

IOWA STATE ASSOCIATION OF COUNTIES

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

JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Iowa State Association of Counties

Report on the Financial Statements

We have audited the accompanying financial statements of Iowa State Association of Counties (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, program activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 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 from 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 entity'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 entity'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 that 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 Iowa State Association of Counties as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The budget information presented with the Statements of Activities and the supplemental Combining Statement of Financial Position - Program Activities on page 16 for the years ended June 30, 2013 and 2012, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

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 Iowa State Association of Counties' internal control over financial reporting and on 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 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 Iowa State Association of Counties' internal control over financial reporting and compliance.

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

West Des Moines, Iowa
October 15, 2013

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	<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	\$ 66,774	\$ 1,493,689	\$ 1,560,463	\$ 121,904	\$ 38,300	\$ -	\$ 1,720,667
Investments in marketable securities	224,053	20,073,843	20,297,896	300,595	-	-	20,598,491
Investments in certificates of deposit	952,707	1,777,078	2,729,785	-	-	-	2,729,785
Accounts receivable	129,874	104,048	233,922	-	75	(59,384)	174,613
Due from Wellmark	-	54,043	54,043	-	-	-	54,043
Prepaid expenses	27,191	810	28,001	6,188	250	-	34,439
Interest receivable	1,463	82,445	83,908	-	-	-	83,908
Property and equipment, net of accumulated depreciation	200,814	-	200,814	23,347	-	-	224,161
CSN software, net of accumulated amortization	-	-	-	850,812	-	-	850,812
Other assets	2,101	-	2,101	-	-	-	2,101
TOTAL ASSETS	<u>\$ 1,604,977</u>	<u>\$ 23,585,956</u>	<u>\$ 25,190,933</u>	<u>\$ 1,302,846</u>	<u>\$ 38,625</u>	<u>\$ (59,384)</u>	<u>\$ 26,473,020</u>
Accounts payable and accrued liabilities	\$ 22,157	\$ 111,773	\$ 133,930	\$ 99,735	\$ 24,714	\$ (59,384)	\$ 198,995
Claims incurred but not reported	-	3,182,705	3,182,705	-	-	-	3,182,705
Unearned revenue	36,517	563,529	600,046	72,028	7,980	-	680,054
Compensated absences	55,712	-	55,712	3,737	-	-	59,449
Funds held for benefit of members	-	19,727,949	19,727,949	-	-	-	19,727,949
TOTAL LIABILITIES	<u>114,386</u>	<u>23,585,956</u>	<u>23,700,342</u>	<u>175,500</u>	<u>32,694</u>	<u>(59,384)</u>	<u>23,849,152</u>
NET ASSETS - UNRESTRICTED	<u>1,490,591</u>	<u>-</u>	<u>1,490,591</u>	<u>1,127,346</u>	<u>5,931</u>	<u>-</u>	<u>2,623,868</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,604,977</u>	<u>\$ 23,585,956</u>	<u>\$ 25,190,933</u>	<u>\$ 1,302,846</u>	<u>\$ 38,625</u>	<u>\$ (59,384)</u>	<u>\$ 26,473,020</u>

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

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

	Iowa State Association of Counties			Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
	Association Activities	Program Activities	Total				
Cash and cash equivalents	\$ 102,410	\$ 1,987,432	\$ 2,089,842	\$ 37,156	\$ 49,405	\$ -	\$ 2,176,403
Investments in marketable securities	1,011	19,837,955	19,838,966	150,219	-	-	19,989,185
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	\$ 2,383,248	\$ 24,142,785	\$ 26,526,033	\$ 229,675	\$ 52,805	\$ (93,186)	\$ 26,715,327
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	100,380	24,142,785	24,243,165	70,649	48,219	(93,186)	24,268,847
NET ASSETS - UNRESTRICTED	2,282,868	-	2,282,868	159,026	4,586	-	2,446,480
TOTAL LIABILITIES AND NET ASSETS	\$ 2,383,248	\$ 24,142,785	\$ 26,526,033	\$ 229,675	\$ 52,805	\$ (93,186)	\$ 26,715,327

