

IOWA STATE ASSOCIATION OF COUNTIES

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

JUNE 30, 2011 AND 2010

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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, 2011 and 2010, 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, 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 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, 2011, was made primarily to form an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on page 14 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 30, 2011

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

	<u>Iowa State Association of Counties</u>			Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
	Association Activities	Program Activities	Total				
Cash and cash equivalents	\$ 271,182	\$ 1,726,461	\$ 1,997,643	\$ 22,485	\$ 11,964	\$ -	\$ 2,032,092
Investments in marketable securities	105,208	20,143,458	20,248,666	-	51,646	-	20,300,312
Investments in certificates of deposit	1,010,551	2,705,208	3,715,759	-	-	-	3,715,759
Accounts receivable	116,393	103,178	219,571	-	250	(36,559)	183,262
Prepaid expenses	20,927	-	20,927	-	-	-	20,927
Due from Wellmark	-	21,658	21,658	-	-	-	21,658
Interest receivable	1,483	94,853	96,336	-	-	-	96,336
Property and equipment, net of accumulated depreciation	48,667	-	48,667	22,618	-	-	71,285
Software development costs	874,281	-	874,281	-	-	-	874,281
Investment in DATA, LLC	7,051	-	7,051	-	-	-	7,051
TOTAL ASSETS	\$ 2,455,743	\$24,794,816	\$ 27,250,559	\$ 45,103	\$ 63,860	\$ (36,559)	\$ 27,322,963
Accounts payable and accrued liabilities	\$ 20,858	\$ 109,989	\$ 130,847	31,671	\$ 39,381	\$ (36,559)	\$ 165,340
Claims incurred but not reported	-	3,181,423	3,181,423	-	-	-	3,181,423
Unearned revenue	26,151	799,813	825,964	-	14,945	-	840,909
Compensated absences	57,642	-	57,642	4,528	-	-	62,170
Funds held for benefit of members	-	20,703,591	20,703,591	-	-	-	20,703,591
TOTAL LIABILITIES	104,651	24,794,816	24,899,467	36,199	54,326	(36,559)	24,953,433
NET ASSETS - UNRESTRICTED	2,351,092	-	2,351,092	8,904	9,534	-	2,369,530
TOTAL LIABILITIES AND NET ASSETS	\$ 2,455,743	\$24,794,816	\$ 27,250,559	\$ 45,103	\$ 63,860	\$ (36,559)	\$ 27,322,963

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

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

	Iowa State Association of Counties			Electronic	ISAC	Eliminations	Total
	Association Activities	Program Activities	Total	Transactions Clearinghouse	Education Foundation		
Cash and cash equivalents	\$ 36,119	\$ 166,431	\$ 202,550	\$ 2,874	\$ 28,565	\$ -	\$ 233,989
Investments in marketable securities	557,324	20,175,428	20,732,752	-	11,346	-	20,744,098
Investments in certificates of deposit	753,187	2,297,521	3,050,708	75,000	50,000	-	3,175,708
Accounts receivable	128,753	113,643	242,396	522	2,376	(60,447)	184,847
Prepaid expenses	31,151	-	31,151	-	-	-	31,151
Due from Wellmark	-	443,749	443,749	-	-	-	443,749
Interest receivable	5,772	180,836	186,608	-	-	-	186,608
Property and equipment, net of accumulated depreciation	66,767	-	66,767	32,657	-	-	99,424
Software development costs	857,125	-	857,125	-	-	-	857,125
TOTAL ASSETS	\$ 2,436,198	\$ 23,377,608	\$ 25,813,806	\$ 111,053	\$ 92,287	\$ (60,447)	\$ 25,956,699
Accounts payable and accrued liabilities	\$ 36,414	\$ 102,558	\$ 138,972	\$ 47,831	\$ 47,552	\$ (60,447)	\$ 173,908
Claims incurred but not reported	-	2,963,512	2,963,512	-	-	-	2,963,512
Unearned revenue	19,451	77,616	97,067	-	24,240	-	121,307
Compensated absences	61,958	-	61,958	-	-	-	61,958
Funds held for benefit of members	-	20,233,922	20,233,922	-	-	-	20,233,922
TOTAL LIABILITIES	117,823	23,377,608	23,495,431	47,831	71,792	(60,447)	23,554,607
NET ASSETS	2,318,375	-	2,318,375	63,222	20,495	-	2,402,092
TOTAL LIABILITIES AND NET ASSETS	\$ 2,436,198	\$ 23,377,608	\$ 25,813,806	\$ 111,053	\$ 92,287	\$ (60,447)	\$ 25,956,699

