$ 32,971	$ 1,737,945

The accompany notes are an integral part of these financial statements.

Multi-County Service Agency Fund	Scholarship Fund	Total Program Activities
$ -	$ 25,764	$ 25,764
-	1,785	508,768
-	-	17,413,340
-	27,549	17,947,872
-	2,497	136,043
-	34,450	34,450
-	-	14,989,095
-	-	260,857
-	-	77,636
-	36,947	15,498,081
-	(9,398)	2,449,791
5,130	62,526	17,636,491
$ 5,130	$ 53,128	$ 20,086,282

Multi-County Service Agency Fund	Scholarship Fund	Total Program Activities
$ -	$ 60,344	$ 60,344
-	514	285,967
-	-	18,556,810
-	60,858	18,903,121
-	16,391	143,888
-	12,050	12,050
-	-	15,591,113
-	-	277,073
-	-	89,392
-	28,441	16,113,516
-	32,417	2,789,605
5,130	30,109	14,846,886
$ 5,130	$ 62,526	$ 17,636,491

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 35,752	$ 98,259
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	41,121	44,599
Realized and unrealized losses on investments	96,496	80,870
Change in:		
Receivables	469,038	(55,360)
Interest receivable	(74,185)	35,345
Accounts payable and accrued liabilities	55,213	21,831
Funds held for benefit of members	2,449,791	2,789,605
Unearned premium revenue	3,622	171,343
Compensated absences	13,332	10,218
Net cash provided by operating activities	3,090,180	3,196,710
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(14,858)	(8,643)
Proceeds from maturities and sales of investments	7,584,587	8,154,125
Purchases of investments	(9,413,231)	(11,783,356)
Net cash used by investing activities	(1,843,502)	(3,637,874)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,246,678	(441,164)
CASH AND CASH EQUIVALENTS, beginning of year	1,257,932	1,699,096
CASH AND CASH EQUIVALENTS, end of year	$ 2,504,610	$ 1,257,932

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Iowa State Association of Counties ("Association") was established in 1968 as a perpetual, non-profit corporation under the provisions of Chapter 504A of the Iowa Non-Profit Corporation Act.

The purposes for which the Association is organized are to maintain a permanent organization to secure cooperation among the counties of the State of Iowa and the public officers of the counties in a comprehensive study of local problems and in the application of knowledge obtained to procure efficient methods of local government.

The financial statements include the financial position and activities of the Electronic Transactions Clearinghouse (ETC). ETC was formed under Iowa Code Chapter 28E to provide the use of an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) related transactions with member counties in Iowa and shares a common board with the Association. All significant intercompany accounts and transactions have been eliminated from the financial statements.

Program Services - The Association receives premiums and contributions from its members to fund health insurance benefit programs, an unemployment benefit program and other special programs. These funds and related investment earnings are held by the Association on the behalf of these members. Expenses incurred in providing benefits to the participating members are deducted from the funds held. The Association has an understanding with its members that any excess funds will be used to pay for future benefits, reduce future premium charges or will be refunded to the participating members.

Functional Allocation of Expenses - The Statement of Activities and Statement of Program Activities present expenses by functional classification. Association expenses include all executive, financial administration, information systems, personnel, public relations and building rents and maintenance expenses. Program costs consist entirely of amounts directly related to the operation of each program. Administration costs totaling $264,407 and $280,573 during 2006 and 2005, respectively, were remitted by these programs to "Association Activities" and have been reported as revenues for "Association Activities" and as expenses for "Program Activities."

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated economic useful lives of the assets, ranging from five to fifteen years.

Income Tax Status - The Association has been determined to be exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Although the Association was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes income derived from advertisements in the monthly magazine. No provision for income taxes has been made in the accompanying financial statements as the direct and indirect costs associated with printing the magazine are greater than the advertising income derived.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk - The Association has bank deposits in excess of federally insured limits totaling approximately $242,000 at June 30, 2006. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately $2,186,000 invested in money market accounts not insured by the FDIC; however, the financial institution has pledged assets against approximately $928,000 of these deposits.

