

IOWA STATE ASSOCIATION OF COUNTIES

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

JUNE 30, 2010 AND 2009

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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, 2010 and 2009, 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, 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 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, 2010, was made primarily to form an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on page 15 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
September 29, 2010

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IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

	Iowa State Association of Counties		Electronic Transactions Clearinghouse	ISAC Education Foundation		Eliminations	Total
	Association Activities	Program Activities		Total	Foundation		
Cash and cash equivalents	\$ 36,119	\$ 166,431	\$ 2,874	\$ 28,565	\$ -	\$ -	\$ 233,989
Investments in marketable securities	557,324	20,175,428	-	11,346	-	-	20,744,098
Investments in certificates of deposit	753,187	2,297,521	75,000	50,000	-	-	3,175,708
Accounts receivable	128,753	113,643	522	2,376	(60,447)	-	184,847
Prepaid expenses	31,151	-	-	-	-	-	31,151
Due from Wellmark	-	443,749	-	-	-	-	443,749
Interest receivable	5,772	180,836	-	-	-	-	186,608
Property and equipment, net of accumulated depreciation	66,767	-	32,657	-	-	-	99,424
Software development costs	857,125	-	-	-	-	-	857,125
TOTAL ASSETS	\$ 2,436,198	\$ 23,377,608	\$ 111,053	\$ 92,287	\$ (60,447)	\$ -	\$ 25,956,699
Accounts payable and accrued liabilities	\$ 36,414	\$ 102,558	\$ 47,831	\$ 47,552	\$ (60,447)	\$ -	\$ 173,908
Claims incurred but not reported	-	2,963,512	-	-	-	-	2,963,512
Unearned revenue	19,451	77,616	-	24,240	-	-	121,307
Compensated absences	61,958	-	-	-	-	-	61,958
Funds held for benefit of members	-	20,233,922	-	-	-	-	20,233,922
TOTAL LIABILITIES	117,823	23,377,608	47,831	71,792	(60,447)	(60,447)	23,554,607
NET ASSETS - UNRESTRICTED	2,318,375	-	63,222	20,495	-	-	2,402,092
TOTAL LIABILITIES AND NET ASSETS	\$ 2,436,198	\$ 23,377,608	\$ 111,053	\$ 92,287	\$ (60,447)	\$ (60,447)	\$ 25,956,699

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

	Iowa State Association of Counties			Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
	Association Activities	Program Activities	Total				
Cash and cash equivalents	\$ 101,980	\$ 890,170	\$ 992,150	\$ 24,051	\$ 24,697	\$ -	\$ 1,040,898
Investments in marketable securities	682,475	21,636,210	22,318,685	95,472	17,385	-	22,431,542
Investments in certificates of deposit	634,405	701,099	1,335,504	-	50,000	-	1,385,504
Accounts receivable	214,085	100,094	314,179	-	7,659	(130,042)	191,796
Prepaid expenses	20,523	-	20,523	-	-	-	20,523
Due from Wellmark	-	377,472	377,472	-	-	-	377,472
Interest receivable	7,865	179,936	187,801	-	-	-	187,801
Property and equipment, net of accumulated depreciation	86,190	-	86,190	47,372	-	-	133,562
Software development costs	683,156	-	683,156	-	-	-	683,156
TOTAL ASSETS	\$ 2,430,679	\$ 23,884,981	\$ 26,315,660	\$ 166,895	\$ 99,741	\$ (130,042)	\$ 26,452,254
Accounts payable and accrued liabilities	\$ 94,825	\$ 102,145	\$ 196,970	\$ 103,586	\$ 41,735	\$ (130,042)	\$ 212,249
Claims incurred but not reported	-	2,784,094	2,784,094	-	-	-	2,784,094
Unearned revenue	32,956	-	32,956	-	27,725	-	60,681
Compensated absences	66,754	-	66,754	-	-	-	66,754
Funds held for benefit of members	-	20,998,742	20,998,742	-	-	-	20,998,742
TOTAL LIABILITIES	194,535	23,884,981	24,079,516	103,586	69,460	(130,042)	24,122,520
NET ASSETS	2,236,144	-	2,236,144	63,309	30,281	-	2,329,734
TOTAL LIABILITIES AND NET ASSETS	\$ 2,430,679	\$ 23,884,981	\$ 26,315,660	\$ 166,895	\$ 99,741	\$ (130,042)	\$ 26,452,254