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Iowa State Association of Counties				Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total	Prior Year Total
	Association Activities		Program Activities	Total					
REVENUE	Budget (Unaudited)	Actual							
Schools, workshops, committees & seminars	\$ 324,375	\$ 337,785	\$ -	\$ 337,785	\$ -	\$ -	\$ -	\$ 337,785	\$ 335,540
Dues	515,750	506,812	-	506,812	675,002	-	-	1,181,814	1,011,152
Royalties	360,000	385,184	-	385,184	-	-	-	385,184	356,202
Investment income (loss)	10,000	5,989	(267,244)	(261,255)	677	31	-	(260,547)	103,300
Magazine advertising and subscriptions	41,950	24,323	-	24,323	-	-	-	24,323	27,068
Administration fees	1,148,539	1,041,839	-	1,041,839	-	-	(338,780)	703,059	925,135
County premiums	-	-	23,687,538	23,687,538	-	-	-	23,687,538	22,975,031
Special event revenue	-	-	-	-	-	37,375	-	37,375	38,796
Contribution of CSN software from Iowa State Association of Counties	-	-	-	-	874,281	-	(874,281)	-	-
Miscellaneous	-	7,088	-	7,088	-	1,957	-	9,045	7,958
Total Revenues	2,400,614	2,309,020	23,420,294	25,729,314	1,549,960	39,363	(1,213,061)	26,105,576	25,780,182
EXPENSES									
Salaries and fringe benefits	1,793,981	1,549,032	-	1,549,032	-	-	(221,409)	1,327,623	1,571,668
Schools, workshops and meetings	188,750	169,882	-	169,882	-	-	-	169,882	188,942
Board of Directors' meeting expenses	45,000	36,562	-	36,562	-	-	-	36,562	53,459
Other board authorized expense	2,000	7,066	-	7,066	-	-	-	7,066	2,100
NACO conference	16,000	18,097	-	18,097	-	-	-	18,097	19,453
Staff travel and training	55,000	49,650	-	49,650	-	-	-	49,650	37,912
Public relations	500	-	-	-	-	-	-	-	-
Consulting/professional services	44,800	43,020	-	43,020	-	-	-	43,020	56,210
Rents and utilities	232,300	207,633	-	207,633	-	-	(17,685)	189,948	182,389
Supplies, printing and postage	16,000	17,143	185	17,328	31,030	-	-	48,358	52,570
Depreciation and amortization expense	-	36,095	-	36,095	61,373	-	-	97,468	58,407
Maintenance agreements	23,632	18,299	-	18,299	-	-	-	18,299	22,498
Professional membership	3,500	3,722	-	3,722	-	-	-	3,722	3,695
Library	4,000	4,151	-	4,151	-	-	-	4,151	3,156
Magazine	40,000	40,491	-	40,491	-	-	-	40,491	37,575
Insurance and bonds	16,000	16,536	-	16,536	2,704	-	(2,415)	16,825	16,949
Acquisition of property and equipment	40,000	-	-	-	-	-	-	-	-
Special event expense	-	-	-	-	-	13,302	-	13,302	13,370
Miscellaneous	12,050	7,046	5,933	12,979	2,392	-	(1,436)	13,935	18,632
Scholarships	-	-	-	-	-	24,716	-	24,716	34,142
Claims and premiums paid	-	-	22,789,320	22,789,320	-	-	-	22,789,320	23,084,609
Change in claims incurred but not reported	-	-	(80,409)	(80,409)	-	-	-	(80,409)	81,691
Administration	-	-	294,796	294,796	231,642	-	(95,835)	430,603	500,836
Wellness program	-	-	561,320	561,320	-	-	-	561,320	427,432
County technologies clearinghouse	10,000	2,591	-	2,591	-	-	-	2,591	2,645
Affordable Care Act fees	-	-	5,100	5,100	-	-	-	5,100	-
Consulting fees - rate setting	-	-	-	-	132,500	-	-	132,500	-
Contribution of software development costs (CSN) to Electronic Transactions Clearinghouse	-	874,281	-	874,281	-	-	(874,281)	-	-
Project management and development	-	-	-	-	119,999	-	-	119,999	52,583
Total Expenses	2,543,513	3,101,297	23,576,245	26,677,542	581,640	38,018	(1,213,061)	26,084,139	26,522,923
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (155,951)	(155,951)	-	-	-	(155,951)	(819,691)
INCREASE (DECREASE) IN NET ASSETS	\$ (142,899)	(792,277)		(792,277)	968,320	1,345	-	177,388	76,950
NET ASSETS, BEGINNING OF YEAR		2,282,868		2,282,868	159,026	4,586	-	2,446,480	2,369,530
NET ASSETS, END OF YEAR		\$ 1,490,591		\$ 1,490,591	\$ 1,127,346	\$ 5,931	\$ -	\$ 2,623,868	\$ 2,446,480

