ELECTRONIC TRANSACTIONS CLEARINGHOUSE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 AND 2012

C O N T E N T S

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2013

Name	Title	Representing
Darin Raymond	President	Plymouth County
Harlan Hansen	1st Vice President	Humboldt County
Melvyn Houser	2nd Vice President	Pottawattamie County
Joan McCalmant	3rd Vice President	Linn County
Dan Cohen	Member	Buchanan County
Wayne Chizek	Member	Marshall County
Mark Sybesma	Member	Sioux County
Jeff Garrett	Member	Washington County
Deb McWhirter	Member	Butler County
David Morlan	Member	Boone County
Lu Barron	Member	Linn County
Kathy Babcock	Member	Chickasaw County
Sarah Kaufman	Member	Henry County
Jim George	Member	Dallas County
Lonny Pulkrabek	Member	Johnson County
Linda Langston	Member	Linn County
Peggy Rice	Member	Humboldt County
Bret Vandelune	Member	Polk County
Deborah Riley	Member	Linn County
Wayne Walter	Past President	Winneshiek 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, MAFF

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Electronic Transactions Clearinghouse

Report on the Financial Statements

We have audited the accompanying financial statements of Electronic Transactions Clearinghouse as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Transactions Clearinghouse as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require the Management's Discussion and Analysis on pages 3 through 6 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 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 and 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 performed in accordance with *Government Auditing Standards* in considering Electronic Transactions Clearinghouse's internal control over financial reporting and compliance.

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

West Des Moines, Iowa
October 15, 2013

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 the financial activities is for the year ended June 30, 2013. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- The Organization's revenues increased 198%, or $1,029,404 from fiscal year 2012 to fiscal year 2013, primarily due to a contribution of CSN software from Iowa State Association of Counties (ISAC), as well as an increase in membership dues.

- The Organization's expenses were 57%, or $211,206, higher in fiscal year 2013 than in fiscal year 2012, primarily as a result of an increase in consulting fees, depreciation and amortization, and CSN software maintenance.

- The Organization's net position increased 609%, or $968,322, from June 30, 2012 to June 30, 2013.

- County Rate Information System (CRIS) was merged into ETC on June 29, 2013 when all assets and liabilities of CRIS were transferred to ETC. Cash and deferred revenues of $72,028 were transferred to ETC as a result of the merger.

USING THIS ANNUAL REPORT

The Electronic Transactions Clearinghouse is a 28E organization 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 Position present information on ETC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position 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.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of ETC's financial position. ETC's net position as of June 30, 2013 totaled approximately $1,127,300. This compares to approximately $159,000 at the end of fiscal year 2012. A summary of ETC's net position is presented below:

	June 30, 2013	June 30, 2012
Current assets	$ 428,687	$ 195,955
Property and equipment, less accumulated depreciation	23,347	33,720
Other assets - CSN software, net of accumulated amortization	850,812	-
Total assets	1,302,846	229,675
Less current liabilities	175,497	70,648
Total net position – unrestricted	$ 1,127,349	$ 159,027

ETC's net position is unrestricted and can be used to meet ETC's obligations as they come due.

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues consist of membership dues from the member counties. Operating expenses are expenses paid to develop and operate ETC's website and for the development and maintenance of CSN software. Non-operating revenue is comprised of interest income and a contribution CSN software from ISAC during fiscal year 2013. The utilization of capital and other assets is reflected in the financial statements as depreciation and amortization, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012 is presented below:

Changes in Net Position

	June 30, 2013	June 30, 2012
Revenue		
Membership dues	$ 675,002	$ 520,003
Contribution of CSN software from Iowa State Association of Counties	874,281	-
Interest income	677	553
Total revenue	1,549,960	520,556
Expenses		
Professional services	12,437	4,660
Administrative expenses	12,877	9,191
CSN software maintenance	20,723	1,165
Staff salaries	305,604	297,699
Consulting fees	132,500	-
Depreciation and amortization	61,373	15,317
Office expense	31,030	30,739
Miscellaneous	5,094	11,661
Total expenses	581,638	370,432
Increase in net position	968,322	150,124
Net position, beginning of year	159,027	8,903
Net position, end of year	$ 1,127,349	$ 159,027

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

The Statement of Revenues, Expenses and Changes in Net Position reflect an increase of $1,029,404 and $968,322 in total revenues and net position, respectively, for the 2013 fiscal year, primarily as the result of the contribution of CSN software from ISAC and an increase in membership dues. During fiscal year ended June 30, 2013, total expenses increased by approximately $211,000, or 57%. The increase in expenses was primarily the result of an increase in consulting fees, depreciation and amortization, and CSN software maintenance.

