ELECTRONIC TRANSACTIONS CLEARINGHOUSE

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

C O N T E N T S

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2012

Name	Title	Representing
Wayne Walter	President	Winneshiek County
Darin Raymond	1st Vice President	Plymouth County
Harlan Hansen	2nd Vice President	Humboldt County
Melvyn Houser	3rd Vice President	Pottawattamie County
Dan Cohen	Member	Buchanan County
Jon McNamee	Member	Black Hawk County
Wayne Chizek	Member	Marshall County
Terri Henkels	Member	Polk County
Mike Balmer	Member	Jasper County
Deb McWhirter	Member	Butler County
David Morlan	Member	Boone County
Lu Barron	Member	Linn County
Judy Miller	Member	Pottawattamie County
Sarah Kaufman	Member	Henry County
Jim George	Member	Dallas County
Joan McClamant	Member	Linn County
Linda Langston	Member	Linn County
Peggy Rice	Member	Humboldt County
Bret Vandelune	Member	Polk County
Richard Crouch	Member	Mills County
Marjorie Pitts	Past President	Clay County
Grant Veeder	NACo Representative	Black Hawk County

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

Partners
Michael E. Brinker, CPA
David A. Farnsworth, CPA
David W. Hurst, CPA
Kathleen A. Koenig, CPA
Robert R. McGowen, CPA
Michael W. McNichols, CPA
Brian K. Newton, 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, 2012 and 2011, 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 previously present fairly, in all material respects, the financial position of Electronic Transactions Clearinghouse as of June 30, 2012 and 2011, 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 October 1, 2012, 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.

U.S. generally accepted accounting principles require a Management's Discussion and Analysis (shown on pages 3 through 7) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

West Des Moines, Iowa
October 1, 2012

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, 2012. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Organization's total revenue increased 73%, or approximately $220,000, from fiscal 2011 to fiscal 2012, due to an increase in membership fees. No new counties became members during fiscal years ended June 30, 2012 or 2011.
- The Organization's total expenses increased 4%, or approximately $15,000, during fiscal year ended June 30, 2012, primarily as a result of an increase in staff salaries, office expense and miscellaneous expense. The increase was somewhat offset by a decrease in CSN software development costs and professional services.
- The Organization's net assets increased 1686%, or $150,124, from June 30, 2011 to June 30, 2012.

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, 2012 totaled approximately $159,000. A summary of ETC's net assets is presented below:

	June 30, 2012	June 30, 2011
Current assets	$ 195,955	$ 22,485
Property and equipment at cost, less accumulated depreciation	33,720	22,619
Total assets	229,675	45,104
Less current liabilities	70,648	36,201
Total net assets – unrestricted	$ 159,027	$ 8,903

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 fees from the member counties. Operating expenses are expenses paid to develop and operate ETC's website and for the development of CSN software. Non-operating revenue is comprised of interest. 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, 2012 and 2011 is presented below:

Changes in Net Assets

	June 30, 2012	June 30, 2011
Revenue		
Membership dues	$ 520,003	$ 300,000
Interest income	553	647
Total revenue	520,556	300,647
Expenses		
Professional services	4,660	21,356
Administrative expenses	9,191	5,591
CSN software development costs	1,165	28,281
Staff salaries	297,699	258,773
Depreciation	15,317	15,057
Office expense	30,739	23,004
Miscellaneous	11,661	2,903
Total expenses	370,432	354,965
Increase (decrease) in net assets	150,124	(54,318)
Net assets, beginning of year	8,903	63,221
Net assets, end of year	$ 159,027	$ 8,903

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase of $150,124 in net assets for the 2012 fiscal year. During fiscal year ended June 30, 2012, total revenues increased by approximately $220,000, or 73%, primarily as the result of an increase in membership dues, while total expenses increased by approximately $15,000, or 4%. The increase in expenses was primarily the result of an increase in staff salaries, office expense and miscellaneous expense, partially offset by a decrease in CSN software development costs and professional services.

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities during fiscal year ended June 30, 2012 primarily includes membership dues received less cash payments for salaries, professional services and administrative costs. Cash used by investing activities primarily includes purchases of equipment and computer software and purchases of investments.