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				Electronic Transactions Clearinghouse	ISAC Education Foundation	Eliminations	Total
	Budget (Unaudited)	Actual	Program Activities	Total				
REVENUE								
Schools, workshops, committees & seminars	\$ 305,475	\$ 335,540	\$ -	\$ 335,540	\$ -	\$ -	\$ -	\$ 335,540
Dues	491,000	491,149	-	491,149	520,003	-	-	1,011,152
Royalties	378,000	356,202	-	356,202	-	-	-	356,202
Investment income	20,000	9,410	93,264	102,674	553	73	-	103,300
Magazine advertising and subscriptions	41,750	27,068	-	27,068	-	-	-	27,068
Administration fees	1,142,769	974,394	-	974,394	-	-	(49,259)	925,135
County premiums	-	-	22,975,031	22,975,031	-	-	-	22,975,031
Special event revenue	-	-	-	-	-	38,796	-	38,796
Miscellaneous	-	4,467	-	4,467	-	3,491	-	7,958
Total Revenues	2,378,994	2,198,230	23,068,295	25,266,525	520,556	42,360	(49,259)	25,780,182
EXPENSES								
Salaries and fringe benefits	1,786,950	1,571,668	-	1,571,668	-	-	-	1,571,668
Schools, workshops and meetings	194,500	188,942	-	188,942	-	-	-	188,942
Board of Directors' meeting expenses	45,000	53,459	-	53,459	-	-	-	53,459
Other board authorized expense	2,000	2,100	-	2,100	-	-	-	2,100
NACO conference	12,000	19,453	-	19,453	-	-	-	19,453
Staff travel and training	55,000	37,912	-	37,912	-	-	-	37,912
Public relations	500	-	-	-	-	-	-	-
Consulting/professional services	28,800	56,210	-	56,210	-	-	-	56,210
Rents and utilities	192,789	182,389	-	182,389	-	-	-	182,389
Supplies, printing and postage	15,500	21,831	-	21,831	30,739	-	-	52,570
Depreciation and amortization expense	-	43,090	-	43,090	15,317	-	-	58,407
Maintenance agreements	25,500	22,498	-	22,498	-	-	-	22,498
Professional membership	3,500	3,695	-	3,695	-	-	-	3,695
Library	4,000	3,156	-	3,156	-	-	-	3,156
Magazine	40,000	37,575	-	37,575	-	-	-	37,575
Insurance and bonds	25,000	15,540	-	15,540	1,409	-	-	16,949
Acquisition of property and equipment	35,000	-	-	-	-	-	-	-
Special event expense	-	-	-	-	-	13,370	-	13,370
Miscellaneous	10,750	4,291	3,839	8,130	10,254	248	-	18,632
Scholarships	-	-	452	452	-	33,690	-	34,142
Claims and premiums paid	-	-	23,084,609	23,084,609	-	-	-	23,084,609
Change in claims incurred but not reported	-	-	81,691	81,691	-	-	-	81,691
Administration	-	-	289,963	289,963	260,132	-	(49,259)	500,836
Wellness program	-	-	427,432	427,432	-	-	-	427,432
County technologies clearinghouse	18,000	2,645	-	2,645	-	-	-	2,645
Project management and development	-	-	-	-	52,583	-	-	52,583
Total Expenses	2,494,789	2,266,454	23,887,986	26,154,440	370,434	47,308	(49,259)	26,522,923
INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (819,691)	(819,691)	-	-	-	(819,691)
INCREASE (DECREASE) IN NET ASSETS	\$ (115,795)	(68,224)		(68,224)	150,122	(4,948)	-	76,950
NET ASSETS, BEGINNING OF YEAR		2,351,092		2,351,092	8,904	9,534	-	2,369,530
NET ASSETS, END OF YEAR		\$ 2,282,868		\$ 2,282,868	\$ 159,026	\$ 4,586	\$ -	\$ 2,446,480

