

**IOWA STATE ASSOCIATION OF COUNTIES**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2007 AND 2006**

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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, 2007 and 2006, 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, 2007 and 2006, 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 October 16, 2007, 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, 2007, 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.*

West Des Moines, Iowa  
October 16, 2007

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**IOWA STATE ASSOCIATION OF COUNTIES**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2007**

	<u>Iowa State Association of Counties</u>			<u>Electronic Transactions Clearinghouse</u>	<u>ISAC Education Foundation</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Association Activities</u>	<u>Program Activities</u>	<u>Total</u>				
Cash and cash equivalents	\$ 92,592	\$ 4,303,311	\$ 4,395,903	\$ 129,379	\$ 81,994	\$ -	\$ 4,607,276
Investments	1,118,232	18,497,778	19,616,010	-	20,000	-	19,636,010
Accounts receivable	213,722	88,805	302,527	43,348	1,475	(110,736)	236,614
Interest receivable	4,704	186,986	191,690	-	-	-	191,690
Property and equipment, net of accumulated depreciation of \$206,585	54,351	-	54,351	5,737	-	-	60,088
<b>TOTAL ASSETS</b>	<b><u>\$ 1,483,601</u></b>	<b><u>\$23,076,880</u></b>	<b><u>\$24,560,481</u></b>	<b><u>\$ 178,464</u></b>	<b><u>\$ 103,469</u></b>	<b><u>\$ (110,736)</u></b>	<b><u>\$24,731,678</u></b>
Accounts payable and accrued liabilities	\$ 43,158	\$ 79,156	\$ 122,314	\$ 112,468	\$ 39,530	\$ (110,736)	\$ 163,576
Due to Wellmark	-	328,535	328,535	-	-	-	328,535
Funds held for benefit of members	-	22,128,476	22,128,476	-	-	-	22,128,476
Unearned revenue	37,297	540,713	578,010	27,033	-	-	605,043
Compensated absences	117,883	-	117,883	-	-	-	117,883
<b>TOTAL LIABILITIES</b>	<b><u>198,338</u></b>	<b><u>23,076,880</u></b>	<b><u>23,275,218</u></b>	<b><u>139,501</u></b>	<b><u>39,530</u></b>	<b><u>(110,736)</u></b>	<b><u>23,343,513</u></b>
<b>NET ASSETS</b>	<b><u>1,285,263</u></b>	<b><u>-</u></b>	<b><u>1,285,263</u></b>	<b><u>38,963</u></b>	<b><u>63,939</u></b>	<b><u>-</u></b>	<b><u>1,388,165</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,483,601</u></b>	<b><u>\$23,076,880</u></b>	<b><u>\$24,560,481</u></b>	<b><u>\$ 178,464</u></b>	<b><u>\$ 103,469</u></b>	<b><u>\$ (110,736)</u></b>	<b><u>\$24,731,678</u></b>

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

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

	<u>Iowa State Association of Counties</u>			<u>Electronic Transactions Clearinghouse</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Association Activities</u>	<u>Program Activities</u>	<u>Total</u>			
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
<b>TOTAL ASSETS</b>	<b><u>\$ 1,357,171</u></b>	<b><u>\$ 20,373,381</u></b>	<b><u>\$ 21,730,552</u></b>	<b><u>\$ 3,616</u></b>	<b><u>\$ (36,494)</u></b>	<b><u>\$ 21,697,674</u></b>
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 revenue	-	174,965	174,965	-	-	174,965
Compensated absences	107,199	-	107,199	-	-	107,199
<b>TOTAL LIABILITIES</b>	<b><u>124,056</u></b>	<b><u>20,373,381</u></b>	<b><u>20,497,437</u></b>	<b><u>36,494</u></b>	<b><u>(36,494)</u></b>	<b><u>20,497,437</u></b>
<b>NET ASSETS</b>	<b><u>1,233,115</u></b>	<b><u>-</u></b>	<b><u>1,233,115</u></b>	<b><u>(32,878)</u></b>	<b><u>-</u></b>	<b><u>1,200,237</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,357,171</u></b>	<b><u>\$ 20,373,381</u></b>	<b><u>\$ 21,730,552</u></b>	<b><u>\$ 3,616</u></b>	<b><u>\$ (36,494)</u></b>	<b><u>\$ 21,697,674</u></b>

