ELECTRONIC TRANSACTIONS CLEARINGHOUSE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2011 AND 2010

CONTENTS

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2011

Name	Title	Representing
Marjorie Pitts	President	Clay County
Wayne Walter	1st Vice President	Winneshiek County
Darin Raymond	2nd Vice President	Plymouth County
Harlan Hansen	3rd Vice President	Humboldt County
Dan Cohen	Member	Buchanan County
Lori Elam	Member	Scott 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
Melvyn Houser	Member	Pottawattamie County
Anna O'Shea	Member	Dubuque County
Deb McWhirter	Member	Butler County
David Morlan	Member	Boone County
Sally Stutsman	Member	Johnson County
Lu Baron	Member	Linn County
Judy Miller	Member	Pottawattamie County
Charles Rieken	Past President	Cass County
Grant Veeder	NACo Representative	Black Hawk County

McGowen
Hurst
Clark
& Certified Public Accountants
Business Advisors
Smith, P.C.

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, CFFA

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, 2011 and 2010, 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, 2011 and 2010, 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 30, 2011, 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 30, 2011

1601 West Lakes Parkway, Suite 300
West Des Moines, Iowa 50266
515-288-3279 • Fax: 515-280-1490

www.mhcscpa.com

Members of CPAmerica International
and the American Institute of Certified Public Accountants

Founded in 1946

106 E. Jefferson Street, P.O. Box 312
Winterset, Iowa 50273-0312
515-462-1882 • Fax: 515-462-1577

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, 2011. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization's total revenue decreased 10%, or approximately $33,300, from fiscal 2010 to fiscal 2011, due to a decrease in miscellaneous income. No new counties became members during fiscal 2011 or during fiscal 2010.
- The Organization's total expenses increased 6%, or approximately $21,000, in fiscal 2011, primarily as a result of the increase in CSN software development costs and office expense, offset by a decrease in professional services and administrative expenses.
- The Organization's net assets decreased 86%, or $54,318, from June 30, 2010 to June 30, 2011.

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.

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, 2011 totaled approximately $8,900. A summary of ETC's net assets is presented below:

	June 30, 2011	June 30, 2010
Current assets	$ 22,485	$ 78,396
Property and equipment at cost, less accumulated depreciation	22,619	32,657
Total assets	45,104	111,053
Less current liabilities	36,201	47,832
Total net assets – unrestricted	$ 8,903	$ 63,221

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

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 (2010). 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, 2011 and 2010 is presented below:

Changes in Net Assets

	June 30, 2011	June 30, 2010
Revenue		
Membership dues	$ 300,000	$ 296,400
Interest income	647	1,020
Miscellaneous income	-	36,494
Total revenue	300,647	333,914
Expenses		
Professional services	21,356	103,164
Administrative expenses	5,591	13,140
CSN software development costs	287,054	183,703
Depreciation	15,057	14,715
Office expense	23,004	12,997
Miscellaneous	2,903	6,282
Total expenses	354,965	334,001
Decrease in net assets	(54,318)	(87)
Net assets, beginning of year	63,221	63,308
Net assets, end of year	$ 8,903	$ 63,221

The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease of $54,318 in net assets during the 2011 fiscal year. In fiscal 2011, as compared to fiscal 2010, total revenues decreased by approximately $33,300, or 10%, primarily as the result of a decrease in one time debt forgiveness of approximately $36,500 during fiscal year ended June 30, 2010. Total expenses increased by approximately $21,000, or 6%. The increase was primarily the result of an increase in CSN software development costs and office expense offset by a decrease in professional services and administrative expenses.

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 2011 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 offset by purchases of equipment and computer software.

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

CAPITAL ASSETS

At June 30, 2011, ETC had approximately $22,600 invested in capital assets, net of accumulated depreciation of approximately $88,300. Depreciation charges totaled $15,057 for fiscal 2011. More detailed information about ETC's capital assets is presented in Note A to the financial statements.

ECONOMIC FACTORS

Electronic Transactions Clearinghouse (ETC) 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 in 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 encompasses all 99 Iowa counties. ETC has developed as the platform for development and implementation of the Community Services Network (CSN), and services were rolled out to more than half the counties during fiscal year 2011. During fiscal year 2011, the ETC Board approved a modified allocation of expenses among the membership of the 28E agreement, which will become effective for the dues collected by ETC in fiscal year 2012. The new allocation formula spreads the cost of operation and development more equitably among members. The Board will monitor and discuss the future management of ETC, which includes consideration of CSN and County Rate 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 would require approval by the ETC Board and membership.