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Iowa State Association of Counties

	Association Activities		Program	
	Budget	Actual	Activities	Total
REVENUE				
Schools, workshops, committees & seminars	\$ 273,375	\$ 343,452	\$ -	\$ 343,452
Contributions	-	-	-	-
Dues	493,500	494,553	-	494,553
Royalties	342,300	390,362	-	390,362
Investment income	35,000	10,586	226,392	236,978
Magazine advertising and subscriptions	47,750	29,605	-	29,605
Administration fees	881,939	904,001	-	904,001
County premiums	-	-	22,568,786	22,568,786
Special event revenue	-	-	-	-
Miscellaneous	-	11,730	182	11,912
Total Revenues	2,073,864	2,184,289	22,795,360	24,979,649
EXPENSES				
Salaries and fringe benefits	1,544,212	1,465,259	-	1,465,259
Schools, workshops and meetings	170,000	182,823	-	182,823
Board of Directors' meeting expenses	40,000	44,785	-	44,785
Other board authorized expense	2,000	2,890	-	2,890
NACO conference	10,000	16,566	-	16,566
Staff travel and training	45,000	50,207	-	50,207
Public relations	1,000	1,322	-	1,322
Consulting/professional services	27,800	38,218	20,319	58,537
Rents and utilities	195,094	192,072	-	192,072
Building committee expenses	28,507	289	-	289
Supplies, printing and postage	21,500	15,237	-	15,237
Depreciation expense	-	31,839	-	31,839
Maintenance agreements	20,650	24,540	-	24,540
Professional membership	3,500	3,274	-	3,274
Library	4,000	6,383	-	6,383
Magazine	37,500	42,862	-	42,862
Insurance and bonds	25,000	21,122	-	21,122
Acquisition of property and equipment	30,000	-	-	-
Special event expense	-	-	-	-
Miscellaneous	11,500	9,532	4,595	14,127
Scholarships	-	-	-	-
Claims and premiums paid	-	-	21,499,712	21,499,712
Change in claims incurred but not reported	-	-	217,911	217,911
Administration	-	-	276,404	276,404
Wellness program	-	-	306,750	306,750
County technologies clearinghouse	18,000	2,352	-	2,352
Project management and development	-	-	-	-
Total Expenses	2,235,263	2,151,572	22,325,691	24,477,263
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ 469,669	469,669
INCREASE (DECREASE) IN NET ASSETS	\$ (161,399)	32,717		32,717
NET ASSETS, BEGINNING OF YEAR		2,318,375		2,318,375
NET ASSETS, END OF YEAR		\$ 2,351,092		\$ 2,351,092

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

Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total	Prior Year Total
\$ -	\$ -	\$ -	\$ 343,452	\$ 240,162
-	-	-	-	13,800
300,000	-	-	794,553	788,016
-	-	-	390,362	351,519
647	249	-	237,874	431,276
-	-	-	29,605	36,441
-	-	(2,035)	901,966	886,913
-	-	-	22,568,786	20,430,789
-	31,474	-	31,474	37,907
-	470	-	12,382	2,482
<u>300,647</u>	<u>32,193</u>	<u>(2,035)</u>	<u>25,310,454</u>	<u>23,219,305</u>
-	-	-	1,465,259	1,283,239
-	-	-	182,823	149,802
-	-	-	44,785	46,599
-	-	-	2,890	2,061
-	-	-	16,566	10,010
-	-	-	50,207	40,565
-	-	-	1,322	231
-	-	-	58,537	35,969
-	-	-	192,072	183,900
-	-	-	289	45,625
23,004	-	-	38,241	27,272
15,057	-	-	46,896	47,953
-	-	-	24,540	17,524
-	-	-	3,274	3,030
-	-	-	6,383	3,202
-	-	-	42,862	39,991
-	-	-	21,122	20,668
-	-	-	-	-
-	10,273	-	10,273	11,371
2,903	177	-	17,207	20,635
-	32,704	-	32,704	38,511
-	-	-	21,499,712	20,827,082
-	-	-	217,911	179,418
214,507	-	(2,035)	488,876	402,191
-	-	-	306,750	300,264
-	-	-	2,352	3,380
99,494	-	-	99,494	171,274
<u>354,965</u>	<u>43,154</u>	<u>(2,035)</u>	<u>24,873,347</u>	<u>23,911,767</u>
-	-	-	469,669	(764,820)
<u>(54,318)</u>	<u>(10,961)</u>	<u>-</u>	<u>(32,562)</u>	<u>72,358</u>
<u>63,222</u>	<u>20,495</u>	<u>-</u>	<u>2,402,092</u>	<u>2,329,734</u>
<u>\$ 8,904</u>	<u>\$ 9,534</u>	<u>\$ -</u>	<u>\$ 2,369,530</u>	<u>\$ 2,402,092</u>