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

Year Ended June 30, 2013

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Total Program Activities
REVENUE					
Investment income (loss)	\$ (282,996)	\$ -	\$ 15,752	\$ -	\$ (267,244)
County premiums	23,289,365	133,843	264,330	-	23,687,538
Total Revenues	23,006,369	133,843	280,082	-	23,420,294
EXPENSES					
Supplies, printing and postage	185	-	-	-	185
Miscellaneous	5,920	3	10	-	5,933
Scholarships	-	-	-	-	-
Claims and premiums paid	22,481,185	123,800	184,335	-	22,789,320
Change in claims incurred but not reported	(80,409)	-	-	-	(80,409)
ACA fees	5,100	-	-	-	5,100
Administration	266,858	10,038	17,900	-	294,796
Wellness program	561,320	-	-	-	561,320
Total Expenses	23,240,159	133,841	202,245	-	23,576,245
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	(233,790)	2	77,837	-	(155,951)
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	17,658,016	585	2,221,688	3,611	19,883,900
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 17,424,226	\$ 587	\$ 2,299,525	\$ 3,611	\$ 19,727,949

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	22,616,823	140,475	310,497	500	23,068,295
EXPENSES					
Supplies, printing and postage	424	-	28	-	452
Miscellaneous	3,784	23	32	-	3,839
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	23,507,100	139,690	241,196	-	23,887,986
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	18,548,293	(200)	2,152,387	3,111	20,703,591
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 17,658,016	\$ 585	\$ 2,221,688	\$ 3,611	\$ 19,883,900

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 177,388	\$ 76,950
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	97,468	58,407
Realized and unrealized losses on investments	628,468	274,917
Change in:		
Accounts receivable	14,965	(6,316)
Prepaid expenses	(7,238)	(6,274)
Interest receivable	2,531	9,897
Accounts payable and accrued liabilities	20,015	(9,423)
Due to/from Wellmark	(433,097)	400,712
Claims incurred but not reported	(80,409)	81,691
Unearned revenue	163,734	(324,589)
Compensated absences	(11,093)	8,372
Funds held for benefit of members	(155,951)	(819,691)
	416,781	(255,347)
Net cash provided (used) by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(32,572)	(225,178)
Software development costs	(4,468)	-
Proceeds from maturities and sales of investments	16,937,831	12,175,599
Purchases of investments	(17,772,278)	(11,556,743)
Change in other assets	(1,029)	5,979
	(872,516)	399,657
Net cash provided (used) by investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(455,735)	144,310
CASH AND CASH EQUIVALENTS, beginning of year	2,176,402	2,032,092
CASH AND CASH EQUIVALENTS, end of year	\$ 1,720,667	\$ 2,176,402

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Non-cash investing activity:

Accounts payable at June 30, 2013, includes \$23,063 for property and equipment purchases.

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 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 \$428,258 and \$500,836 during 2013 and 2012, 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, 2013 or 2012.

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, 2013 and 2012. 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 2013 or 2012. 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 \$560,000 at June 30, 2013. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately \$563,000 at June 30, 2013 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, enhancement and maintenance of software to assist counties in managing services provided. In accordance with U.S. generally accepted accounting principles, the amortization of the cost of the software starts when it is placed in service.

CSN Software - During December 2012, the Association transferred CSN software, with a development cost of \$874,281 to ETC. The CSN software is used to assist counties in managing services provided. ETC 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.

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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

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

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.

Subsequent Events - Management has evaluated subsequent events through October 15, 2013, the date the financial statements were available to be issued.

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities are comprised of the following:

	2013		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market accounts	\$ 836,156	\$ 836,156	\$ -
U.S. Treasury Notes	505,781	507,030	1,249
Federal Home Loan Bank Notes and Debentures	5,845,217	5,685,348	(159,869)
Federal Farm Credit Bank	4,085,674	3,975,580	(110,094)
Federal Home Loan Mortgage Corporation Notes	4,446,506	4,377,982	(68,524)
Federal National Mortgage Association Notes	5,315,784	5,216,395	(99,389)
	<u>\$ 21,035,118</u>	<u>\$ 20,598,491</u>	<u>\$ (436,627)</u>
	2012		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market accounts	\$ 3,660,117	\$ 3,660,117	\$ -
U.S. Treasury Notes	1,510,781	1,519,960	9,179
Federal Home Loan Bank Notes and Debentures	2,581,254	2,525,525	(55,729)
Financing Corporation Stripped Interest Debentures	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>\$ 20,226,888</u>	<u>\$ 19,989,185</u>	<u>\$ (237,703)</u>

The fair value of debt securities by contractual maturity at June 30, 2013 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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES - Continued