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 includes membership dues received less cash payments for salaries, professional services and administrative costs. Cash used by investing activities primarily includes purchases of investments and software development costs.

CAPITAL ASSETS

At June 30, 2013, ETC had approximately $23,300 invested in capital assets, net of accumulated depreciation of approximately $112,000. Depreciation charges totaled $10,373 during the fiscal year ended June 30, 2013.

At June 30, 2013, ETC had approximately $850,800 invested in the development of a software program (CSN), net of accumulated amortization of approximately $51,000. Amortization expense totaled $51,000 during the fiscal year ended June 30, 2013.

More detailed information about ETC's capital assets and internally developed software 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 encompasses all 99 Iowa counties during the fiscal year ending June 30, 2013 and 2012. 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.

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

ECONOMIC FACTORS - Continued

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 needs 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. In addition, the ISAC Board currently functions as the ETC Board. The question will likely be asked if this model will work with the regions as business drivers. The funding and governance challenge after July 1, 2014 is the change in the level at which decisions will be made. This decision level transition will be from the counties making all the funding decisions to the newly formed regions making decisions. Additionally, there could be significant variation in how each of these newly operational regions will make decisions on what services they need. This would include the services provided by ETC/CSN. As might be expected with any newly operational system, the business policies have yet to be developed to define how decisions will be made. This uncertainty creates some difficulty in defining the risks for these operations.

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 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 EHR, 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 providing the service and the individual employees working for it can be severe, additional diligence and funding for this will be required.

During the fiscal year ended June 30, 2013, the ETC Board merged the County Rate Information Systems (CRIS) functions into the ETC platform. The goal is to improve the efficiency in the management and operation of the program by leveraging the resources and information associated with CSN. Additionally, the Iowa State Association of Counties transferred internally developed software (CSN) to ETC during the fiscal year ended June 30, 2013.

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 POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 121,904	$ 37,156
Investments	300,595	150,219
Accounts receivable	-	8,580
Prepaid expenses	6,188	-
Total current assets	428,687	195,955
PROPERTY AND EQUIPMENT		
Furniture and equipment	71,648	72,460
Computer software	43,568	44,568
Leasehold improvements	20,085	20,085
	135,301	137,113
Less accumulated depreciation and amortization	(111,954)	(103,393)
Net property and equipment	23,347	33,720
OTHER ASSETS - CSN software, net of accumulated amortization of $51,000 (2013)	850,812	-
TOTAL ASSETS	$ 1,302,846	$ 229,675

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES		
Due to Iowa State Association of Counties	$ 55,248	$ 63,722
Accounts payable	44,484	272
Deferred revenue	72,028	-
Compensated absences	3,737	6,654
Total current liabilities	175,497	70,648
NET POSITION - unrestricted	1,127,349	159,027
TOTAL LIABILITIES AND NET POSITION	$ 1,302,846	$ 229,675

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
REVENUE		
Membership dues	$ 675,002	$ 520,003
Contribution of CSN software from Iowa State Association of Counties	874,281	-
Interest income	677	553
Total revenue	1,549,960	520,556
EXPENSES		
Professional services	12,437	4,660
Administrative expenses	12,877	9,191
CSN software maintenance	20,723	1,165
Staff salaries	305,604	297,699
Consulting fees	132,500	-
Depreciation and amortization	61,373	15,317
Office expense	31,030	30,739
Miscellaneous	5,094	11,661
Total expenses	581,638	370,432
INCREASE IN UNRESTRICTED NET POSITION	968,322	150,124
UNRESTRICTED NET POSITION, beginning of year	159,027	8,903
UNRESTRICTED NET POSITION, end of year	$ 1,127,349	$ 159,027

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member dues and services	$ 683,582	$ 511,423
Cash received from County Rate Information System	72,028	-
Cash received from other operating receipts	677	739
Cash paid to suppliers for goods and services	(202,617)	(55,018)
Cash paid to employees for services	(314,078)	(265,650)
Net cash provided by operating activities	239,592	191,494
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for equipment and computer software	-	(26,604)
Cash paid for software development costs	(4,468)	-
Cash paid for investments	(150,376)	(150,219)
Net cash used by investing activities	(154,844)	(176,823)
Net increase in cash and cash equivalents	84,748	14,671
CASH AND CASH EQUIVALENTS, beginning of year	37,156	22,485
CASH AND CASH EQUIVALENTS, end of year	$ 121,904	$ 37,156
Reconciliation of increase in net position to net cash provided by operating activities:		
Increase in net position	$ 968,322	$ 150,124
Adjustments to reconcile increase in net position to net cash provided by operating activities:		
Depreciation and amortization	61,373	15,317
Contribution of CSN software from the Iowa State Association of Counties	(874,281)	-
Loss on disposal of equipment	-	186
Change in:		
Accounts receivable	8,580	(8,580)
Prepaid expenses	(6,188)	-
Due to Iowa State Association of Counties	(8,474)	32,049
Deferred revenue	72,028	-
Accounts payable and compensated absences	18,232	2,398
Net cash provided by operating activities	$ 239,592	$ 191,494
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities:		
Acquisition of property and equipment included in accounts payable	$ 23,063	$ -
Contribution of CSN software from the Iowa State Association of Counties	$ 874,281	$ -