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

	Iowa State Association of Counties			
	Association Activities		Program	
	Budget	Actual	Activities	Total
REVENUE				
Schools, workshops, committees & seminars	\$ 268,750	\$ 240,162	\$ -	\$ 240,162
Contributions	-	-	13,800	13,800
Dues	496,250	491,616	-	491,616
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 expense	-	45,625	-	45,625
Supplies, printing and postage	19,000	14,275	-	14,275
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	13,000	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
\$ -	\$ -	\$ -	\$ 240,162
-	-	-	13,800
296,400	-	-	788,016
-	-	-	351,519
1,020	452	-	431,276
-	-	-	36,441
-	-	(2,105)	886,913
-	-	-	20,430,789
-	37,907	-	37,907
36,494	1,977	(71,929)	2,482
333,914	40,336	(74,034)	23,219,305
-	-	-	1,283,239
-	-	-	149,802
-	-	-	46,599
-	-	-	2,061
-	-	-	10,010
-	-	-	40,565
-	-	-	231
-	-	-	35,969
-	-	-	183,900
-	-	-	45,625
12,997	-	-	27,272
14,715	-	-	47,953
-	-	-	17,524
-	-	-	3,030
-	-	-	3,202
-	-	-	39,991
-	-	-	20,668
-	-	-	-
-	11,371	-	11,371
6,282	240	(71,929)	20,635
-	38,511	-	38,511
-	-	-	20,827,082
-	-	-	179,418
128,733	-	(2,105)	402,191
-	-	-	300,264
-	-	-	3,380
171,274	-	-	171,274
334,001	50,122	(74,034)	23,911,767
-	-	-	(764,820)
(87)	(9,786)	-	72,358
63,309	30,281	-	2,329,734
\$ 63,222	\$ 20,495	\$ -	\$ 2,402,092

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

Year Ended June 30, 2011

	Health Fund	AD&D Fund	Unemployment Fund
REVENUE			
Investment income	\$ 207,343	\$ -	\$ 19,049
County premiums	22,144,210	143,915	280,661
Miscellaneous revenue	-	-	182
Total Revenues	22,351,553	143,915	299,892
EXPENSES			
Miscellaneous	4,500	32	63
Claims and premiums paid	21,154,217	133,312	212,183
Change in claims incurred but not reported	217,911	-	-
Administration	250,373	10,809	15,222
Wellness program	306,750	-	-
Professional services	-	-	-
Total Expenses	21,933,751	144,153	227,468
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	417,802	(238)	72,424
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	18,130,491	38	2,079,963
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 18,548,293	\$ (200)	\$ 2,152,387

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

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

Multi-County Service Agency Fund	Total Program Activities
\$ -	\$ 226,392
-	22,568,786
-	182
-	<u>22,795,360</u>
-	4,595
-	21,499,712
-	217,911
-	276,404
-	306,750
20,319	20,319
<u>20,319</u>	<u>22,325,691</u>
(20,319)	469,669
23,430	20,233,922
<u>\$ 3,111</u>	<u>\$ 20,703,591</u>

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)
9,630	20,998,742
<u>\$ 23,430</u>	<u>\$ 20,233,922</u>