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

REVENUE	Iowa State Association of Counties			
	Association Activities		Program	
	Budget	Actual	Activities	Total
Schools, workshops, committees & seminars	\$ 268,750	\$ 240,162	\$ -	\$ 240,162
Contributions	-	-	13,800	13,800
Grants	-	-	-	-
Dues	496,250	491,616	-	491,616
Program entry fees	-	-	-	-
Royalties	336,300	351,519	-	351,519
Investment income	50,000	17,213	412,591	429,804
Magazine advertising and subscriptions	44,000	36,441	-	36,441
Administration fees	868,235	889,018	-	889,018
County premiums	-	-	20,430,789	20,430,789
Special event revenue	-	-	-	-
Miscellaneous	-	35,940	-	35,940
Total Revenues	2,063,535	2,061,909	20,857,180	22,919,089
EXPENSES				
Salaries and fringe benefits	1,519,715	1,283,239	-	1,283,239
Schools, workshops and meetings	168,000	149,802	-	149,802
Board of Directors' meeting expenses	35,000	46,599	-	46,599
Other board authorized expense	2,000	2,061	-	2,061
NACO conference	15,000	10,010	-	10,010
Staff travel and training	45,000	40,565	-	40,565
Public relations	1,000	231	-	231
Consulting/professional services	25,000	35,969	-	35,969
Rents and utilities	182,560	183,900	-	183,900
Building committee expenses	-	45,625	-	45,625
Supplies, printing and postage	19,000	14,275	-	14,275
Computer supplies	2,000	-	-	-
Equipment rental and repair	3,500	-	-	-
Depreciation expense	-	33,238	-	33,238
Maintenance agreements	19,850	17,524	-	17,524
Professional membership	3,500	3,030	-	3,030
Library	6,000	3,202	-	3,202
Magazine	37,500	39,991	-	39,991
Insurance and bonds	23,500	20,668	-	20,668
Acquisition of property and equipment	25,000	-	-	-
Special event expense	-	-	-	-
Miscellaneous	7,500	46,369	39,673	86,042
Scholarships	-	-	-	-
Claims and premiums paid	-	-	20,827,082	20,827,082
Change in claims incurred but not reported	-	-	179,418	179,418
Administration	-	-	275,563	275,563
Wellness program	-	-	300,264	300,264
County technologies clearinghouse	18,000	3,380	-	3,380
Project management and development	-	-	-	-
Total Expenses	2,158,625	1,979,678	21,622,000	23,601,678
DECREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (764,820)	(764,820)
INCREASE (DECREASE) IN NET ASSETS	\$ (95,090)	82,231		82,231
NET ASSETS, BEGINNING OF YEAR		2,236,144		2,236,144
NET ASSETS, END OF YEAR		\$ 2,318,375		\$ 2,318,375