ETC will continue to be challenged by outside forces. The 2011 Iowa Legislature adopted legislation that could fundamentally restructure how disability services are provided in Iowa in the future. While ETC is positioned to respond to those changes, the Board will need to pay close attention to any changes that might impact the programs operations. While changes could occur as soon as fiscal year 2014, the possibility is most likely at some point beyond that.

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, 5500 Westown Parkway, Suite 190, West Des Moines, IA 50266.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 22,485	$ 2,874
Investments - marketable securities	-	75,000
Interest receivable	-	522
Total current assets	22,485	78,396
PROPERTY AND EQUIPMENT		
Furniture and equipment	66,332	63,832
Computer software	44,568	42,894
	110,900	106,726
Less accumulated depreciation	(88,281)	(74,069)
Net property and equipment	22,619	32,657
TOTAL ASSETS	$ 45,104	$ 111,053

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Due to Iowa State Association of Counties	$ 31,673	$ 47,832
Accrued administrative expenses	4,528	-
Total current liabilities	36,201	47,832
Net assets - unrestricted	8,903	63,221
TOTAL LIABILITIES AND NET ASSETS	$ 45,104	$ 111,053

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, 2011 AND 2010

	2011	2010
REVENUE		
Membership dues	$ 300,000	$ 296,400
Interest income	647	1,020
Miscellaneous income	-	36,494
Total revenue	300,647	333,914
EXPENSES		
Professional services	21,356	103,164
Administrative expenses	5,591	13,140
CSN software development costs	287,054	183,703
Depreciation	15,057	14,715
Office expense	23,004	12,997
Miscellaneous	2,903	6,282
Total expenses	354,965	334,001
DECREASE IN UNRESTRICTED NET ASSETS	(54,318)	(87)
UNRESTRICTED NET ASSETS, beginning of year	63,221	63,308
UNRESTRICTED NET ASSETS, end of year	$ 8,903	$ 63,221

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (54,318)	$ (87)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation	15,057	14,715
Start-up costs forgiven	-	(36,494)
Change in:		
Accounts receivable	522	(522)
Amounts due to Iowa State Association of Counties	(16,159)	(18,998)
Accounts payable and accrued expenses	4,528	(263)
Net cash used by operating activities	(50,370)	(41,649)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and computer software	(5,019)	-
Proceeds from maturities and sales of investments	75,000	170,472
Purchase of investments	-	(150,000)
Net cash provided by investing activities	69,981	20,472
Net increase (decrease) in cash and cash equivalents	19,611	(21,177)
CASH AND CASH EQUIVALENTS, beginning of year	2,874	24,051
CASH AND CASH EQUIVALENTS, end of year	$ 22,485	$ 2,874
NONCASH ACTIVITY		
Start-up costs payable to the Iowa State Association of Counties forgiven during the year	$ -	$ 36,494

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.

The Organization's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity - For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions and authorities. The Organization has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Organization are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Organization. The Organization has no component units which meet the Governmental Accounting Standards Board Criteria.

Basis of Presentation - The accounts of the Organization are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Organization applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Organization distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Organization's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2011, totaled approximately $22,500. 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. 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.

NOTE B - 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. Administrative, CSN software development costs and other expenses paid by ISAC on behalf of ETC totaled $312,489 and $210,400 for fiscal years 2011 and 2010, respectively.

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

NOTE C - 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, 2011 and 2010:

	2011	2010
Program expenses	$ 319,267	$ 306,774
Fundraising expenses	-	-
General and administration	35,698	27,227
Total expenses	$ 354,965	$ 334,001

NOTE D - RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Organization assumes liability for any deductibles and claims in excess of coverage limitations.

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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 financial statements of Electronic Transactions Clearinghouse as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. 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 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 an 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 the Organization'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 or deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial report that might be deficiencies, 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.

1601 West Lakes Parkway, Suite 300
West Des Moines, Iowa 50266
515-288-3279 • Fax: 515-280-1490

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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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, members and the Board of Directors 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.

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

West Des Moines, Iowa
September 30, 2011

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Findings Related to the Financial Statements

Internal control deficiencies

No material weaknesses were identified.

Instances of non-compliance

No matters were noted.

Other findings related to required statutory reporting

No matters were noted.