

IOWA STATE ASSOCIATION OF COUNTIES

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

JUNE 30, 2012 AND 2011

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position - June 30, 2012	2
Statement of Financial Position - June 30, 2011	3
Statement of Activities – Year ended June 30, 2012	4
Statement of Activities – Year ended June 30, 2011	5
Statements of Program Activities	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplemental Information:	
Combining Statement of Financial Position - Program Activities	15
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 <i>Government Auditing Standards</i>	16
Schedule of Findings	18



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 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, 2012 and 2011, 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, 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 8, 2012 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.

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

West Des Moines, Iowa
October 8, 2012

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

	<u>Iowa State Association of Counties</u>			Electronic	ISAC	Eliminations	Total
	<u>Association</u>	<u>Program</u>	<u>Total</u>	<u>Transactions</u>	<u>Education</u>		
	<u>Activities</u>	<u>Activities</u>		<u>Clearinghouse</u>	<u>Foundation</u>		
Cash and cash equivalents	\$ 102,410	\$ 1,987,432	\$ 2,089,842	\$ 37,156	\$ 49,404	\$ -	\$ 2,176,402
Investments in marketable securities	1,011	19,837,955	19,838,966	150,219	1	-	19,989,186
Investments in certificates of deposit	1,020,477	2,112,635	3,133,112	-	-	-	3,133,112
Accounts receivable	151,213	119,571	270,784	8,580	3,400	(93,186)	189,578
Prepaid expenses	27,201	-	27,201	-	-	-	27,201
Interest receivable	1,247	85,192	86,439	-	-	-	86,439
Property and equipment, net of accumulated depreciation	204,336	-	204,336	33,720	-	-	238,056
Software development costs	874,281	-	874,281	-	-	-	874,281
Other assets	1,072	-	1,072	-	-	-	1,072
TOTAL ASSETS	<u>\$ 2,383,248</u>	<u>\$24,142,785</u>	<u>\$ 26,526,033</u>	<u>\$ 229,675</u>	<u>\$ 52,805</u>	<u>\$ (93,186)</u>	<u>\$26,715,327</u>
Accounts payable and accrued liabilities	\$ 23,508	\$ 129,601	\$ 153,109	\$ 63,995	\$ 31,999	\$ (93,186)	\$ 155,917
Due to Wellmark	-	379,054	379,054	-	-	-	379,054
Claims incurred but not reported	-	3,263,114	3,263,114	-	-	-	3,263,114
Unearned revenue	12,984	487,116	500,100	-	16,220	-	516,320
Compensated absences	63,888	-	63,888	6,654	-	-	70,542
Funds held for benefit of members	-	19,883,900	19,883,900	-	-	-	19,883,900
TOTAL LIABILITIES	<u>100,380</u>	<u>24,142,785</u>	<u>24,243,165</u>	<u>70,649</u>	<u>48,219</u>	<u>(93,186)</u>	<u>24,268,847</u>
NET ASSETS - UNRESTRICTED	<u>2,282,868</u>	<u>-</u>	<u>2,282,868</u>	<u>159,026</u>	<u>4,586</u>	<u>-</u>	<u>2,446,480</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,383,248</u>	<u>\$24,142,785</u>	<u>\$ 26,526,033</u>	<u>\$ 229,675</u>	<u>\$ 52,805</u>	<u>\$ (93,186)</u>	<u>\$26,715,327</u>

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

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

	Iowa State Association of Counties			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
Other assets	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 ACTIVITIES
YEAR ENDED JUNE 30, 2012