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

Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total	Prior Year Total
\$ -	\$ -	\$ -	\$ 240,162	\$ 305,291
-	-	-	13,800	4,000
-	-	-	-	474,162
296,400	-	-	788,016	697,157
-	-	-	-	63,065
-	-	-	351,519	371,483
1,020	452	-	431,276	1,106,052
-	-	-	36,441	50,259
-	-	(2,105)	886,913	904,292
-	-	-	20,430,789	19,187,786
-	37,907	-	37,907	443
36,494	1,977	(71,929)	2,482	6,951
333,914	40,336	(74,034)	23,219,305	23,170,941
-	-	-	1,283,239	1,393,667
-	-	-	149,802	187,967
-	-	-	46,599	43,506
-	-	-	2,061	1,500
-	-	-	10,010	9,531
-	-	-	40,565	40,325
-	-	-	231	2,694
-	-	-	35,969	30,516
-	-	-	183,900	186,299
-	-	-	45,625	-
12,997	-	-	27,272	33,180
-	-	-	-	-
-	-	-	-	-
14,715	-	-	47,953	37,630
-	-	-	17,524	16,547
-	-	-	3,030	3,288
-	-	-	3,202	8,285
-	-	-	39,991	35,245
-	-	-	20,668	20,470
-	-	-	-	-
-	11,371	-	11,371	25
6,282	240	(71,929)	20,635	29,162
-	38,511	-	38,511	44,133
-	-	-	20,827,082	19,648,658
-	-	-	179,418	227,991
128,733	-	(2,105)	402,191	373,862
-	-	-	300,264	91,601
-	-	-	3,380	9,073
171,274	-	-	171,274	129,603
334,001	50,122	(74,034)	23,911,767	22,604,758
-	-	-	(764,820)	(28,717)
(87)	(9,786)	-	72,358	594,900
63,309	30,281	-	2,329,734	1,734,834
\$ 63,222	\$ 20,495	-	\$ 2,402,092	\$ 2,329,734

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

REVENUE	Iowa State Association of Counties			
	Association Activities		Program	
	Budget	Actual	Activities	Total
Schools, workshops, committees & seminars	\$ 267,000	\$ 305,291	\$ -	\$ 305,291
Contributions	-	-	-	-
Grants	-	474,162	-	474,162
Dues	502,250	495,780	-	495,780
Program entry fees	-	-	-	-
Royalties	297,300	371,483	-	371,483
Investment income	55,000	64,457	1,035,402	1,099,859
Magazine advertising and subscriptions	53,000	50,259	-	50,259
Administration fees	890,254	905,427	-	905,427
County premiums	-	-	19,187,786	19,187,786
Special event revenue	-	-	-	-
Miscellaneous	-	6,781	-	6,781
Total Revenues	2,064,804	2,673,640	20,223,188	22,896,828
EXPENSES				
Salaries and fringe benefits	1,504,709	1,393,667	-	1,393,667
Schools, workshops and meetings	129,500	187,967	-	187,967
Board of Directors' meeting expenses	35,000	43,506	-	43,506
Other board authorized expense	5,000	1,500	-	1,500
NACO conference	20,000	9,531	-	9,531
Staff travel and training	65,000	40,325	-	40,325
Public relations	2,000	2,694	-	2,694
Consulting/professional services	20,200	26,466	-	26,466
Rents and utilities	182,380	186,299	-	186,299
Supplies, printing and postage	37,200	14,433	-	14,433
Computer supplies	5,000	-	-	-
Equipment rental and repair	5,500	-	-	-
Depreciation expense	-	24,621	-	24,621
Maintenance agreements	19,000	16,547	-	16,547
Professional membership	3,500	3,288	-	3,288
Library	10,000	8,285	-	8,285
Magazine	37,500	35,245	-	35,245
Insurance and bonds	25,000	20,470	-	20,470
Acquisition of property and equipment	35,000	-	-	-
Special event expense	-	-	-	-
Miscellaneous	2,500	16,765	7,635	24,400
Scholarships	-	-	-	-
Claims and premiums paid	-	-	19,648,658	19,648,658
Change in claims incurred but not reported	-	-	227,991	227,991
Administration	-	-	276,020	276,020
Wellness program	-	-	91,601	91,601
County technologies clearinghouse	20,000	9,073	-	9,073
Project management and development	-	-	-	-
Total Expenses	2,163,989	2,040,682	20,251,905	22,292,587
DECREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (28,717)	(28,717)
INCREASE (DECREASE) IN NET ASSETS	\$ (99,185)	632,958		632,958
NET ASSETS, BEGINNING OF YEAR		1,603,186		1,603,186
NET ASSETS, END OF YEAR		\$ 2,236,144		\$ 2,236,144