**IOWA STATE ASSOCIATION OF COUNTIES**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2007**

	Iowa State Association of Counties			
	Association Activities		Program	Total
	Budget	Actual	Activities	
<b>REVENUE</b>				
Schools, workshops, committees & seminars	\$ 247,000	\$ 260,907	\$ -	\$ 260,907
Contributions	-	-	-	-
Grants	-	-	-	-
Dues	477,500	463,519	-	463,519
Royalties	198,400	266,316	-	266,316
Investment income	45,000	70,523	1,088,395	1,158,918
Magazine advertising and subscriptions	46,600	41,806	-	41,806
Administration fees	762,968	840,082	-	840,082
County premiums	-	-	18,404,128	18,404,128
Special event revenue	-	-	-	-
Miscellaneous	-	10,596	-	10,596
<b>Total Revenues</b>	<u>1,777,468</u>	<u>1,953,749</u>	<u>19,492,523</u>	<u>21,446,272</u>
<b>EXPENSES</b>				
Salaries and fringe benefits	1,357,188	1,278,372	-	1,278,372
Schools, workshops and meetings	111,500	121,622	-	121,622
Board of Directors' meeting expenses	26,000	38,406	-	38,406
Other board authorized expense	5,000	2,081	-	2,081
NACO conference	15,000	17,952	-	17,952
Staff travel and training	60,000	60,304	-	60,304
Public relations	4,000	389	-	389
Consulting/professional services	17,500	22,236	-	22,236
Rents and utilities	162,489	177,548	-	177,548
Supplies, printing and postage	37,000	24,777	-	24,777
Computer supplies	10,000	3,560	-	3,560
Equipment rental and repair	4,750	1,900	-	1,900
Depreciation expense	-	26,177	-	26,177
Maintenance agreements	18,000	17,238	-	17,238
Professional membership	3,500	3,355	-	3,355
Library	9,000	8,854	-	8,854
Magazine	34,000	35,588	-	35,588
Insurance and bonds	15,000	14,381	-	14,381
Acquisition of property and equipment	20,000	-	-	-
Special event expense	-	-	-	-
Miscellaneous	1,000	46,861	103,476	150,337
Scholarships	-	-	53,128	53,128
Claims and premiums paid	-	-	16,940,040	16,940,040
Administration	-	-	267,919	267,919
Wellness program	-	-	85,766	85,766
Project management and development	-	-	-	-
<b>Total Expenses</b>	<u>1,910,927</u>	<u>1,901,601</u>	<u>17,450,329</u>	<u>19,351,930</u>
<b>INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS</b>	<u>-</u>	<u>-</u>	<u>\$ 2,042,194</u>	<u>2,042,194</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>\$ (133,459)</u>	<u>52,148</u>		<u>52,148</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>		<u>1,233,115</u>		<u>1,233,115</u>
<b>NET ASSETS, END OF YEAR</b>		<u>\$ 1,285,263</u>		<u>\$ 1,285,263</u>

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

Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total	Prior Year Total
\$ -	\$ -	\$ -	\$ 260,907	\$ 245,956
-	53,428	(53,128)	300	25,764
-	-	-	-	-
181,686	-	-	645,205	460,735
-	-	-	266,316	239,913
2	3,313	-	1,162,233	546,435
-	-	-	41,806	44,918
-	-	(24,423)	815,659	753,122
-	-	-	18,404,128	17,413,340
-	74,154	-	74,154	-
-	-	-	10,596	16,140
<u>181,688</u>	<u>130,895</u>	<u>(77,551)</u>	<u>21,681,304</u>	<u>19,746,323</u>
-	-	-	1,278,372	1,155,229
-	-	-	121,622	107,063
-	-	-	38,406	30,089
-	-	-	2,081	2,614
-	-	-	17,952	7,417
-	-	-	60,304	63,309
-	-	-	389	1,610
-	-	-	22,236	11,689
-	-	-	177,548	138,889
25	-	-	24,802	37,020
-	-	-	3,560	4,851
-	-	-	1,900	3,222
3,184	-	-	29,361	41,121
-	-	-	17,238	18,017
-	-	-	3,355	3,129
-	-	-	8,854	7,706
-	-	-	35,588	39,719
-	-	-	14,381	13,771
-	-	-	-	-
-	30,508	-	30,508	-
1,787	495	-	152,619	165,225
-	35,953	(53,128)	35,953	34,450
-	-	-	16,940,040	14,989,095
17,572	-	(24,423)	261,068	264,407
-	-	-	85,766	77,636
87,279	-	-	87,279	43,502
<u>109,847</u>	<u>66,956</u>	<u>(77,551)</u>	<u>19,451,182</u>	<u>17,260,780</u>
-	-	-	2,042,194	2,449,791
71,841	63,939	-	187,928	35,752
(32,878)	-	-	1,200,237	1,164,485
<u>\$ 38,963</u>	<u>\$ 63,939</u>		<u>\$ 1,388,165</u>	<u>\$ 1,200,237</u>