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (32,562)	\$ 72,358
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	46,896	47,953
Realized and unrealized losses on investments	345,743	283,402
Change in:		
Accounts receivable	423,676	(59,328)
Prepaid expenses	10,224	(10,628)
Interest receivable	90,272	1,193
Accounts payable and accrued liabilities	(8,568)	(38,341)
Claims incurred but not reported	217,911	179,418
Funds held for benefit of members	469,669	(764,820)
Unearned revenue	719,602	60,626
Compensated absences	212	(4,796)
	2,283,075	(232,963)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(18,757)	(13,815)
Software development costs	(17,156)	(173,969)
Proceeds from maturities and sales of investments	15,946,962	8,330,289
Purchases of investments	(16,388,970)	(8,716,451)
Investment in DATA, LLC	(7,051)	-
	(484,972)	(573,946)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,798,103	(806,909)
CASH AND CASH EQUIVALENTS, beginning of year	233,989	1,040,898
CASH AND CASH EQUIVALENTS, end of year	\$ 2,032,092	\$ 233,989

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 \$488,876 and \$402,191 during 2011 and 2010, 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. Changes in unrealized gains and losses, if any, are included as a component of investment income on the statement of activities. Investments are presented at fair value using Level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets.

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, 2011 or 2010.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

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.

Management is unaware of any uncertain tax positions at June 30, 2011 and 2010. 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 2011 or 2010. 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, except for bank money market accounts included as a component of investments.

Concentration of Credit Risk - The Association has bank deposits in excess of federally insured limits totaling approximately \$867,000 at June 30, 2011. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately \$313,000 at June 30, 2011 invested in a sweep account not insured by the FDIC; however, a financial institution has pledged mortgage-backed securities as collateral for these deposits.

Software Development Costs - The Organization capitalizes costs incurred for the development of software for the benefit of members. The Association is developing software to assist counties in managing services provided. In accordance with U.S. generally accepted accounting principles, the cost of the software is not being amortized as it is still in the testing phase as of June 30, 2011.

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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are comprised of the following:

	2011		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market accounts	\$ 1,950,981	\$ 1,950,981	\$ -
U.S. Treasury Notes	2,987,309	2,942,877	(44,432)
Federal Home Loan Bank Notes and Debentures	4,048,292	4,019,981	(28,311)
Financing Corporation Stripped Interest Debentures	244,677	244,920	243
Federal Home Loan Mortgage Corporation Notes	3,014,482	3,025,240	10,758
Federal National Mortgage Assn. Notes	6,946,929	6,906,445	(40,484)
Federal Farm Credit Bank Notes and Debentures	1,209,637	1,209,867	230
	<u>\$ 20,402,307</u>	<u>\$ 20,300,311</u>	<u>\$ (101,996)</u>
	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
	<u>\$ 20,768,298</u>	<u>\$ 20,744,098</u>	<u>\$ (24,200)</u>

The fair value of debt securities by contractual maturity at June 30, 2011 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.

	2012	2013	2014	Total
U.S. Treasury Notes	\$ 1,412,347	\$ 1,015,020	\$ 515,510	\$ 2,942,877
Federal Home Loan Bank Notes and Debentures	734,578	2,035,495	1,249,908	4,019,981
Financing Corporation Stripped Interest Debentures	-	244,920	-	244,920
Federal Home Loan Mortgage Corporation Notes	-	2,024,450	1,000,790	3,025,240
Federal National Mortgage Association Notes	743,477	6,063,065	99,903	6,906,445
Federal Farm Credit Bank Notes and Debentures	-	1,209,867	-	1,209,867
	<u>\$ 2,890,402</u>	<u>\$ 12,592,817</u>	<u>\$ 2,866,111</u>	<u>\$ 18,349,330</u>

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES - Continued

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

	<u>2011</u>	<u>2010</u>
Interest income, net of investment fees of \$40,962 and \$39,585 for 2011 and 2010, respectively	\$ 583,624	\$ 714,679
Net realized and unrealized losses on investments	<u>(345,750)</u>	<u>(283,403)</u>
Net investment income	<u>\$ 237,874</u>	<u>\$ 431,276</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 IN CERTIFICATES OF DEPOSIT

Investments in certificates of deposit bear interest at rates ranging between .25% and 1.90% at June 30, 2011. Anticipated future maturities of the certificates of deposit are \$2,593,253 in fiscal year 2012, \$728,915 in fiscal year 2013 and \$393,591 in fiscal year 2013.