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

CAPITAL ASSETS

At June 30, 2012, ETC had approximately $33,700 invested in capital assets, net of accumulated depreciation of approximately $103,400. Depreciation charges totaled $15,317 during the fiscal year ended June 30, 2012. 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 encompassed all 99 Iowa counties during fiscal years ended June 30, 2012 and 2011. ETC was developed as the platform for development and implementation of the Community Services Network (CSN). Installation of CSN and related training at member counties began during fiscal year ended June 30, 2012.

The State of Iowa's Mental Health Re-Design project will present both CSN and ETC with new challenges and opportunities. While CSN and ETC have the ability to adapt to the need of counties working as a region, work will need to be done to cope with changes in how the system is funded and governed. The current county level funding method will most likely not be appropriate. The ISAC Board now functions as the ETC Board. The question will be asked if this model will work with the regions as business drivers.

Outside commercial vendors have developed robust Electronic Health Records (EHR) products that on the surface may be attractive to regions. Additionally, the Department of Human Services is the going through the process of re-designing their internal legacy systems. These competitive pressures will require our staff and stakeholders to make continual capital investments so that we remain the system of choice as regions decide on their information structure.

With the growth of electronic health records, the federal government is stepping up their compliance efforts. While CSN and ETC are continually reviewing and updating policies, procedures, and security, this area will require additional vigilance to remain current with the privacy and security laws. Because the penalties to both the organization and the individual can be severe, additional funding for this will be required.

During the fiscal year ended June 30, 2012, the ETC Board approved the merger of the County Rate Information Systems (CRIS) functions into the ETC platform during the next fiscal year. The goal is to improve the efficiency in the management and operation of the program by leveraging the resources and information associated with CSN.

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, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 37,156	$ 22,485
Accounts receivable	8,580	-
Investments - marketable securities	150,219	-
Total current assets	195,955	22,485
PROPERTY AND EQUIPMENT		
Furniture and equipment	72,460	66,332
Computer software	44,568	44,568
Leasehold improvements	20,085	-
	137,113	110,900
Less accumulated depreciation	(103,393)	(88,281)
Net property and equipment	33,720	22,619
TOTAL ASSETS	$ 229,675	$ 45,104

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Due to Iowa State Association of Counties	$ 63,722	$ 31,673
Accounts payable	272	-
Compensated absences	6,654	4,528
Total current liabilities	70,648	36,201
Net assets - unrestricted	159,027	8,903
TOTAL LIABILITIES AND NET ASSETS	$ 229,675	$ 45,104

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, 2012 AND 2011

	2012	2011
REVENUE		
Membership dues	$ 520,003	$ 300,000
Interest income	553	647
Total revenue	520,556	300,647
EXPENSES		
Professional services	4,660	21,356
Administrative expenses	9,191	5,591
CSN software development costs	1,165	28,281
Staff salaries	297,699	258,773
Depreciation	15,317	15,057
Office expense	30,739	23,004
Miscellaneous	11,661	2,903
Total expenses	370,432	354,965
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	150,124	(54,318)
UNRESTRICTED NET ASSETS, beginning of year	8,903	63,221
UNRESTRICTED NET ASSETS, end of year	$ 159,027	$ 8,903

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member dues and services	$ 511,423	$ 300,522
Cash received from other operating receipts	739	647
Cash paid to suppliers for goods and services	(55,018)	(126,464)
Cash paid to employees for services	(265,650)	(225,075)
Net cash provided (used) by operating activities	191,494	(50,370)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and computer software	(26,604)	(5,019)
Proceeds from maturities and sales of investments	-	75,000
Purchase of investments	(150,219)	-
Net cash provided (used) by investing activities	(176,823)	69,981
Net increase in cash and cash equivalents	14,671	19,611
CASH AND CASH EQUIVALENTS, beginning of year	22,485	2,874
CASH AND CASH EQUIVALENTS, end of year	$ 37,156	$ 22,485
Reconciliation of operating income to net cash provided by operating activities:		
Increase (decrease) in net assets	$ 150,124	$ (54,318)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	15,317	15,057
Loss on disposal of equipment	186	-
Change in:		
Accounts receivable	(8,580)	522
Due to Iowa State Association of Counties	32,049	(16,159)
Accounts payable and accrued administrative expenses	2,398	4,528
Net cash provided (used) by operating activities	$ 191,494	$ (50,370)

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 accounting principles generally accepted in the United States of America 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 (GASB) 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 GASB 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, 2012, totaled approximately $38,000. These deposits were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

Accounts Receivable - Accounts receivable arise primarily from billings for services provided to participating counties throughout Iowa. Based on its review of the receivables, management believes no allowance for doubtful accounts is necessary.