**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
<b>REVENUE</b>				
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
Special event revenue	-	-	-	-
Miscellaneous	-	16,140	-	16,140
<b>Total Revenues</b>	<u>1,670,926</u>	<u>1,803,084</u>	<u>17,947,872</u>	<u>19,750,956</u>
<b>EXPENSES</b>				
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	-	-	-
Special event expense	-	-	-	-
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	-	-	-	-
<b>Total Expenses</b>	<u>1,815,657</u>	<u>1,702,292</u>	<u>15,498,081</u>	<u>17,200,373</u>
<b>INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS</b>	<u>-</u>	<u>-</u>	<u>\$ 2,449,791</u>	<u>2,449,791</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>\$ (144,731)</u>	<u>100,792</u>		<u>100,792</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>		<u>1,132,323</u>		<u>1,132,323</u>
<b>NET ASSETS, END OF YEAR</b>		<u>\$ 1,233,115</u>		<u>\$ 1,233,115</u>

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

Electronic Transactions Clearinghouse	Eliminations	Total
\$ -	\$ -	\$ 245,956
-	-	25,764
-	-	-
-	-	460,735
-	-	239,913
311	-	546,435
-	-	44,918
-	(4,944)	753,122
-	-	17,413,340
-	-	-
-	-	16,140
<u>311</u>	<u>(4,944)</u>	<u>19,746,323</u>
-	-	1,155,229
-	-	107,063
-	-	30,089
-	-	2,614
-	-	7,417
-	-	63,309
-	-	1,610
-	-	11,689
-	-	138,889
-	-	37,020
-	-	4,851
-	-	3,222
13,084	-	41,121
-	-	18,017
-	-	3,129
-	-	7,706
-	-	39,719
-	-	13,771
-	-	-
-	-	-
271	-	165,225
-	-	34,450
-	-	14,989,095
8,494	(4,944)	264,407
-	-	77,636
43,502	-	43,502
<u>65,351</u>	<u>(4,944)</u>	<u>17,260,780</u>
-	-	2,449,791
(65,040)	-	35,752
32,162	-	1,164,485
<u>\$ (32,878)</u>		<u>\$ 1,200,237</u>

**IOWA STATE ASSOCIATION OF COUNTIES**  
**STATEMENTS OF PROGRAM ACTIVITIES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

**Year Ended June 30, 2007**

	Health Fund	AD&D Fund	Unemployment Fund
<b>REVENUE</b>			
Contributions	\$ -	\$ -	\$ -
Investment income	995,277	1,605	91,513
County premiums	18,032,739	128,071	243,318
<b>Total Revenues</b>	<u>19,028,016</u>	<u>129,676</u>	<u>334,831</u>
<b>EXPENSES</b>			
Miscellaneous	102,804	435	237
Scholarships	-	-	-
Claims and premiums paid	16,617,816	117,774	204,450
Administration	242,800	9,549	15,570
Wellness program	85,766	-	-
Professional services	-	-	-
<b>Total Expenses</b>	<u>17,049,186</u>	<u>127,758</u>	<u>220,257</u>
<b>INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS</b>	1,978,830	1,918	114,574
<b>FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR</b>	<u>18,161,088</u>	<u>33,011</u>	<u>1,833,925</u>
<b>FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR</b>	<u><u>\$ 20,139,918</u></u>	<u><u>\$ 34,929</u></u>	<u><u>\$ 1,948,499</u></u>

**Year Ended June 30, 2006**

	Health Fund	AD&D Fund	Unemployment Fund
<b>REVENUE</b>			
Contributions	\$ -	\$ -	\$ -
Investment income	459,549	1,157	46,277
County premiums	17,043,699	136,473	233,168
<b>Total Revenues</b>	<u>17,503,248</u>	<u>137,630</u>	<u>279,445</u>
<b>EXPENSES</b>			
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	-	-
Professional services	-	-	-
<b>Total Expenses</b>	<u>15,140,079</u>	<u>137,590</u>	<u>183,465</u>
<b>INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS</b>	2,363,169	40	95,980
<b>FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR</b>	<u>15,797,919</u>	<u>32,971</u>	<u>1,737,945</u>
<b>FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR</b>	<u><u>\$ 18,161,088</u></u>	<u><u>\$ 33,011</u></u>	<u><u>\$ 1,833,925</u></u>