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.

County Rate Information System (CRIS) merged into ETC on June 29, 2013. All assets and liabilities of CRIS, which consisted of cash and deferred revenues of $72,028, were transferred to ETC and CRIS was subsequently dissolved.

Internally developed software (CSN) was transferred from Iowa State Association of Counties (ISAC) to ETC in December 2012. The book value of the contributed software of $874,281 is included in revenues for the fiscal year ended June 30, 2013.

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 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.

Cash and cash equivalents - ETC considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and cash equivalents (Continued) - The Organization's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against 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 at June 30, 2013 and 2012.

Investments - The Organization's investments are presented at fair value. Changes in unrealized gains and losses, if any, are included as a component of investment income on the statement of revenues, expenses and changes in net position.

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. The Organization capitalizes purchases of $200 or greater. Depreciation is provided by the straight line method over the estimated economic useful lives of assets, ranging from three to ten years.

Other Assets - During December 2012, the Iowa State Association of Counties transferred CSN software, with a development cost of $874,281, to the Organization. The CSN software is used to assist counties in managing services provided. The Organization is amortizing the software over an estimated useful life of ten years. Amortization expense was $51,000 during the fiscal year 2013. There was no amortization expense during the year ended June 30, 2012. Estimated amortization expense for each of the ensuing years through June 30, 2018 is $87,428.

Other assets are tested for impairment at least annually or whenever an event occurs that indicates impairment may exist. The Organization measures impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis, or appraised or estimated market values, as appropriate. In the opinion of management there was no impairment at June 30, 2013; therefore, no impairment loss was recognized during 2013.

Deferred revenue - Deferred revenue at June 30, 2013 consists of unearned membership dues. Deferred amounts will be applied against ETC membership dues owed for fiscal year 2014 by former CRIS members.

Compensated Absences - The Organization's employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Organization's liability for accumulated vacation has been computed based on rates of pay in effect at July 1, 2013 and 2012.

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 at June 30, 2012 consisted of one money market mutual fund. Investments at June 30, 2013 consisted of funds held in bank deposit sweep accounts. 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.

NOTE C - DUE TO IOWA STATE ASSOCIATION OF COUNTIES

Iowa State Association of Counties (ISAC) and ETC share the same Board of Directors. Certain administrative expenses are paid by 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 $352,329 and $337,774 for fiscal years ended June 30, 2013 and 2012, respectively.

NOTE D - RETIREMENT PLAN

The Organization sponsors a 457(b) 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. During the fiscal years ended June 30, 2013 and 2012, employer contributions to the 401(a) plan were equal to 8.50% and 8.07%, respectively, of an employee's eligible compensation; however, the employee was required to contribute 4.25% and 4.10%, respectively, of eligible wages to the 457(b) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2013 and 2012 totaled $14,990 and $13,406, 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, 2013 and 2012:

	2013	2012
Program expenses	$ 521,245	$ 305,814
Fundraising expenses	-	-
General and administration	60,393	64,618
Total expenses	$ 581,638	$ 370,432

NOTE F - COMMITMENT

On July 1, 2013, 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, 2014 are expected to be approximately $126,420.

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.

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

Partners
Michael E. Brinker, CPA
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John A. Schmidt, CPA
Daniel A. Schwarz, CPA/ABV
S. James Smith, CPA
Joni M. Tonnemacher, CPA, MAFF

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Electronic Transactions Clearinghouse as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Electronic Transactions Clearinghouse's basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Electronic Transactions Clearinghouse's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Electronic Transactions Clearinghouse's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 Organization's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Electronic Transactions Clearinghouse's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

West Des Moines, Iowa
October 15, 2013

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Findings Related to the Financial Statements

Internal control deficiencies

No matters were noted.

Instances of non-compliance

No matters were noted.

Other findings related to required statutory reporting

No matters were noted.