

ELECTRONIC TRANSACTIONS CLEARINGHOUSE

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

JUNE 30, 2008 AND 2007

CONTENTS

	<u>PAGE</u>
Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	3
Financial Statements:	
Statements of Financial Position	7
Statements of Activities	8
Statements of Cash Flows	9
Notes to Financial Statements	10
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	12
Schedule of Findings	14

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2008

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Mike King	President	Union County
Gary Anderson	1 st Vice President	Appanoose County
Chuck Rieken	2 nd Vice President	Cass County
Marge Pitts	3 rd Vice President	Clay County
Tim McGee	Member	Lucas County
Paul Goldsmith	Member	Lucas County
Linn Adams	Member	Hardin County
Steve Lekwa	Member	Story County
Michael McClain	Member	Jones County
Jon McNamee	Member	Black Hawk County
Derek White	Member	Carroll County
Wayne Chizek	Member	Marshall County
Grant Veeder	Member	Black Hawk County
Terri Henkels	Member	Polk County
Nancy Parrott	Member	Jasper County
Harlan Hansen	Member	Humboldt County
Wayne Walter	Member	Winneshiek County
Joe Buffington	Member	Henry County
Kim Painter	Past President	Johnson County



Partners

Michael E. Brinker, CPA
David W. Hurst, CPA
Kathleen A. Koenig, CPA
Robert R. McGowen, CPA
Michael W. McNichols, CPA
Thomas J Pflanz, CPA, CFP®
John A. Schmidt, CPA
Daniel A. Schwarz, CPA/ABV
S. James Smith, CPA
Joni M. Tonnemacher, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Electronic Transactions Clearinghouse

We have audited the accompanying statements of financial position of Electronic Transactions Clearinghouse as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 Electronic Transactions Clearinghouse as of June 30, 2008 and 2007, 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 8, 2008, on our consideration of Electronic Transactions Clearinghouse's 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 or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

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

West Des Moines, Iowa
October 8, 2008

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Electronic Transactions Clearinghouse (ETC) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization's operating revenue decreased 26%, or approximately \$46,400, from fiscal 2007 to fiscal 2008, due to a decrease in membership dues, offset somewhat by increases in entry fees and interest income.
- The Organization's operating expenses were less than 1%, or approximately \$370, more in fiscal 2008 than in fiscal 2007, primarily as a result of the increase in administrative expense, offset by a decrease in professional services.
- The Organization's net assets increased 64%, or \$25,059, from June 30, 2007 to June 30, 2008.

USING THIS ANNUAL REPORT

The Electronic Transactions Clearinghouse is a single enterprise fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to ETC's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of ETC's financial activities.

The Statements of Financial Position present information on ETC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of ETC is improving or deteriorating.

The Statements of Activities present information on the ETC's operating revenues and expenses, non-operating revenues and expenses and whether the ETC's financial position has improved or deteriorated as a result of the year's activities.

The Statements of Cash Flows present the change in the ETC's cash and cash equivalents during the year. This information can assist the user of the report in determining how the ETC financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE

Statements of Net Assets

Net assets may serve as a useful indicator of ETC's financial position over time. ETC's net assets for fiscal 2008 totaled approximately \$64,000. A summary of ETC's net assets is presented below:

	June 30,	
	<u>2008</u>	<u>2007</u>
Cash	\$ 74,757	\$ 129,379
Accounts receivable	3,531	43,348
Property and equipment at cost, less accumulated depreciation	<u>45,596</u>	<u>5,737</u>
Total assets	123,884	178,464
Current liabilities – accounts payable and due to ISAC	58,326	112,468
Deferred revenue	<u>1,536</u>	<u>27,033</u>
Total liabilities	<u>59,862</u>	<u>139,501</u>
Total net assets – unrestricted	<u>\$ 64,022</u>	<u>\$ 38,963</u>

ETC's net assets are unrestricted net assets that can be used to meet ETC's obligations as they come due.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