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

Multi-County Service Agency Fund	Scholarship Fund	Total Program Activities
\$ -	\$ -	\$ -
-	-	1,088,395
-	-	18,404,128
-	-	19,492,523
-	-	103,476
-	53,128	53,128
-	-	16,940,040
-	-	267,919
-	-	85,766
-	-	-
-	53,128	17,450,329
-	(53,128)	2,042,194
5,130	53,128	20,086,282
<u>\$ 5,130</u>	<u>\$ -</u>	<u>\$ 22,128,476</u>

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
<u>\$ 5,130</u>	<u>\$ 53,128</u>	<u>\$ 20,086,282</u>

**IOWA STATE ASSOCIATION OF COUNTIES**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 187,928	\$ 35,752
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	29,361	41,121
Realized and unrealized (gains) losses on investments	(257,120)	96,496
Change in:		
Receivables	(9,616)	469,038
Interest receivable	(33,194)	(74,185)
Accounts payable and accrued liabilities	363,120	55,213
Funds held for benefit of members	2,042,194	2,449,791
Unearned revenue	430,078	3,622
Compensated absences	10,684	13,332
	<u>2,763,435</u>	<u>3,090,180</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of equipment	(19,079)	(14,858)
Proceeds from maturities and sales of investments	10,150,996	7,584,587
Purchases of investments	(10,792,686)	(9,413,231)
	<u>(660,769)</u>	<u>(1,843,502)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,102,666	1,246,678
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,504,610</u>	<u>1,257,932</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 4,607,276</u></u>	<u><u>\$ 2,504,610</u></u>

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 Electronic Transactions Clearinghouse (ETC) and Iowa State Association of Counties Education Foundation, Inc. (Education Foundation). 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. The Education Foundation was established during 2007 under section 501(c)(3) of the Internal Revenue Code for the purpose of receiving contributions for and awarding scholarships. The Education Foundation 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 \$261,068 and \$264,407 during 2007 and 2006, 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 three to fifteen years.

**IOWA STATE ASSOCIATION OF COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS**

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

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.

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 \$169,000 at June 30, 2007. This risk is managed by maintaining all deposits in high quality financial institutions. ETC bank deposits in excess of federally insured limits are covered by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. The Association also has funds totaling approximately \$4,231,000 invested in money market accounts not insured by the FDIC.

Unearned Revenue - Unearned revenue consists primarily of health insurance premiums by participating counties that are collected in the current fiscal year relating to the subsequent fiscal year.

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 the Association 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.

**IOWA STATE ASSOCIATION OF COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS**

**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:

2007			
	Cost	Fair Value	Unrealized Gains (Losses)
Certificates of deposit	\$ 1,765,608	\$ 1,765,608	\$ -
U.S. Treasury Notes	494,522	496,450	1,928
Federal Home Loan Bank Notes and Debentures	10,010,903	10,013,910	3,007
Federal Home Loan Mortgage Corporation Notes	2,969,815	2,987,239	17,424
Federal National Mortgage Assn. Notes	4,120,490	4,123,603	3,113
Federal Farm Credit Bank Notes and Debentures	249,734	249,200	(534)
	\$ 19,611,072	\$ 19,636,010	\$ 24,938

2006			
	Cost	Fair Value	Unrealized Gains (Losses)
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)

**IOWA STATE ASSOCIATION OF COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE B - INVESTMENTS** - continued

The fair value of investments at June 30, 2007 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.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Certificates of deposit	\$ 1,130,075	\$ 635,533	\$ -	\$ 1,765,608
U.S. Treasury Notes	496,450	-	-	496,450
Federal Home Loan Bank Notes and Debentures	3,930,885	4,090,525	1,992,500	10,013,910
Federal Home Loan Mortgage Corporation Notes	1,779,528	1,207,711	-	2,987,239
Federal National Mortgage Association Notes	2,469,347	1,654,256	-	4,123,603
Federal Farm Credit Bank Notes and Debentures	-	249,200	-	249,200
	<u>\$ 9,806,285</u>	<u>\$ 7,837,225</u>	<u>\$ 1,992,500</u>	<u>\$ 19,636,010</u>

