

ELECTRONIC TRANSACTIONS CLEARINGHOUSE

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2010 AND 2009

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2010

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Charles Rieken	President	Cass County
Marjorie Pitts	1 st Vice President	Clay County
Wayne Walter	2 nd Vice President	Winneshiek County
Darin Raymond	3 rd Vice President	Plymouth County
Tim McGee	Member	Lucas County
Dan Cohen	Member	Buchanan County
Lori Elam	Member	Scott 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
Mike Balmer	Member	Jasper County
Harlan Hansen	Member	Humboldt County
Melvyn Houser	Member	Pottawattamie County
Anna O'Shea	Member	Dubuque County
Gary Anderson	Past President	Appanoose 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, 2010 and 2009, 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 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. 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, 2010 and 2009, 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 29, 2010, 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 29, 2010

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and the American Institute of Certified Public Accountants

Founded in 1946

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, 2010. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization's total revenue increased 24%, or approximately \$65,600, from fiscal 2009 to fiscal 2010, due to an increase in membership dues offset by a decrease in entry fees. No new counties became members during fiscal 2010; there were twenty new members in fiscal 2009.
- The Organization's total expenses increased 24%, or approximately \$65,600, in fiscal 2010, primarily as a result of the increase in administrative expense and professional services.
- The Organization's net assets decreased 0.1%, or \$87, from June 30, 2009 to June 30, 2010.

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 as of June 30, 2010 totaled approximately \$63,200. A summary of ETC's net assets is presented below:

	June 30,	
	2010	2009
Current assets	\$ 78,396	\$ 119,523
Property and equipment at cost, less accumulated depreciation	32,657	47,372
Total assets	111,053	166,895
Less current liabilities	47,832	103,587
Total net assets – unrestricted	\$ 63,221	\$ 63,308

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 and debt forgiveness 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, 2010 and 2009 is presented below:

Changes in Net Assets		June 30,	
	2010	2009	
Revenue			
Membership dues	\$ 296,400	\$ 201,377	
Entry fees	-	63,065	
Interest income	1,020	3,846	
Miscellaneous income	36,494	-	
Total revenue	333,914	268,288	
Expenses			
Professional services	171,274	133,653	
Administrative expenses	128,733	98,977	
Depreciation	14,715	13,009	
Office expense	12,997	18,747	
Miscellaneous	6,282	4,616	
Total expenses	334,001	269,002	
Decrease in net assets	(87)	(714)	
Net assets, beginning of year	63,308	64,022	
Net assets, end of year	\$ 63,221	\$ 63,308	

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease of \$87 in net assets for the 2010 fiscal year. In fiscal 2010, as compared to fiscal 2009, total revenues increased by approximately \$65,600, or 24%, primarily as the result of an increase in membership dues of approximately \$95,600 and an increase in miscellaneous income of approximately \$36,500, which was offset by a decrease in entry fees of approximately \$63,100. Total expenses increased by approximately \$65,000, or 24%. 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 used by operating activities during fiscal year 2010 primarily includes membership dues received less cash payments for professional services and administrative costs. Cash provided by investing activities primarily includes proceeds from maturities and sales of investments, net of purchases of certificates of deposit.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

CAPITAL ASSETS

At June 30, 2010, ETC had \$32,660 invested in capital assets, net of accumulated depreciation of \$74,100. Depreciation charges totaled \$14,715 for fiscal 2010. 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 continued to encompass all 99 Iowa counties in fiscal 2010. ETC has developed as the platform for development and implementation of the Community Services Network (CSN). During 2009, members approved an amendment to the ETC 28E agreement that modified the allocation of expenses amongst the membership of the 28E agreement, which became effective for the dues collected by ETC in fiscal year 2010. The new allocation formula spreads 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 in an effort to improve efficiency in management and operation of the programs. 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, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,874	\$ 24,051
Investments - marketable securities	-	95,472
Investments - certificates of deposit	75,000	-
Interest receivable	522	-
Total current assets	78,396	119,523
PROPERTY AND EQUIPMENT		
Furniture and equipment	63,832	63,832
Computer software	42,894	42,894
	106,726	106,726
Less accumulated depreciation	(74,069)	(59,354)
Net property and equipment	32,657	47,372
 TOTAL ASSETS	\$ 111,053	\$ 166,895

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Due to Iowa State Association of Counties	\$ 47,832	\$ 103,324
Accounts payable	-	263
Total current liabilities	47,832	103,587
Net assets - unrestricted	63,221	63,308
 TOTAL LIABILITIES AND NET ASSETS	\$ 111,053	\$ 166,895