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

Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
\$ -	\$ -	\$ -	\$ 305,291
-	4,000	-	4,000
-	-	-	474,162
201,377	-	-	697,157
63,065	-	-	63,065
-	-	-	371,483
3,846	2,347	-	1,106,052
-	-	-	50,259
-	-	(1,135)	904,292
-	-	-	19,187,786
-	443	-	443
-	170	-	6,951
<u>268,288</u>	<u>6,960</u>	<u>(1,135)</u>	<u>23,170,941</u>
-	-	-	1,393,667
-	-	-	187,967
-	-	-	43,506
-	-	-	1,500
-	-	-	9,531
-	-	-	40,325
-	-	-	2,694
4,050	-	-	30,516
-	-	-	186,299
18,747	-	-	33,180
-	-	-	-
-	-	-	-
13,009	-	-	37,630
-	-	-	16,547
-	-	-	3,288
-	-	-	8,285
-	-	-	35,245
-	-	-	20,470
-	-	-	-
-	25	-	25
4,615	147	-	29,162
-	44,133	-	44,133
-	-	-	19,648,658
-	-	-	227,991
98,977	-	(1,135)	373,862
-	-	-	91,601
-	-	-	9,073
<u>129,603</u>	<u>-</u>	<u>-</u>	<u>129,603</u>
<u>269,001</u>	<u>44,305</u>	<u>(1,135)</u>	<u>22,604,758</u>
-	-	-	(28,717)
(713)	(37,345)	-	594,900
<u>64,022</u>	<u>67,626</u>	-	<u>1,734,834</u>
<u>\$ 63,309</u>	<u>\$ 30,281</u>	-	<u>\$ 2,329,734</u>

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2010 AND 2009

Year Ended June 30, 2010

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Investment income	\$ 379,336	\$ 23	\$ 33,232
Contributions	-	-	-
County premiums	20,010,185	142,775	277,829
Total Revenues	20,389,521	142,798	311,061
EXPENSES			
Miscellaneous	4,072	35,492	109
Claims and premiums paid	20,394,905	132,577	299,600
Change in claims incurred but not reported	179,418	-	-
Administration	249,131	10,750	15,682
Wellness program	300,264	-	-
Total Expenses	21,127,790	178,819	315,391
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	(738,269)	(36,021)	(4,330)
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	18,868,760	36,059	2,084,293
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 18,130,491	\$ 38	\$ 2,079,963

Year Ended June 30, 2009

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Investment income	\$ 934,791	\$ 592	\$ 100,019
County premiums	18,817,555	116,832	253,399
Total Revenues	19,752,346	117,424	353,418
EXPENSES			
Miscellaneous	7,363	247	25
Claims and premiums paid	19,332,660	107,880	208,118
Change in claims incurred but not reported	227,991	-	-
Administration	251,812	8,860	15,348
Wellness program	91,601	-	-
Total Expenses	19,911,427	116,987	223,491
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	(159,081)	437	129,927
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	19,027,841	35,622	1,954,366
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 18,868,760	\$ 36,059	\$ 2,084,293

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

Multi-County Service Agency Fund	Total Program Activities
\$ -	\$ 412,591
13,800	13,800
-	20,430,789
<u>13,800</u>	<u>20,857,180</u>
-	39,673
-	20,827,082
-	179,418
-	275,563
-	300,264
<u>-</u>	<u>21,622,000</u>
13,800	(764,820)
<u>9,630</u>	<u>20,998,742</u>
<u>\$ 23,430</u>	<u>\$ 20,233,922</u>