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

	<u>2007</u>	<u>2006</u>
Interest income, net of investment fees of \$38,485 and \$30,825 for 2007 and 2006, respectively	\$ 905,114	\$ 642,931
Net realized and unrealized gains (losses) on investments	257,119	(96,496)
Net investment income	<u>\$ 1,162,233</u>	<u>\$ 546,435</u>

**NOTE C - PROPERTY AND EQUIPMENT**

Following is a summary of property and equipment at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 85,493	\$ 85,493
Equipment	135,309	151,932
Computer software	45,871	39,251
	<u>266,673</u>	<u>276,676</u>
Less accumulated depreciation	(206,585)	(206,306)
	<u>\$ 60,088</u>	<u>\$ 70,370</u>

**IOWA STATE ASSOCIATION OF COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS**

**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:

<u>Year Ending June 30,</u>	
2008	128,327
2009	<u>86,497</u>
Total future minimum lease payments	<u>\$ 214,824</u>

Office rent expense totaled \$136,562 and \$102,033 during 2007 and 2006, respectively.

**NOTE E - RETIREMENT PLAN**

The Association sponsors a 457(g) defined contribution retirement plan in which all employees are eligible to participate. Effective October 1, 2006, the Association implemented a 401(a) defined contribution retirement plan for employer contributions. Employer contributions to the 401(a) plan are equal to 5.75% of an employee's eligible compensation; however, the employee is required to contribute 2.5% of eligible wages to the 457(g) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2007 and 2006 totaled \$48,481 and \$31,983, 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, 2007 and 2006 was estimated by an actuary to be \$2,242,334 and \$1,926,524, 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.

The Association is involved in litigation arising in the normal course of business. Management believes these matters will be resolved without material adverse effect on the Association's future financial position or results of operations.

**IOWA STATE ASSOCIATION OF COUNTIES**  
**NOTES TO FINANCIAL STATEMENTS**

**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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Salaries and other personnel costs	\$ 164,011	\$ 147,747
General operating expenses	36,261	31,446
Education/information expenses	17,687	17,980
Meetings, committees, and workshops	24,355	17,566
Property and equipment	5,949	1,431
	<u>\$ 248,263</u>	<u>\$ 216,170</u>

**NOTE H - RELATED PARTY TRANSACTIONS**

The Association provides County Case Management Services, County Rate Information Systems and Electronic Transactions Clearinghouse (entities formed under Iowa Code 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 \$524,900 and \$445,598 for the years ended June 30, 2007 and 2006, respectively. The organizations owed ISAC \$156,097 and \$96,547 for these services at June 30, 2007 and 2006, respectively.

**SUPPLEMENTAL INFORMATION**

**IOWA STATE ASSOCIATION OF COUNTIES**  
**COMBINING STATEMENT OF FINANCIAL POSITION -**  
**PROGRAM ACTIVITIES**  
**JUNE 30, 2007**

**ASSETS**

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 3,898,541	\$ 41,214	\$ 358,426	\$ 5,130	\$ 4,303,311
Investments	16,957,322	-	1,540,456	-	18,497,778
Accounts receivable	-	3,925	84,880	-	88,805
Interest receivable	173,906	-	13,080	-	186,986
<b>Total Assets</b>	<b>\$ 21,029,769</b>	<b>\$ 45,139</b>	<b>\$ 1,996,842</b>	<b>\$ 5,130</b>	<b>\$ 23,076,880</b>

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued liabilities	\$ 20,603	\$ 10,210	\$ 48,343	\$ -	\$ 79,156
Due to Wellmark	328,535	-	-	-	328,535
Funds held for the benefit of members	20,139,918	34,929	1,948,499	5,130	22,128,476
Unearned revenue	540,713	-	-	-	540,713
<b>Total Liabilities</b>	<b>21,029,769</b>	<b>45,139</b>	<b>1,996,842</b>	<b>5,130</b>	<b>23,076,880</b>
<b>NET ASSETS - Unrestricted</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 21,029,769</b>	<b>\$ 45,139</b>	<b>\$ 1,996,842</b>	<b>\$ 5,130</b>	<b>\$ 23,076,880</b>



*Partners*

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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, 2007, and have issued our report thereon dated October 16, 2007. 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 Iowa State Association of Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

*McGowan, Hurst, Clark & Smith, P.C.*

West Des Moines, Iowa  
October 16, 2007