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, 2010 AND 2009

REVENUE	<u>2010</u>	<u>2009</u>
Membership dues	\$ 296,400	\$ 201,377
Entry fees	-	63,065
Interest income	1,020	3,846
Miscellaneous income	36,494	-
Total revenue	<u>333,914</u>	<u>268,288</u>
EXPENSES		
Professional services	171,274	133,653
Administrative expenses	128,733	98,977
Depreciation	14,715	13,009
Office expense	12,997	18,747
Miscellaneous	6,282	4,616
Total expenses	<u>334,001</u>	<u>269,002</u>
DECREASE IN UNRESTRICTED NET ASSETS	(87)	(714)
UNRESTRICTED NET ASSETS, beginning of year	<u>63,308</u>	<u>64,022</u>
UNRESTRICTED NET ASSETS, end of year	<u><u>\$ 63,221</u></u>	<u><u>\$ 63,308</u></u>

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2010</u>	<u>2009</u>
Decrease in net assets	\$ (87)	\$ (714)
Adjustments to reconcile decrease in net assets to net cash provided (used) by operating activities:		
Depreciation	14,715	13,009
Start-up costs forgiven	(36,494)	-
Change in:		
Accounts receivable	(522)	3,531
Amounts due to Iowa State Association of Counties	(18,998)	45,045
Accounts payable	(263)	216
Deferred revenue	-	(1,536)
	<hr/>	<hr/>
Net cash provided (used) by operating activities	(41,649)	59,551
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and computer software	-	(14,785)
Proceeds from maturities and sales of investments	170,472	-
Purchase of investments	(150,000)	(43,332)
	<hr/>	<hr/>
Net cash provided (used) by investing activities	20,472	(58,117)
 Net increase (decrease) in cash and cash equivalents	(21,177)	1,434
 CASH AND CASH EQUIVALENTS, beginning of year	<hr/> 24,051	<hr/> 22,617
 CASH AND CASH EQUIVALENTS, end of year	<hr/> <u>\$ 2,874</u>	<hr/> <u>\$ 24,051</u>
 NONCASH ACTIVITY		
Start-up costs payable to the Iowa State Association of Counties forgiven during the year	<hr/> <u>\$ 36,494</u>	<hr/> <u>\$ -</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 - ETC considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

The Organization's deposits in banks at June 30, 2010, totaled approximately \$2,800. 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.

Investments - The Organization's investments are presented at fair value. See Note C for discussion of fair value measurements. Changes in unrealized gains and losses, if any, are included as a component of investment income on the statement of revenues, expenses and changes in net assets.

Property and Equipment - Property and equipment are stated at cost. Depreciation is provided by the straight line method over the estimated economic useful lives of assets, ranging from three to seven years.

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 Tax Matters - ETC was formed as a joint venture between participating member counties and the Iowa State Association of Counties and was established under Chapter 28E of the Iowa Code. As the result of its status as a 28E organization, it is exempt from income taxes and has no income tax filing requirements.

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

NOTE B - INVESTMENTS

Investments – marketable securities held of June 30, 2009 consisted primarily of mutual fund investments.

Investments – certificates of deposit held at June 30, 2010 consists of a bank certificate of deposit that bears interest at a rate of 0.85% and matures in September 2010.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE C - FAIR VALUE MEASUREMENTS

Professional standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investments, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investments.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

At June 30, 2009, the Organization's investments were Level 1 assets, except for a \$427 money market account, which was a Level 2 asset. At June 30, 2010, the Organization had no investments in marketable securities.

NOTE D - 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 at June 30, 2010 as presented on the Statement of Net Assets includes expenses of \$47,832 incurred by ISAC on behalf of ETC during the year then ended. Administrative and other expenses paid by ISAC on behalf of ETC totaled \$210,400 and \$170,953 for fiscal years 2010 and 2009, respectively.

Miscellaneous income for the year ended June 30, 2010 arose from start-up costs paid by ISAC in prior years which were forgiven during the year.

The Organization incurred costs totaling approximately \$161,000 toward the development of the CSN software system during the year ended June 30, 2010. There were no such costs during the year ended June 30, 2009. These costs are included in Professional services and Administrative expenses on the Statements of Revenues, Expenses and Changes in Net Assets.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
NOTES TO FINANCIAL STATEMENTS

NOTE E - 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Program expenses	\$ 306,774	\$ 238,117
Fundraising costs	-	-
General and administration	<u>27,227</u>	<u>30,885</u>
Total expenses	<u>\$ 334,001</u>	<u>\$ 269,002</u>

NOTE F - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2010, the date of the most recent statement of net assets, have been evaluated for possible adjustment to the financial statements or disclosures is September 29, 2010, which is the date the financial statements were available to be issued.



Partners

Michael E. Brinker, CPA
David W. Hurst, CPA
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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
Electronic Transactions Clearinghouse

We have audited the accompanying financial statements of Electronic Transactions Clearinghouse as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. 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 Electronic Transactions Clearinghouse's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an 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 over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Electronic Transactions Clearinghouse's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material. 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, 2010 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 Board of Directors and Electronic Transactions Clearinghouse's management and other parties to whom the Organization may report. This 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 29, 2010

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

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.