

ELECTRONIC TRANSACTIONS CLEARINGHOUSE

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

JUNE 30, 2009 AND 2008

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2009

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Gary Anderson	President	Appanoose County
Chuck Rieken	1 st Vice President	Cass County
Marjorie Pitts	2 nd Vice President	Clay County
Wayne Walter	3 rd Vice President	Winneshiek County
Tim McGee	Member	Lucas County
Darin Raymond	Member	Plymouth County
Linn Adams	Member	Hardin County
Dan Cohen	Member	Buchanan County
Lori Morrissey	Member	Story County
Michael McClain	Member	Jones County
Jon McNamee	Member	Black Hawk County
Wayne Chizek	Member	Marshall County
Terri Henkels	Member	Polk County
Nancy Parrott	Member	Jasper County
Harlan Hansen	Member	Humboldt County
Melvyn Houser	Member	Pottawattamie County
Joe Buffington	Member	Henry County
Mike King	Past President	Union County
Grant Veeder	NACo Representative	Black Hawk 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, CFD

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Electronic Transactions Clearinghouse

We have audited the accompanying statements of net assets of Electronic Transactions Clearinghouse as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets 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, 2009 and 2008, 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 September 25, 2009, 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
September 25, 2009

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, 2009. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization's total revenue increased 98%, or approximately \$133,000, from fiscal 2008 to fiscal 2009, due to an increase in membership dues and entry fees. Twenty new counties became members during fiscal 2009; there were eight new members in fiscal 2008.
- The Organization's total expenses increased 144%, or approximately \$158,800, in fiscal 2009, primarily as a result of the increase in administrative expense and professional services.
- The Organization's net assets decreased 1%, or \$714, from June 30, 2008 to June 30, 2009.

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 Net Assets 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 Revenues, Expenses and Changes in Net Assets 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 2009 totaled approximately \$63,300. A summary of ETC's net assets is presented below:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 119,523	\$ 74,757
Accounts receivable	-	3,531
Total current assets	<u>119,523</u>	<u>78,288</u>
Property and equipment at cost, less accumulated depreciation	<u>47,372</u>	<u>45,596</u>
Total assets	166,895	123,884
Current liabilities		
Accounts payable and due to ISAC	103,587	58,326
Deferred revenue	-	1,536
Total current liabilities	<u>103,587</u>	<u>59,862</u>
Total net assets – unrestricted	<u>\$ 63,308</u>	<u>\$ 64,022</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 Revenues, Expenses and Changes in Net Assets

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, 2009 and 2008 is presented below:

Changes in Net Assets		June 30,	
	2009	2008	
Revenue			
Membership dues	\$ 201,377	\$ 108,535	
Entry fees	63,065	23,785	
Interest income	3,846	2,956	
Total revenue	268,288	135,276	
Expenses			
Professional services	133,653	67,391	
Administrative expenses	98,977	30,563	
Depreciation	13,009	6,211	
Office expense	18,747	4,215	
Miscellaneous	4,616	1,837	
Total expenses	269,002	110,217	
Increase (decrease) in net assets	(714)	25,059	
Net assets, beginning of year	64,022	38,963	
Net assets, end of year	\$ 63,808	\$ 64,022	

The Statement of Revenues, Expenses and Changes in Net Assets reflects a \$714 decrease in net assets for the 2009 fiscal year. In fiscal 2009, as compared to fiscal 2008, total revenues increased by approximately \$133,000, or 98%, primarily as the result of an increase in membership dues of approximately \$93,000 and an increased in entry fees of approximately \$39,000. Total expenses increased by approximately \$158,000, or 144%. The increase was primarily the result of an increase in administrative expenses and 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 2009 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, 2009, ETC had approximately \$47,400 invested in capital assets, net of accumulated depreciation of approximately \$59,300. Depreciation charges totaled \$13,009 for fiscal 2009. 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.