Iowa State Association of Counties									
	Association Activities		Program Activities	Total	Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total	Prior Year Total
	Budget (Unaudited)	Actual							
REVENUE									
Schools, workshops, committees & seminars	\$ 305,475	\$ 335,540	\$ -	\$ 335,540	\$ -	\$ -	\$ -	\$ 335,540	\$ 343,452
Dues	491,000	491,149	-	491,149	520,003	-	-	1,011,152	794,553
Royalties	378,000	356,202	-	356,202	-	-	-	356,202	390,362
Investment income	20,000	9,410	93,264	102,674	553	73	-	103,300	237,874
Magazine advertising and subscriptions	41,750	27,068	-	27,068	-	-	-	27,068	29,605
Administration fees	1,142,769	974,394	-	974,394	-	-	(49,259)	925,135	901,966
County premiums	-	-	22,975,031	22,975,031	-	-	-	22,975,031	22,568,786
Special event revenue	-	-	-	-	-	38,796	-	38,796	31,474
Miscellaneous	-	4,467	-	4,467	-	3,491	-	7,958	12,447
Total Revenues	2,378,994	2,198,230	23,068,295	25,266,525	520,556	42,360	(49,259)	25,780,182	25,310,519
EXPENSES									
Salaries and fringe benefits	1,786,950	1,571,668	-	1,571,668	-	-	-	1,571,668	1,465,259
Schools, workshops and meetings	194,500	188,942	-	188,942	-	-	-	188,942	182,823
Board of Directors' meeting expenses	45,000	53,459	-	53,459	-	-	-	53,459	44,785
Other board authorized expense	2,000	2,100	-	2,100	-	-	-	2,100	2,890
NACO conference	12,000	19,453	-	19,453	-	-	-	19,453	16,566
Staff travel and training	55,000	37,912	-	37,912	-	-	-	37,912	50,207
Public relations	500	-	-	-	-	-	-	-	1,322
Consulting/professional services	28,800	56,210	-	56,210	-	-	-	56,210	38,218
Rents and utilities	192,789	182,389	-	182,389	-	-	-	182,389	192,072
Building committee expenses	-	-	-	-	-	-	-	-	289
Supplies, printing and postage	15,500	21,831	452	22,283	30,739	-	-	53,022	38,241
Depreciation expense	-	43,090	-	43,090	15,317	-	-	58,407	46,896
Maintenance agreements	25,500	22,498	-	22,498	-	-	-	22,498	24,540
Professional membership	3,500	3,695	-	3,695	-	-	-	3,695	3,274
Library	4,000	3,156	-	3,156	-	-	-	3,156	6,383
Magazine	40,000	37,575	-	37,575	-	-	-	37,575	42,862
Insurance and bonds	25,000	15,540	-	15,540	1,409	-	-	16,949	21,122
Acquisition of property and equipment	35,000	-	-	-	-	-	-	-	-
Special event expense	-	-	-	-	-	13,370	-	13,370	10,273
Miscellaneous	10,750	4,291	3,839	8,130	10,254	248	-	18,632	17,272
Scholarships	-	-	-	-	-	33,690	-	33,690	32,704
Claims and premiums paid	-	-	23,084,609	23,084,609	-	-	-	23,084,609	21,499,712
Change in claims incurred but not reported	-	-	81,691	81,691	-	-	-	81,691	217,911
Administration	-	-	289,963	289,963	260,132	-	(49,259)	500,836	488,876
Wellness program	-	-	427,432	427,432	-	-	-	427,432	306,750
County technologies clearinghouse	18,000	2,645	-	2,645	-	-	-	2,645	22,671
Project management and development	-	-	-	-	52,583	-	-	52,583	99,494
Total Expenses	2,494,789	2,266,454	23,887,986	26,154,440	370,434	47,308	(49,259)	26,522,923	24,873,412
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (819,691)	(819,691)	-	-	-	(819,691)	469,669
INCREASE (DECREASE) IN NET ASSETS	\$ (115,795)	(68,224)	-	(68,224)	150,122	(4,948)	-	76,950	(32,562)
NET ASSETS, BEGINNING OF YEAR	-	2,351,092	-	2,351,092	8,904	9,534	-	2,369,530	2,402,092
NET ASSETS, END OF YEAR	\$ 2,282,868	\$ 2,282,868	\$ 2,282,868	\$ 2,282,868	\$ 159,026	\$ 4,586	\$ -	\$ 2,446,480	\$ 2,369,530