	2014	2015	2016	2017	2018	Total
U.S. Treasury Notes	\$ 507,030	\$ -	\$ -	\$ -	\$ -	\$ 507,030
Federal Home Loan Bank Notes and Debentures	766,100	-	-	494,640	4,424,608	5,685,348
Federal Farm Credit Bank	-	-	613,098	-	3,362,482	3,975,580
Federal Home Loan Mort. Corp. Notes	-	-	2,261,773	299,322	1,816,887	4,377,982
Federal National Mort. Assn. Notes	-	-	1,042,530	1,490,175	2,683,690	5,216,395
	<u>\$ 1,273,130</u>	<u>\$ -</u>	<u>\$ 3,917,401</u>	<u>\$ 2,284,137</u>	<u>\$ 12,287,667</u>	<u>\$ 19,762,335</u>

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

	2013	2012
Interest income, net of investment fees of \$40,005 and \$37,976 for 2013 and 2012, respectively	\$ 367,921	\$ 380,161
Net realized and unrealized losses on investments	(628,468)	(276,861)
Net investment income (loss)	<u>\$ (260,547)</u>	<u>\$ 103,300</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 0.40% and 1.05% at June 30, 2013. Anticipated future maturities of the certificates of deposit are \$905,345 in fiscal year 2014 and \$1,824,440 in fiscal year 2015.

NOTE D - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2013 and 2012:

	2013	2012
Leasehold improvements	\$ 164,494	\$ 164,494
Equipment	233,266	232,177
Computer software	129,935	101,881
	<u>527,695</u>	<u>498,552</u>
Less accumulated depreciation	(303,534)	(260,496)
	<u>\$ 224,161</u>	<u>\$ 238,056</u>

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE E - LEASE COMMITMENTS

The Association leases its office space under an operating lease. The lease terminates on 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.

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

<u>Year Ending June 30,</u>	
2014	\$ 91,224
2015	91,224
2016	91,224
2017	93,845
2018	96,467
Thereafter	385,866
Total future minimum lease payments	<u>\$ 849,850</u>

Office rent expense, including common area maintenance charges, totaled \$161,487 and \$129,693 during fiscal years 2013 and 2012, 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 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 \$104,378 and \$101,572, 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.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE G - CONTINGENT LIABILITIES - Continued

The liability for claims incurred but not reported (IBNR) at June 30, 2013 and 2012 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.

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, 2013 and 2012:

	2013	2012
Salaries and other personnel costs	\$ 187,888	\$ 176,616
General operating expenses	28,761	22,962
Education/information expenses	7,368	31,538
Meetings, committees, and workshops	60,499	38,465
	\$ 284,516	\$ 269,581

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 \$65,052 and \$52,987 for the years ended June 30, 2013 and 2012, 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 \$347,176 and \$321,282 for the years ended June 30, 2013 and 2012, respectively. The organizations owed the Association \$32,902 and \$33,937 for these services at June 30, 2013 and 2012, 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, 2013:

Future needs and special projects (a specific purpose has not yet been identified)	\$ 633,938
Future non-budgeted replacement of property and equipment	175,000
	\$ 808,938

SUPPLEMENTAL INFORMATION

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION -
PROGRAM ACTIVITIES
JUNE 30, 2013

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 1,275,235	\$ 13,098	\$ 201,745	\$ 3,611	\$ 1,493,689
Investments in marketable securities	19,558,928	-	514,915	-	20,073,843
Investments in certificates of deposit	242,549	-	1,534,529	-	1,777,078
Accounts receivable	-	9,258	94,790	-	104,048
Due from Wellmark	54,043	-	-	-	54,043
Prepaid expenses	810	-	-	-	810
Interest receivable	79,257	-	3,188	-	82,445
Total Assets	\$ 21,210,822	\$ 22,356	\$ 2,349,167	\$ 3,611	\$ 23,585,956

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 40,361	\$ 21,769	\$ 49,643	\$ -	\$ 111,773
Claims incurred but not reported	3,182,705	-	-	-	3,182,705
Unearned revenue	563,529	-	-	-	563,529
Funds held for the benefit of members	17,424,227	587	2,299,524	3,611	19,727,949
Total Liabilities	21,210,822	22,356	2,349,167	3,611	23,585,956
NET ASSETS - Unrestricted	-	-	-	-	-
Total Liabilities and Net Assets	\$ 21,210,822	\$ 22,356	\$ 2,349,167	\$ 3,611	\$ 23,585,956



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 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
Iowa State Association of Counties

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 Iowa State Association of Counties as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Iowa State Association of Counties' 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 Iowa State Association of Counties' 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 Iowa State Association of Counties' 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 of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Association'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.

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*.

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

IOWA STATE ASSOCIATION OF COUNTIES
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.