Unearned Premium Revenue - Health insurance premiums are assessed to the participating counties on a monthly basis. Premiums collected in the current fiscal year relating to the subsequent fiscal year are presented as unearned county premium revenue.

Compensated Absences - Vacation earned, but unused, is recorded as a liability in the financial statements. The liability for these compensated absences is calculated using current rates of pay.

Royalty Income - The Association is a co-sponsor of the Iowa Public Agency Investment Trust and receives a royalty based upon a percentage of its members' deposits in the trust.

Cash and Cash Equivalents - The Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

NOTE B - INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are presented as a component of changes in net assets. Fair value is determined using market prices. Investments are composed of the following:

2006

	Cost	Fair Value	Unrealized Gain (Loss)
Certificates of deposit	$ 1,577,925	$ 1,577,925	$ -
U.S. Treasury Notes	3,064,090	3,055,580	(8,510)
Federal Home Loan Bank Notes and Debentures	8,490,618	8,416,940	(73,678)
Federal Home Loan Mortgage Corporation Notes	2,137,605	2,109,483	(28,122)
Federal National Mortgage Assn. Notes	3,621,781	3,577,272	(44,509)
	$ 18,892,019	$ 18,737,200	$ (154,819)

2005

	Cost	Fair Value	Unrealized Gain (Loss)
Certificates of deposit	$ 1,799,135	$ 1,799,135	$ -
U.S. Treasury Notes	891,861	897,890	6,029
Federal Home Loan Bank Notes and Debentures	8,803,526	8,793,193	(10,333)
Federal Farm Credit Bank Notes and Debentures	1,478,783	1,441,355	(37,428)
Federal Home Loan Mortgage Corporation Notes	3,090,395	3,076,480	(13,915)
Federal National Mortgage Assn. Note	1,000,141	997,000	(3,141)
	$ 17,063,841	$ 17,005,053	$ (58,788)

NOTE B - INVESTMENTS - continued

The fair value of investments at June 30, 2006 by contractual maturity is shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2007	2008	2009	Total
Certificates of deposit	$ 1,033,253	$ 457,421	$ 87,251	$ 1,577,925
U.S.Treasury Notes	2,570,180	485,400	-	3,055,580
Federal Home Loan Bank Notes and Debentures	3,553,025	3,875,665	988,250	8,416,940
Federal Home Loan Mortgage Corporation Notes	-	1,740,464	369,019	2,109,483
Federal National Mortgage Association Notes	490,900	2,435,876	650,496	3,577,272
	$ 7,647,358	$ 8,994,826	$ 2,095,016	$ 18,737,200

Following is a summary of the Association's investment income:

	2006	2005
Interest income, net of investment fees of $30,825 and $31,619 for 2006 and 2005, respectively	$ 642,931	$ 387,518
Net realized and unrealized losses on investments	(96,496)	(80,870)
Net investment income	$ 546,435	$ 306,648

NOTE C - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2006 and 2005:

	2006	2005
Leasehold improvements	$ 85,493	$ 85,493
Equipment	151,932	137,665
Computer software	39,251	39,251
	276,676	262,409
Less accumulated depreciation	(206,306)	(165,710)
	$ 70,370	$ 96,699

NOTE D - LEASE COMMITMENTS

The Association leases its office space under a long-term lease agreement. Following are the estimated annual future minimum lease payments, including estimated common area maintenance charges, under the office space lease:

Year Ending June 30,	
2007	120,288
2008	124,284
2009	83,768
Total future minimum lease payments	$ 328,340

Office rent expense totaled $102,033 and $101,975 during 2006 and 2005, respectively.

NOTE E - PENSION PLAN

The Association has a defined contribution pension plan in which all employees are eligible to participate. The plan is funded through the purchase of annuity contracts. Employer contributions are based upon length of employment. Employee contributions are voluntary, but to receive the employer contribution, the employee must contribute an amount equal to the lesser of the determined employer contribution or $1,000. Employer contributions for the years ended June 30, 2006 and 2005 totaled $31,983 and $28,032 respectively.