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

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

Iowa State Association of Counties							
	Association Activities			Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
	Budget (Unaudited)	Actual	Program Activities				
REVENUE							
Schools, workshops, committees & seminars	\$ 273,375	\$ 343,452	\$ -	\$ 343,452	\$ -	\$ -	\$ 343,452
Dues	493,500	494,553	-	494,553	300,000	-	794,553
Royalties	342,300	390,362	-	390,362	-	-	390,362
Investment income	35,000	10,586	226,392	236,978	647	249	237,874
Magazine advertising and subscriptions	47,750	29,605	-	29,605	-	-	29,605
Administration fees	881,939	904,001	-	904,001	-	(2,035)	901,966
County premiums	-	-	22,568,786	22,568,786	-	-	22,568,786
Special event revenue	-	-	-	-	-	31,474	31,474
Miscellaneous	-	11,730	182	11,912	-	535	12,447
Total Revenues	2,073,864	2,184,289	22,795,360	24,979,649	300,647	32,258	(2,035)
EXPENSES							
Salaries and fringe benefits	1,544,212	1,465,259	-	1,465,259	-	-	1,465,259
Schools, workshops and meetings	170,000	182,823	-	182,823	-	-	182,823
Board of Directors' meeting expenses	40,000	44,785	-	44,785	-	-	44,785
Other board authorized expense	2,000	2,890	-	2,890	-	-	2,890
NACO conference	10,000	16,566	-	16,566	-	-	16,566
Staff travel and training	45,000	50,207	-	50,207	-	-	50,207
Public relations	1,000	1,322	-	1,322	-	-	1,322
Consulting/professional services	27,800	38,218	-	38,218	-	-	38,218
Rents and utilities	195,094	192,072	-	192,072	-	-	192,072
Building committee expense	28,507	289	-	289	-	-	289
Supplies, printing and postage	21,500	15,237	-	15,237	23,004	-	38,241
Depreciation expense	-	31,839	-	31,839	15,057	-	46,896
Maintenance agreements	20,650	24,540	-	24,540	-	-	24,540
Professional membership	3,500	3,274	-	3,274	-	-	3,274
Library	4,000	6,383	-	6,383	-	-	6,383
Magazine	37,500	42,862	-	42,862	-	-	42,862
Insurance and bonds	25,000	21,122	-	21,122	-	-	21,122
Acquisition of property and equipment	30,000	-	-	-	-	-	-
Special event expense	-	-	-	-	-	10,273	10,273
Miscellaneous	11,500	9,532	4,595	14,127	2,903	242	17,272
Scholarships	-	-	-	-	-	32,704	32,704
Claims and premiums paid	-	-	21,499,712	21,499,712	-	-	21,499,712
Change in claims incurred but not reported	-	-	217,911	217,911	-	-	217,911
Administration	-	-	276,404	276,404	214,507	-	488,876
Wellness program	-	-	306,750	306,750	-	-	306,750
County technologies clearinghouse	18,000	2,352	20,319	22,671	-	-	22,671
Project management and development	-	-	-	-	99,494	-	99,494
Total Expenses	2,235,263	2,151,572	22,325,691	24,477,263	354,965	43,219	(2,035)
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ 469,669	469,669	-	-	469,669
INCREASE (DECREASE) IN NET ASSETS	\$ (161,399)	32,717	32,717	32,717	(54,318)	(10,961)	(32,562)
NET ASSETS, BEGINNING OF YEAR		2,318,375		2,318,375	63,222	20,495	2,402,092
NET ASSETS, END OF YEAR		\$ 2,351,092		\$ 2,351,092	\$ 8,904	\$ 9,534	\$ 2,369,530

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

Year Ended June 30, 2012

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Total Program Activities
REVENUE					
Investment income	\$ 78,805	\$ -	\$ 14,459	\$ -	\$ 93,264
County premiums	22,538,018	140,475	296,038	500	22,975,031
Total Revenues	<u>22,616,823</u>	<u>140,475</u>	<u>310,497</u>	<u>500</u>	<u>23,068,295</u>
EXPENSES					
Miscellaneous	3,784	23	32	-	3,839
Supplies and printing	424	-	28	-	452
Claims and premiums paid	22,730,930	129,192	224,487	-	23,084,609
Change in claims incurred but not reported	81,691	-	-	-	81,691
Administration	262,839	10,475	16,649	-	289,963
Wellness program	427,432	-	-	-	427,432
Total Expenses	<u>23,507,100</u>	<u>139,690</u>	<u>241,196</u>	<u>-</u>	<u>23,887,986</u>
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	(890,277)	785	69,301	500	(819,691)
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	<u>18,548,293</u>	<u>(200)</u>	<u>2,152,387</u>	<u>3,111</u>	<u>20,703,591</u>
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	<u>\$ 17,658,016</u>	<u>\$ 585</u>	<u>\$ 2,221,688</u>	<u>\$ 3,611</u>	<u>\$ 19,883,900</u>