Multi-County Service Agency Fund	Total Program Activities
\$ -	\$ 1,035,402
-	19,187,786
<u>-</u>	<u>20,223,188</u>
-	7,635
-	19,648,658
-	227,991
-	276,020
-	91,601
<u>-</u>	<u>20,251,905</u>
-	(28,717)
<u>9,630</u>	<u>21,027,459</u>
<u>\$ 9,630</u>	<u>\$ 20,998,742</u>

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 72,358	\$ 594,900
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	47,953	37,630
Realized and unrealized (gains) losses on investments	283,402	(301,438)
Change in:		
Accounts receivable	(59,328)	(49,423)
Prepaid expenses	(10,628)	(15,099)
Interest receivable	1,193	19,455
Accounts payable and accrued liabilities	(38,341)	(13,192)
Claims incurred but not reported	179,418	227,991
Funds held for benefit of members	(764,820)	(28,717)
Unearned revenue	60,626	(357,985)
Compensated absences	(4,796)	(19,071)
	(232,963)	95,051
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(13,815)	(61,004)
Software development costs	(173,969)	(479,156)
Proceeds from maturities and sales of investments	8,330,289	18,277,005
Purchases of investments	(8,716,451)	(17,607,793)
	(573,946)	129,052
Net cash provided (used) by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(806,909)	224,103
CASH AND CASH EQUIVALENTS, beginning of year	1,040,898	816,795
CASH AND CASH EQUIVALENTS, end of year	\$ 233,989	\$ 1,040,898

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 an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) transactions for member Iowa counties. ETC 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 also 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 \$402,191 and \$373,862 during 2010 and 2009, 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. The Association capitalizes purchases of \$200 or greater. Depreciation is provided using the straight-line method over the estimated economic useful lives of the assets, ranging from three to fifteen years.

Investments - The Association's investments are presented at fair value using a fair value hierarchy (Note B). Quoted market prices are used to value investments. Changes in unrealized gains and losses, if any, are included as a component of investment income on the statement of activities.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

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

Accounts Receivable - Accounts receivable consist primarily of premiums due from counties and administrative fees due from other entities. Management periodically reviews outstanding accounts receivable to determine whether an allowance for uncollectible accounts should be established. No allowance related to accounts receivable was considered necessary at June 30, 2010 or 2009.

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.

Interest and penalties associated with income tax matters would be presented as components of income tax expense. There were no interest or penalty charges during 2010 or 2009. The Association's prior three years' tax returns remain subject to examination by the Internal Revenue Service.

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.

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.

Concentration of Credit Risk - The Association and ETC has funds totaling approximately \$736,000 invested in money market accounts not insured by the FDIC. This risk is managed by maintaining all deposits in high quality financial institutions.

Software Development Costs - The Organization capitalizes costs incurred for the development of software for the benefit of members.

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 endorses various organizations such as the Iowa Public Agency Investment Trust, Iowa Communities Assurance Pool, and the Iowa Municipal Workers' Compensation Association. The Association receives a royalty based upon a percentage of members' deposits in the endorsed companies.

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

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS - MARKETABLE SECURITIES

Investments are comprised of the following:

2010			
	Cost	Fair Value	Unrealized Gains (Losses)
Money market accounts	\$ 1,353,937	\$ 1,353,937	\$ -
U.S. Treasury Notes	8,166,291	8,360,926	194,635
Federal Home Loan Bank Notes and Debentures	3,210,620	3,159,119	(51,501)
Federal Home Loan Mortgage Corporation Notes	3,504,577	3,399,734	(104,843)
Federal National Mortgage Assn. Notes	2,615,950	2,552,702	(63,248)
Federal Farm Credit Bank Notes and Debentures	1,916,923	1,917,680	757
	\$ 20,768,298	\$ 20,744,098	\$ (24,200)

2009			
	Cost	Fair Value	Unrealized Gains (Losses)
Money markets	\$ 1,741,850	\$ 1,741,850	\$ -
U.S. Treasury Notes	6,554,510	6,724,772	170,262
Federal Home Loan Bank Notes and Debentures	6,667,534	6,717,305	49,771
Federal Home Loan Mortgage Corporation Notes	5,188,192	5,176,947	(11,245)
Federal National Mortgage Assn. Notes	1,185,014	1,155,440	(29,574)
Federal Farm Credit Bank Notes and Debentures	887,823	915,228	27,405
	\$ 22,224,923	\$ 22,431,542	\$ 206,619

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS - MARKETABLE SECURITIES - continued

The fair value of investments at June 30, 2010 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.