NOTE F - CONTINGENT LIABILITIES

The Association administers a self-insured medical insurance program for member counties who elect to participate. The Association re-insures annual individual participant medical expenses in excess of $100,000 through an agreement with an insurance carrier. The agreement, among other things, requires the carrier to cover all annual claims in excess of $100,000 per participant and also aggregate annual claims in excess of 110% of the annual premium that would have been charged by the carrier had a similar insurance package been purchased directly from them. It is the Association's intention that the program will continue indefinitely and that the funds required to pay claims of the program participants would be limited to those available in the insurance fund. The Association does not record a separate liability for incurred but not reported (IBNR) claims. This liability is considered to be included in the Funds Held for the Benefit of Members' liability balance. The IBNR liability at June 30, 2006 and 2005 was estimated by an actuary to be $1,926,524 and $2,064,030, respectively. Due to uncertainties inherent in the estimations and assumptions process, pertaining to interest rates, healthcare inflation rates and employee demographics, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

The amount due from or to Wellmark, Inc., the third-party administrator of the program, results from the Association's cumulative transfer deposits to pay members' medical claims being more or less than the actual claims paid by Wellmark, Inc. at year-end.

NOTE G - INTERGOVERNMENTAL RELATIONS EXPENDITURES

The Association's intergovernmental relations expense, which includes expenses incurred by and salaries paid to legislative representatives and lobbyists of the Association, consisted of the following for the years ended June 30, 2006 and 2005:

	2006	2005
Salaries and other personnel costs	$ 147,747	$ 140,529
General operating expenses	31,446	27,906
Education/information expenses	17,980	17,605
Meetings, committees, and workshops	17,566	25,593
Property and equipment	1,431	4,153
	$ 216,170	$ 215,786

NOTE H - RELATED PARTY TRANSACTIONS

The Association provides County Case Management Services, County Rate Information Systems and Electronic Transactions Clearinghouse (entities formed under Iowa Coded Chapter 28E) with management and administrative services. The organizations reimburse the Association periodically throughout the year for costs incurred by the Association to provide these services. Amounts billed to the other organizations by the Association and included in administration fees revenue totaled $445,598 and $401,907 for the years ended June 30, 2006 and 2005, respectively. The organizations owed ISAC $96,547 and $55,683 for these services at June 30, 2006 and 2005, respectively.

SUPPLEMENTAL INFORMATION

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION - PROGRAM ACTIVITIES
JUNE 30, 2006

ASSETS

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Scholarship Fund	Total
Cash and cash equivalents	$ 1,929,408	$ 34,529	$ 60,482	$ 48,230	$ 93,296	$ 2,165,945
Investments	16,187,975	-	1,703,169	-	-	17,891,144
Accounts receivable	-	9,960	84,488	-	1,797	96,245
Due from Wellmark	67,723	-	-	-	-	67,723
Interest receivable	142,982	-	9,342	-	-	152,324
Total Assets	$ 18,328,088	$ 44,489	$ 1,857,481	$ 48,230	$ 95,093	$ 20,373,381

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	$ -	$ 11,478	$ 23,556	$ 43,100	$ 34,000	$ 112,134
Funds held for the benefit of members	18,161,088	33,011	1,833,925	5,130	53,128	20,086,282
Unearned revenue	167,000	-	-	-	7,965	174,965
Total Liabilities	18,328,088	44,489	1,857,481	48,230	95,093	20,373,381
NET ASSETS - Unrestricted	-	-	-	-	-	-
Total Liabilities and Net Assets	$ 18,328,088	$ 44,489	$ 1,857,481	$ 48,230	$ 95,093	$ 20,373,381

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Iowa State Association of Counties

We have audited the accompanying financial statements of the Iowa State Association of Counties (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with U.S generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Iowa State Association of Counties' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

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

This report, a public record by law, is intended solely for the information and use of the Board of Directors and the Association's management and is not intended to be and should not be used by anyone other than these specified parties.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
August 31, 2006

Celebrating 60 Years... all because of You!

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