Statements of Activities

Operating revenues are received for membership and entry fees from the member counties. Operating expenses are expenses paid to develop and operate ETC's website. Non-operating revenue is comprised of interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007 is presented below:

Changes in Net Assets		June 30,	
	2008	2007	
Revenue			
Membership dues	\$ 108,535	\$ 170,011	
Entry fees	23,785	11,675	
Interest income	2,956	2	
Total revenue	135,276	181,688	
Expenses			
Professional services	43,718	87,879	
Administrative expenses	57,131	16,972	
Depreciation	6,211	3,184	
Miscellaneous	3,157	1,812	
Total expenses	110,217	109,847	
Increase in net assets	25,059	71,841	
Net assets, beginning of year	38,963	(32,878)	
Net assets, end of year	\$ 64,022	\$ 38,963	

The Statement of Activities reflects a \$25,059 increase in net assets for the 2008 fiscal year. In fiscal 2008, as compared to fiscal 2007, operating revenues decreased by approximately \$46,400, or 26%, primarily as the result of a decrease in membership dues of approximately \$61,400, offset by increases in entry fees of approximately \$12,000. Operating expenses increased by approximately \$370, or less than 1%. The increase was primarily the result of an increase in administrative expenses, offset by a decrease in professional services.

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities during fiscal year 2008 primarily includes entry and membership dues reduced by payments for professional services and administrative costs.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

CAPITAL ASSETS

At June 30, 2008, ETC had approximately \$45,600 invested in capital assets, net of accumulated depreciation of \$46,300. Depreciation charges totaled \$6,211 for fiscal 2008. More detailed information about ETC's capital assets is presented in Note A to the financial statements.

ECONOMIC FACTORS

Electronic Transactions Clearinghouse began operations on July 1, 2003. Some of the following realities that were initially challenges to ETC continue to be challenges today and will be into the future:

- Technology continues to expand, and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- ETC was created to meet a federal standard for receipt of electronic medical transactions. Changes in federal standards could present fiscal challenges caused by required system design changes.
- Providers of medical services to counties must make the necessary investment in technology to be able to submit claims electronically. These providers are now beginning to implement new technologies that will use ETC, but this will require continual development to meet the provider demands.

The Organization assesses dues to cover budgeted expenditures for the year. A three-year operational plan that has been adopted forecasts annual income and expenses to remain fairly constant through fiscal year 2009.

CONTACTING THE CLEARINGHOUSE'S FINANCIAL MANAGEMENT

This financial report is designed to provide Board of Directors and management with a general overview of ETC's finances and to show the ETC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Electronic Transactions Clearinghouse, 501 SW 7th Street, Suite Q, Des Moines, Iowa.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS	2008	2007
Cash and cash equivalents	\$ 74,757	\$ 129,379
Accounts receivable	3,531	43,348
Property and equipment	91,941	45,871
Less accumulated depreciation	(46,345)	(40,134)
	45,596	5,737
Total assets	\$ 123,884	\$ 178,464

LIABILITIES AND NET ASSETS

Liabilities		
Due to Iowa State Association of Counties	\$ 58,279	\$ 110,736
Accounts payable	47	1,732
Deferred revenue	1,536	27,033
Total liabilities	59,862	139,501
Net assets - unrestricted	64,022	38,963
Total liabilities and net assets	\$ 123,884	\$ 178,464

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

REVENUE	<u>2008</u>	<u>2007</u>
Membership dues	\$ 108,535	\$ 170,011
Entry fees	23,785	11,675
Interest income	2,956	2
Total revenue	<u>135,276</u>	<u>181,688</u>
 EXPENSES		
Professional services	43,718	87,879
Administrative expenses	57,131	16,972
Depreciation	6,211	3,184
Supplies	1,320	25
Miscellaneous	1,837	1,787
Total expenses	<u>110,217</u>	<u>109,847</u>
 INCREASE IN UNRESTRICTED NET ASSETS	25,059	71,841
 UNRESTRICTED NET ASSETS, beginning of year	<u>38,963</u>	<u>(32,878)</u>
 UNRESTRICTED NET ASSETS, end of year	<u>\$ 64,022</u>	<u>\$ 38,963</u>