	2011	2012	2013	2014	Total
Money market accounts	\$ 1,353,937	\$ -	\$ -	\$ -	\$ 1,353,937
U.S. Treasury Notes	5,368,972	1,469,214	1,013,715	509,025	8,360,926
Federal Home Loan Bank Notes and Debentures	2,106,084	546,705	506,330	-	3,159,119
Federal Home Loan Mortgage Corporation Notes	3,399,734	-	-	-	3,399,734
Federal National Mortgage Association Notes	1,558,285	449,557	544,860	-	2,552,702
Federal Farm Credit Bank Notes and Debentures	1,917,680	-	-	-	1,917,680
	<u>\$ 15,704,692</u>	<u>\$ 2,465,476</u>	<u>\$ 2,064,905</u>	<u>\$ 509,025</u>	<u>\$ 20,744,098</u>

Professional standards establish a framework for measuring 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 measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- 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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS - MARKETABLE SECURITIES - continued

The following table presents financial instruments that are measured at fair value on a recurring basis:

	Total	Level I Quoted Prices In Active Markets of Identical Assets	Level II Significant Observable Inputs	Level III Significant Unobservable Inputs
Money market accounts	\$ 1,353,937	\$ -	\$ 1,353,937	\$ -
U.S Treasury Notes	8,360,926	8,360,926	-	-
Federal Home Loan Bank Notes and Debentures	3,159,119	3,159,119	-	-
Federal Home Loan Mortgage Corporation Notes	3,399,734	3,399,734	-	-
Federal National Mortgage Association Notes	2,552,702	2,552,702	-	-
Federal Farm Credit Bank Notes and Debentures	1,917,680	1,917,680	-	-
	<u>\$ 20,744,098</u>	<u>\$ 19,390,161</u>	<u>\$ 1,353,937</u>	<u>\$ -</u>

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

	2010	2009
Interest income, net of investment fees of \$39,585 and \$44,329 for 2010 and 2009, respectively	\$ 714,679	\$ 804,962
Net realized and unrealized gains (losses) on investments	(283,403)	301,090
Net investment income	<u>\$ 431,276</u>	<u>\$ 1,106,052</u>

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the Association's investment balances.

NOTE C - INVESTMENTS - CERTIFICATES OF DEPOSIT

Investments in certificates of deposit bear interest at rates ranging between .8% and 2.50% at June 30, 2010. Anticipated future maturities of the certificates of deposit are \$1,514,254 in fiscal year 2011 and \$1,661,454 in fiscal year 2012.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE D - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 85,493	\$ 85,493
Equipment	225,844	218,242
Computer software	102,347	99,978
	<u>413,684</u>	<u>403,713</u>
Less accumulated depreciation	(314,260)	(270,151)
	<u>\$ 99,424</u>	<u>\$ 133,562</u>

NOTE E - SOFTWARE DEVELOPMENT COSTS

The Association is developing software for the long-term benefit of its members. The system will serve as a tool to assist counties in managing clients and services. In accordance with U.S. generally accepted accounting principles, the cost of the software is not being amortized as it has not been placed in service as of June 30, 2010.

NOTE F - LEASE COMMITMENTS

The Association leases its office space under a long-term operating 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>	
2011	134,408
2012	91,952
Total future minimum lease payments	<u>\$ 226,360</u>

Office rent expense totaled \$137,797 and \$139,493 during 2010 and 2009, respectively.