NOTE D - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 85,493	\$ 85,493
Equipment	236,181	225,844
Computer software	<u>105,065</u>	<u>102,347</u>
	426,739	413,684
Less accumulated depreciation	<u>(355,454)</u>	<u>(314,260)</u>
	<u>\$ 71,285</u>	<u>\$ 99,424</u>

NOTE E - LEASE COMMITMENTS

The Association leased its office space under the terms of an operating lease terminating February 28, 2012. Effective September 1, 2011, the Association entered into an operating lease for its new office space through December 31, 2021, with the option to renew for up to two additional five year terms. The lease requires monthly payments of \$-0- through December 31, 2011, \$7,602 through December 31, 2016, and \$8,039 through December 31, 2021. The Association is also responsible for their portion of the taxes and operating expenses. The Association has the right to terminate the lease at the end of the eighty-eighth month of the lease, with six months prior written notice and applicable termination fees.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE E - LEASE COMMITMENTS - Continued

Following are the estimated annual future minimum lease payments under the office space lease:

<u>Year Ending June 30,</u>	
2012	\$ 68,893
2013	91,224
2014	91,224
2015	91,224
2016	91,224
Thereafter	<u>576,178</u>
Total future minimum lease payments	<u><u>\$ 1,009,967</u></u>

Office rent expense totaled \$140,922 and \$137,797 during fiscal years 2011 and 2010, respectively.

NOTE F - RETIREMENT PLAN

The Association sponsors a 457(b) 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 3.7% of eligible wages to the 457(b) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2011 and 2010 totaled \$82,007 and \$72,606, respectively.

NOTE G - 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.

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, 2011 and 2010 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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE H - 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, 2011 and 2010:

	2011	2010
Salaries and other personnel costs	\$ 180,492	\$ 169,302
General operating expenses	26,096	24,787
Education/information expenses	33,139	30,046
Meetings, committees, and workshops	41,106	35,290
	<u>\$ 280,833</u>	<u>\$ 259,425</u>

NOTE I - 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 \$33,115 and \$28,786 for the years ended June 30, 2011 and 2010, 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 \$308,057 and \$309,228 for the years ended June 30, 2011 and 2010, respectively. The organizations owed the Association \$33,333 and \$26,992 for these services at June 30, 2011 and 2010, respectively.

NOTE J - BOARD DESIGNATED NET ASSETS

The Association'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	874,281
	<u>\$ 1,583,702</u>

NOTE K - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statement or disclosure is September 30, 2011, 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, 2011

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 1,463,018	\$ 13,159	\$ 247,173	\$ 3,111	\$ 1,726,461
Investments in marketable securities	18,793,526	-	1,349,932	-	20,143,458
Investments in certificates of deposit	2,204,368	-	500,840	-	2,705,208
Accounts receivable	-	10,544	92,634	-	103,178
Due from Wellmark	21,658	-	-	-	21,658
Interest receivable	87,826	-	7,027	-	94,853
Total Assets	\$ 22,570,396	\$ 23,703	\$ 2,197,606	\$ 3,111	\$ 24,794,816

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 40,867	\$ 23,903	\$ 45,219	\$ -	\$ 109,989
Claims incurred but not reported	3,181,423	-	-	-	3,181,423
Unearned revenue	799,813	-	-	-	799,813
Funds held for the benefit of members	18,548,293	(200)	2,152,387	3,111	20,703,591
Total Liabilities	22,570,396	23,703	2,197,606	3,111	24,794,816
NET ASSETS - Unrestricted	-	-	-	-	-
Total Liabilities and Net Assets	\$ 22,570,396	\$ 23,703	\$ 2,197,606	\$ 3,111	\$ 24,794,816

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 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 financial statements of Iowa State Association of Counties 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 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 Iowa State Association of Counties' 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 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.

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

West Des Moines, Iowa
September 30, 2011