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2008</u>	<u>2007</u>
Increase in net assets	\$ 25,059	\$ 71,841
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	6,211	3,184
Change in:		
Accounts receivable	39,817	(43,348)
Accounts payable	(1,685)	1,732
Deferred revenue	(25,497)	27,033
Amounts due to Iowa State Association of Counties	<u>(52,457)</u>	<u>74,242</u>
Net cash provided (used) by operating activities	(8,552)	134,684
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and computer software	<u>(46,070)</u>	<u>(6,621)</u>
 Net increase (decrease) in cash	(54,622)	128,063
 CASH AND CASH EQUIVALENTS, beginning of year	<u>129,379</u>	<u>1,316</u>
 CASH AND CASH EQUIVALENTS, end of year	<u>\$ 74,757</u>	<u>\$ 129,379</u>

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Electronic Transactions Clearinghouse (ETC) was formed in accordance with 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.

Cash and cash equivalents - For purposes of the statement of cash flows, ETC considers all highly liquid investments with an original maturity of three months or less and investments in money market account to be cash equivalents.

Concentration of credit risk - The Organization's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

At June 30, 2008, ETC had funds totaling approximately \$52,100 invested in money markets accounts not insured by the FDIC.

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.

Income Taxes - ETC was formed as a joint venture between participating member counties and the Iowa State Association of Counties and is exempt from income taxes. Accordingly, no provision for income taxes has been provided in the financial statements.

NOTE B – PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Equipment	51,690	6,620
Computer software	40,251	39,251
	91,941	45,871
Less accumulated depreciation	(46,345)	(40,134)
	<u>\$ 45,596</u>	<u>\$ 5,737</u>

NOTE C - DUE TO IOWA STATE ASSOCIATION OF COUNTIES

Certain administrative expenses are paid by the Iowa State Association of Counties (ISAC) on behalf of ETC and then reimbursed to ISAC. Amounts owed to ISAC are non-interest bearing. The amount due to ISAC for 2008 as presented on the Statement of Financial Position includes expenses of \$36,494 incurred by ISAC on behalf of ETC in fiscal year 2006, and have not been repaid. Administrative and other expenses paid by ISAC on behalf of ETC totaled \$58,558 and \$90,658 for fiscal years 2008 and 2007, respectively.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE D - FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses allocations were made by direct assignment of cost to functional categories. Following is a summary of the functional allocation of expenses for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Program expenses	\$ 102,626	\$ 90,463
Fundraising costs	-	-
General and administration	<u>7,591</u>	<u>19,384</u>
Total expenses	<u>\$ 110,217</u>	<u>\$ 109,847</u>



Partners

Michael E. Brinker, CPA
David W. Hurst, CPA
Kathleen A. Koenig, CPA
Robert R. McGowen, CPA
Michael W. McNichols, CPA
Thomas J Pflanz, CPA, CFP®
John A. Schmidt, CPA
Daniel A. Schwarz, CPA/ABV
S. James Smith, CPA
Joni M. Tonnemacher, CPA

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
Electronic Transactions Clearinghouse

We have audited the financial statements of Electronic Transactions Clearinghouse as of and for the year ended June 30, 2008 and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Electronic Transactions Clearinghouse's 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 our opinion on the effectiveness of Electronic Transactions Clearinghouse's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Electronic Transactions Clearinghouse's internal control financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the 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 Electronic Transactions Clearinghouse's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Electronic Transactions Clearinghouse's financial statements that is more than inconsequential will not be prevented or detected by Electronic Transactions Clearinghouse's internal control.

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

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 Electronic Transactions Clearinghouse's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Organization. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the members and Board of Directors and management of Electronic Transactions Clearinghouse and other parties to whom the Organization may report. The report 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 8, 2008

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Findings Related to the Financial Statements

Instances of non-compliance

No matters were noted.

Significant deficiencies or material weaknesses

No material weaknesses were identified.

Other findings related to required statutory reporting

No matters were noted.