Year Ended June 30, 2011

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Total Program Activities
REVENUE					
Investment income	\$ 207,343	\$ -	\$ 19,049	\$ -	\$ 226,392
County premiums	22,144,210	143,915	280,661	-	22,568,786
Miscellaneous revenue	-	-	182	-	182
Total Revenues	<u>22,351,553</u>	<u>143,915</u>	<u>299,892</u>	<u>-</u>	<u>22,795,360</u>
EXPENSES					
Miscellaneous	4,500	32	63	-	4,595
Claims and premiums paid	21,154,217	133,312	212,183	-	21,499,712
Change in claims incurred but not reported	217,911	-	-	-	217,911
Administration	250,373	10,809	15,222	-	276,404
Wellness program	306,750	-	-	-	306,750
Professional services	-	-	-	20,319	20,319
Total Expenses	<u>21,933,751</u>	<u>144,153</u>	<u>227,468</u>	<u>20,319</u>	<u>22,325,691</u>
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	417,802	(238)	72,424	(20,319)	469,669
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	<u>18,130,491</u>	<u>38</u>	<u>2,079,963</u>	<u>23,430</u>	<u>20,233,922</u>
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	<u>\$ 18,548,293</u>	<u>\$ (200)</u>	<u>\$ 2,152,387</u>	<u>\$ 3,111</u>	<u>\$ 20,703,591</u>

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 76,950	\$ (32,562)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	58,407	46,896
Realized and unrealized losses on investments	274,917	345,743
Change in:		
Accounts receivable	(6,316)	1,585
Prepaid expenses	(6,274)	10,224
Interest receivable	9,897	90,272
Accounts payable and accrued liabilities	(9,423)	(8,568)
Due to/from Wellmark	400,712	422,091
Claims incurred but not reported	81,691	217,911
Unearned revenue	(324,589)	719,602
Compensated absences	8,372	212
Funds held for benefit of members	(819,691)	469,669
	(255,347)	2,283,075
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(225,178)	(18,757)
Software development costs	-	(17,156)
Proceeds from maturities and sales of investments	12,175,599	15,946,962
Purchases of investments	(11,556,743)	(16,388,970)
Change in other assets	5,979	(7,051)
	399,657	(484,972)
Net cash provided (used) by investing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	144,310	1,798,103
CASH AND CASH EQUIVALENTS, beginning of year	2,032,092	233,989
CASH AND CASH EQUIVALENTS, end of year	\$ 2,176,402	\$ 2,032,092

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 \$500,836 and \$488,876 during 2012 and 2011, 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 ten 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, 2012 or 2011.

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 income tax positions at June 30, 2012 and 2011. 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 2012 or 2011. The Association's prior three years' income 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 \$134,000 at June 30, 2012. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately \$956,000 at June 30, 2012 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, 2012.

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:

	2012		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market accounts	\$ 3,660,118	\$ 3,660,118	\$ -
U.S. Treasury Notes	1,510,781	1,519,960	9,179
Federal Home Loan Bank Notes and Debtentures	2,581,254	2,525,525	(55,729)
Financing Corporation Stripped Interest Debtentures	244,678	248,033	3,355
Federal Home Loan Mortgage Corporation Notes	3,531,094	3,524,995	(6,099)
Federal National Mortgage Association Notes	8,698,964	8,510,555	(188,409)
	<u>\$ 20,226,889</u>	<u>\$ 19,989,186</u>	<u>\$ (237,703)</u>
	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 Debtentures	4,048,292	4,019,981	(28,311)
Financing Corporation Stripped Interest Debtentures	244,677	244,920	243
Federal Home Loan Mortgage Corporation Notes	3,014,482	3,025,240	10,758
Federal National Mortgage Association Notes	6,946,929	6,906,445	(40,484)
Federal Farm Credit Bank Notes and Debtentures	1,209,637	1,209,868	231
	<u>\$ 20,402,307</u>	<u>\$ 20,300,312</u>	<u>\$ (101,995)</u>

The fair value of debt securities by contractual maturity at June 30, 2012 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.

	2013	2014	2015	2016	2017	Total
U.S. Treasury Notes	\$ 1,005,895	\$ 514,065	\$ -	\$ -	\$ -	\$ 1,519,960
Federal Home Loan Bank Notes and Debtentures	1,519,095	781,425	225,005	-	-	2,525,525
Financing Corp. Stripped Interest Debtentures	248,033	-	-	-	-	248,033
Federal Home Loan Mort. Corp. Notes	2,014,320	-	-	1,510,675	-	3,524,995
Federal National Mort. Assn. Notes	6,444,990	-	-	1,560,870	504,695	8,510,555
	<u>\$ 11,232,333</u>	<u>\$ 1,295,490</u>	<u>\$ 225,005</u>	<u>\$ 3,071,545</u>	<u>\$ 504,695</u>	<u>\$ 16,329,068</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>2012</u>	<u>2011</u>
Interest income, net of investment fees of \$37,976 and \$40,962 for 2012 and 2011, respectively	\$ 380,161	\$ 583,624
Net realized and unrealized losses on investments	<u>(276,861)</u>	<u>(345,750)</u>
Net investment income	<u>\$ 103,300</u>	<u>\$ 237,874</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 0.20% and 1.50% at June 30, 2012. Anticipated future maturities of the certificates of deposit are \$1,980,856 in fiscal year 2013, \$712,529 in fiscal year 2014 and \$439,727 in fiscal year 2015.