Investments - The Organization's investments in marketable securities 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.

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 changes could materially affect investment balances.

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 ten 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 - INVESTMENTS

Investments in marketable securities at June 30, 2012 consisted of one money market mutual fund. Accounting principles generally accepted in the United States of America has a required framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. All investments held by the Organization are valued using quoted prices in active markets for identical assets or liabilities (Level 1 measurements).

NOTE C - DUE TO IOWA STATE ASSOCIATION OF COUNTIES

Certain administrative expenses are paid by the Iowa State Association of Counties (ISAC) on behalf of ETC and then reimbursed to ISAC on a periodic basis. In addition, ISAC provides ETC with office space, clerical support, telephone services, use of its office-related equipment, insurance and other employee benefits. Amounts owed to ISAC are non-interest bearing. Total amounts paid to ISAC were $337,774 and $312,489 for fiscal years ended June 30, 2012 and 2011, respectively.

NOTE D - RETIREMENT PLAN

The Organization sponsors a 457(g) defined contribution retirement plan in which all employees are eligible to participate. The Organization also offers a 401(a) defined contribution retirement plan for employer contributions. Employer contributions to the 401(a) plan are equal to 8.07% of an employee's eligible compensation; however, the employee is required to contribute 4.1% of eligible wages to the 457(g) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2012 and 2011 totaled $13,406 and $5,485, respectively.

NOTE E - FUNCTIONAL ALLOCATION OF EXPENSES

Functional expenses allocations were made by direct assignment of cost to functional categories. Following is a summary of the functional allocation of expenses for the years ended June 30, 2012 and 2011:

	2012	2011
Program expenses	$ 305,814	$ 290,610
Fundraising expenses	-	-
General and administration	64,618	64,355
Total expenses	$ 370,432	$ 354,965

NOTE F - COMMITMENT

On July 1, 2012, the Organization entered into a consulting agreement with a company who will perform provider reviews for Organization's members. The agreement may be terminated, without cause, by either party with 120 days written notice. Costs under the consulting agreement for the year ending June 30, 2013 are expected to be approximately $131,250.

NOTE G - 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, 2012, and have issued our report thereon dated October 1, 2012. 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

Management of Electronic Transactions Clearinghouse is responsible for establishing and maintaining effective 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 reporting 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 weakness, as defined above. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Founded in 1946

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*.

Electronic Transactions Clearinghouse's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Electronic Transactions Clearinghouse's response and, accordingly, we express no opinion on it.

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
October 1, 2012

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Findings Related to the Financial Statements

Internal control deficiencies

(A) Segregation of Duties - The Accounting Manager has the ability to approve purchases, enter and post invoices in the general ledger and has access to check stock. This lack of segregation of duties creates a heightened risk of undetected errors or misappropriation of assets in the cash disbursements process.

Recommendation - We recommend that the Organization request cancelled check images be provided along with the monthly bank statement or made available online. An individual with an appropriate level of knowledge but without access to cash should review the images, along with a review of the monthly bank statements, to mitigate the segregation of duties risks involving the disbursements process. The bank statements and cancelled check images should be reviewed for unusual or unauthorized vendors and disbursements. We also recommend that the Executive Director and the Board of Directors continue to review the monthly financial statements prepared by the Accounting Manager and compare actual results to budgeted expectations to identify any unusual and/or unexpected amounts or fluctuations.

Response - Due to the limited number of office employees, adequate segregation of duties is difficult to achieve. However, we will include ISAC General Counsel in the process of reviewing cancelled checks and bank statements. The Executive Director and Board of Directors will continue to review the monthly financial statements prepared by the Accounting Manager to identify any unusual or expected amounts or fluctuations.

Conclusion - Response accepted.

Instances of non-compliance

No matters were noted.

Other findings related to required statutory reporting

No matters were noted.