ETC membership increased significantly during fiscal year 2009 and now encompasses all 99 Iowa counties. ETC has developed as the platform for development and implementation of the Community Services Network (CSN). Members approved an amendment to the ETC 28E agreement that modified the allocation of expenses amongst the membership of the 28E agreement. The new allocation formula will be in effect for the dues collected by ETC in fiscal year 2010. The impact of the new allocation formula will be to spread the cost of operation and development more equitably amongst members. The ETC Board of Directors will be monitoring and participating in discussions on the future management of ETC, CSN and County Rate Information Systems. Improved efficiency in management and operation of the programs is the objective. While restructuring of ETC with other entities is a future possibility, this is not a threat to the future of the program but instead an evolution to improved service delivery for membership. All changes must be approved by the ETC Board and membership.

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 NET ASSETS
JUNE 30, 2009 AND 2008

ASSETS	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 119,523	\$ 74,757
Accounts receivable	-	3,531
Total current assets	119,523	78,288
PROPERTY AND EQUIPMENT	106,726	91,941
Less accumulated depreciation	(59,354)	(46,345)
Net property and equipment	47,372	45,596
TOTAL ASSETS	\$ 166,895	\$ 123,884
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Iowa State Association of Counties	\$ 103,324	\$ 58,279
Accounts payable	263	47
Deferred revenue	-	1,536
Total current liabilities	103,587	59,862
Net assets - unrestricted	63,308	64,022
TOTAL LIABILITIES AND NET ASSETS	\$ 166,895	\$ 123,884

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

REVENUE	<u>2009</u>	<u>2008</u>
Membership dues	\$ 201,377	\$ 108,535
Entry fees	63,065	23,785
Interest income	3,846	2,956
Total revenue	<u>268,288</u>	<u>135,276</u>
EXPENSES		
Professional services	133,653	67,391
Administrative expenses	98,977	30,563
Depreciation	13,009	6,211
Office expense	18,747	4,215
Miscellaneous	4,616	1,837
Total expenses	<u>269,002</u>	<u>110,217</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(714)	25,059
UNRESTRICTED NET ASSETS, beginning of year	<u>64,022</u>	<u>38,963</u>
UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 63,308</u></u>	<u><u>\$ 64,022</u></u>

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2009</u>	<u>2008</u>
Increase (decrease) in net assets	\$ (714)	\$ 25,059
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	13,009	6,211
Change in:		
Accounts receivable	3,531	39,817
Amounts due to Iowa State Association of Counties	45,045	(52,457)
Accounts payable	216	(1,685)
Deferred revenue	<u>(1,536)</u>	<u>(25,497)</u>
Net cash provided (used) by operating activities	59,551	(8,552)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and computer software	<u>(14,785)</u>	<u>(46,070)</u>
 Net increase (decrease) in cash and cash equivalents	44,766	(54,622)
 CASH AND CASH EQUIVALENTS, beginning of year	<u>74,757</u>	<u>129,379</u>
 CASH AND CASH EQUIVALENTS, end of year	<u>\$ 119,523</u>	<u>\$ 74,757</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.

Basis of Presentation - The financial statements are reported using the accrual basis of accounting. The Organization follows private-sector generally accepted accounting standards for not-for-profit organizations to the extent those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board (GASB).

Cash and cash equivalents - Cash and cash equivalents include bank deposits and funds invested in broker money market accounts.

The Organization's deposits in banks at June 30, 2009, totaled approximately \$24,000. These deposits were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds. At June 30, 2009, ETC had funds totaling approximately \$95,000 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.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE B - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2009 and 2008:

	2009	2008
Equipment	\$ 63,832	\$ 51,690
Computer software	42,894	40,251
	106,726	91,941
Less accumulated depreciation	(59,354)	(46,345)
	<u>\$ 47,372</u>	<u>\$ 45,596</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 2009 as presented on the Statement of Net Assets includes expenses of \$66,830 incurred by ISAC on behalf of ETC during the year. Administrative and other expenses paid by ISAC on behalf of ETC totaled \$170,953 and \$58,558 for fiscal years 2009 and 2008, 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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Program expenses	\$ 238,117	\$ 102,626
Fundraising costs	-	-
General and administration	<u>30,885</u>	<u>7,591</u>
Total expenses	<u>\$ 269,002</u>	<u>\$ 110,217</u>

NOTE E - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2009, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statement or disclosure is September 25, 2009, which is the date on which the financial statements were issued.

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, CFD

**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, 2009 and have issued our report thereon dated September 25, 2009. 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, 2009 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
September 25, 2009

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

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.