NOTE G - RETIREMENT PLAN

The Association sponsors a 457(g) defined contribution retirement plan in which all employees are eligible to participate. In addition, the Association also sponsors a 401(a) defined contribution retirement plan for employer contributions. Employer contributions to the 401(a) plan are equal to 6.95% of an employee's eligible compensation; however, the employee is required to contribute 3.3% of eligible wages to the 457(g) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2010 and 2009 totaled \$72,606 and \$79,837, respectively.

NOTE H - 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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE H - CONTINGENT LIABILITIES - continued

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 liability for claims incurred but not reported (IBNR) at June 30, 2010 and 2009 was estimated by an actuary. 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 June 30.

NOTE I - 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Salaries and other personnel costs	\$ 169,302	\$ 168,666
General operating expenses	24,787	37,159
Education/information expenses	30,046	33,234
Meetings, committees, and workshops	35,290	25,886
	<u>\$ 259,425</u>	<u>\$ 264,945</u>

NOTE J - RELATED PARTY TRANSACTIONS

The Association provides County Case Management Services and County Rate Information Systems (entities formed under Iowa Code Chapter 28E) with management and administrative services. Administrative fees billed to the organizations totaled \$28,786 and \$27,204 for the years ended June 30, 2010 and 2009, respectively, and is included in administration fees revenue. The Association remits payments for costs incurred by the organizations and the organizations periodically reimburse the Association throughout the year for those costs. Amounts billed to the organizations by the Association and included in administration fees revenue totaled \$309,228 and \$370,833 for the years ended June 30, 2010 and 2009, respectively. The organizations owed the Association \$26,992 and \$39,324 for these services at June 30, 2010 and 2009, respectively.

NOTE K - GRANT REVENUE

During fiscal year 2009, the Association received grant funding to create a central data system that ties together counties' community services systems and allows citizens online access to see what services are available.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE L - BOARD DESIGNATED NET ASSETS

The Organization's Board of Directors has designated the following amounts of its net assets:

Future needs and special projects (a specific purpose has not yet been identified)	\$ 506,539
Future non-budgeted replacement of property and equipment	175,000
Future building needs	27,882
Future transfer of CSN computer software under development	857,125
	<u>\$ 1,566,546</u>

NOTE M - SUBSEQUENT EVENTS

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

SUPPLEMENTAL INFORMATION

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION -
PROGRAM ACTIVITIES
JUNE 30, 2010

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 127,285	\$ 13,215	\$ 2,501	\$ 23,430	\$ 166,431
Investments in marketable securities	18,652,491	-	1,522,937	-	20,175,428
Investments in certificates of deposit	1,807,494	-	490,027	-	2,297,521
Accounts receivable	-	11,420	102,223	-	113,643
Due from Wellmark	443,749	-	-	-	443,749
Interest receivable	169,243	-	11,593	-	180,836
Total Assets	\$ 21,200,262	\$ 24,635	\$ 2,129,281	\$ 23,430	\$ 23,377,608

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 28,643	\$ 24,597	\$ 49,318	\$ -	\$ 102,558
Claims incurred but not reported	2,963,512	-	-	-	2,963,512
Unearned revenue	77,616	-	-	-	77,616
Funds held for the benefit of members	18,130,491	38	2,079,963	23,430	20,233,922
Total Liabilities	21,200,262	24,635	2,129,281	23,430	23,377,608
NET ASSETS - Unrestricted	-	-	-	-	-
Total Liabilities and Net Assets	\$ 21,200,262	\$ 24,635	\$ 2,129,281	\$ 23,430	\$ 23,377,608



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 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, 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 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 Iowa State Association of Counties' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa State Association of Counties' 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 the Iowa State Association of Counties' 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 would not necessarily identify all deficiencies in internal control over financial reporting 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, 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 members and Board of Directors and management of Iowa State Association of Counties and other parties to whom the Association may report. The report is not intended to be and should not be used by anyone other than these specified parties

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

West Des Moines, Iowa
September 29, 2010