NOTE D - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 164,494	\$ 85,493
Equipment	232,177	236,181
Computer software	<u>101,881</u>	<u>105,065</u>
	498,552	426,739
Less accumulated depreciation	<u>(260,496)</u>	<u>(355,454)</u>
	<u>\$ 238,056</u>	<u>\$ 71,285</u>

NOTE E - LEASE COMMITMENTS

The Association leased office space under the terms of an operating lease which terminated February 28, 2012. On September 1, 2011, the Association entered into an operating lease for 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 \$7,602 through December 31, 2016 and \$8,039 through December 31, 2021. The Association is also responsible for its 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 payment of 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>	
2013	\$ 91,224
2014	91,224
2015	91,224
2016	91,224
2017	93,845
Thereafter	<u>482,333</u>
Total future minimum lease payments	<u><u>\$ 941,074</u></u>

Office rent expense totaled \$129,693 and \$140,922 during fiscal years 2012 and 2011, 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. During the fiscal year ended June 30, 2012, employer contributions to the 401(a) plan were equal to 8.07% of an employee's eligible compensation; however, the employee was required to contribute 4.1% of eligible wages to the 457(b) plan to qualify for the employer contribution. During the fiscal year ended June 30, 2011, employer contributions to the 401(a) plan were equal to 6.95% of an employee's eligible compensation and the employee was 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, 2012 and 2011 totaled \$101,572 and \$82,007, 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, 2012 and 2011 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Salaries and other personnel costs	\$ 176,616	\$ 180,492
General operating expenses	22,962	26,096
Education/information expenses	31,538	33,139
Meetings, committees, and workshops	38,465	41,106
	<u>\$ 269,581</u>	<u>\$ 280,833</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 \$52,987 and \$33,115 for the years ended June 30, 2012 and 2011, 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 \$321,282 and \$308,057 for the years ended June 30, 2012 and 2011, respectively. The organizations owed the Association \$33,937 and \$33,333 for these services at June 30, 2012 and 2011, respectively.

NOTE J - BOARD DESIGNATED NET ASSETS

The Association's Board of Directors has designated the following amounts of its net assets at June 30, 2012:

Future needs and special projects (a specific purpose has not yet been identified)	\$ 623,697
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>\$ 1,700,860</u>

NOTE K - SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2012, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statement or disclosure is October 8, 2012, 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, 2012

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 1,689,737	\$ 12,594	\$ 281,490	\$ 3,611	\$ 1,987,432
Investments in marketable securities	18,874,451	-	963,504	-	19,837,955
Investments in certificates of deposit	1,210,868	-	901,767	-	2,112,635
Accounts receivable	50	11,015	108,506	-	119,571
Interest receivable	78,692	-	6,500	-	85,192
Total Assets	\$ 21,853,798	\$ 23,609	\$ 2,261,767	\$ 3,611	\$ 24,142,785

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 66,497	\$ 23,024	\$ 40,080	\$ -	\$ 129,601
Due to Wellmark	379,054	-	-	-	379,054
Claims incurred but not reported	3,263,114	-	-	-	3,263,114
Unearned revenue	487,116	-	-	-	487,116
Funds held for the benefit of members	17,658,017	585	2,221,687	3,611	19,883,900
Total Liabilities	21,853,798	23,609	2,261,767	3,611	24,142,785
NET ASSETS - Unrestricted	-	-	-	-	-
Total Liabilities and Net Assets	\$ 21,853,798	\$ 23,609	\$ 2,261,767	\$ 3,611	\$ 24,142,785



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 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, 2012, and have issued our report thereon dated October 8, 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 Iowa State Association of Counties is responsible for establishing and maintaining effective 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 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.

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, others within the entity, members and the Board of Directors and 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
October 8, 2012

IOWA STATE ASSOCIATION OF COUNTIES
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.