ELECTRONIC TRANSACTIONS CLEARINGHOUSE

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014 AND 2013

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ELECTRONIC TRANSACTIONS CLEARINGHOUSE
OFFICIALS
AS OF JUNE 30, 2014

Name	Title	Representing
Harlan Hansen	President	Humboldt County
Melvyn Houser	1st Vice President	Pottawattamie County
Joan McCalmant	2nd Vice President	Linn County
Peggy Rice	3rd Vice President	Humboldt County
Wayne Chizek	Member	Marshall County
Jeff Garrett	Member	Washington County
Deb McWhirter	Member	Butler County
Lu Barron	NACo Representative	Linn County
Kathy Babcock	Member	Chickasaw County
Jim George	Member	Dallas County
Lonny Pulkrabek	Member	Johnson County
Linda Langston	Member	Linn County
Russell Wood	Member	Franklin County
Matt Cosgrove	Member	Webster County
AJ Mumm	Member	Polk County
Joe Neary	Member	Palo Alto County
Wayne Clinton	Member	Story County
RJ Moore	Member	Johnson County
Marjorie Pitts	Past President	Clay County
Wayne Walter	Past President	Winneshiek County
Darin Raymond	Past President	Plymouth 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, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position 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 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. 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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

www.mhcscpa.com
1601 West Lakes Parkway, Suite 300
West Des Moines, Iowa 50266
515-288-3279 • Fax: 515-280-1490
Members of CPAmerica International
and the American Institute of Certified Public Accountants
106 E. Jefferson Street, P.O. Box 312
Winterset, Iowa 50273-0312
515-462-1882 • Fax: 515-462-1577
Founded in 1946

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 auditing standards generally accepted in the United States of America, 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 1, 2014 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 1, 2014

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, 2014. We encourage readers to consider this information in conjunction with ETC's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- The Organization's operating revenues increased 30%, or $205,254 from fiscal year 2013 to fiscal year 2014, primarily due to an increase in membership dues and administrative fee revenue from County Case Management Services.

- The Organization's operating expenses were 34%, or $198,022, higher in fiscal year 2014 than in fiscal year 2013, primarily as a result of an increase in professional consulting services and an increase in depreciation and amortization.

- The Organization's non-operating revenue decreased 99%, or $874,272, from fiscal year 2013 to fiscal year 2014, primarily due to a contribution of CSN software from Iowa State Association of Counties (ISAC) received in prior year.

- The Organization's net position increased 8.98%, or $101,282, from June 30, 2013 to June 30, 2014.

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 Statement of Net Position presents information on ETC's assets and deferred outflows of resources less ETC's liabilities and deferred inflows of resources, 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 Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on ETC's operating revenues and expenses, non-operating revenues and expenses and whether 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, 2014 totaled approximately $1,228,600. This compares to approximately $1,127,400 at the end of fiscal year 2013. A summary of ETC's net position is presented below:

	June 30, 2014	June 30, 2013
Current assets	$ 462,721	$ 428,687
Capital assets - at cost, less accumulated depreciation	40,882	23,347
Other assets - CSN software, net of accumulated amortization	775,463	850,812
Total assets	1,279,066	1,302,846
Less current liabilities	50,435	175,497
Total net position – unrestricted	$ 1,228,631	$ 1,127,349

The Board designated $130,000 of its net position for capital assets and improvements in 2013. The Board removed the designation during 2014. In 2014, ETC's net position is unrestricted.

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues consists of membership dues from the member counties and administrative fees received from County Case Management Services (CCMS) for maintenance of the software module during fiscal year 2014. 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 contribution of CSN software from Iowa State Association of Counties. 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, 2014 and 2013 is presented below:

Changes in Net Position

	June 30, 2014	June 30, 2013
Operating revenues		
Membership dues	$ 736,256	$ 675,002
Administration fee revenue from County Case Management Services	144,000	-
Total operating revenue	880,256	675,002
Operating expenses		
Professional services	32,127	12,437
Contract labor	212,915	-
Administrative expenses	15,698	11,003
CSN software maintenance	28,097	20,723
Staff salaries and related benefits	262,444	305,604

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

Changes in Net Position, continued

	June 30, 2014	June 30, 2013
Consulting fees	77,906	132,500
Depreciation and amortization	98,091	61,373
Office expense	43,639	33,734
Travel	7,000	3,881
Miscellaneous	1,743	383
Total operating expenses	779,660	581,638
Operating income	100,596	93,364
Non-operating revenues		
Contribution of CSN software from Iowa State Association of Counties	-	874,281
Interest income	686	677
Total non-operating revenues	686	874,958
Increase in net position	101,282	968,322
Net position, beginning of year	1,127,349	159,027
Net position, end of year	$ 1,228,631	$ 1,127,349

The Statement of Revenues, Expenses and Changes in Net Position reflects a decrease of $669,018 in total revenues and an increase of $101,282 in net position for the 2014 fiscal year, primarily as the result of the prior year contribution of CSN software from ISAC offset by an increase in 2014 membership dues and administrative revenue from County Case Management Services. During fiscal year ended June 30, 2014, total expenses increased by approximately $198,000, or 34%. The increase in expenses was primarily the result of an increase in contract labor and an increase in depreciation and amortization.

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, 2014, ETC had approximately $40,900 invested in capital assets, net of accumulated depreciation of approximately $122,000. Depreciation charges totaled $10,663 during the fiscal year ended June 30, 2014.

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

CAPITAL ASSETS - Continued

At June 30, 2014, ETC had approximately $775,500 invested in the development of a software program (CSN), net of accumulated amortization of approximately $138,000. Amortization expense totaled $87,428 during the fiscal year ended June 30, 2014.

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 encompassed all 99 Iowa counties during the fiscal year ending June 30, 2014 and 2013. ETC was developed as the platform for implementation and operation of the Community Services Network (CSN). Installation of CSN and related training at member counties began during fiscal year ended June 30, 2012.

The State of Iowa's Mental Health Re-Design project has presented 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.

FINANCIAL ANALYSIS OF ELECTRONIC TRANSACTIONS CLEARINGHOUSE, continued

ECONOMIC FACTORS - Continued

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 ending June 30, 2014, the ETC Board took action to update its committee and subcommittee structure to improve its decision-making process. These changes going forward will help create a more stream-lined process for making decisions related to program operations and financing. The net effect of these changes should have a positive impact on future development projects and system operations. Additionally, these changes will help the program be more responsive to the needs of users and members.

Going forward the ETC Board will need to be diligent in both monitoring the resources provided by members but will also need to look for opportunities to leverage funds from other sources to help with future development projects that make sense. Additionally, the Board, Committee and Subcommittees will be challenged in meeting the demands of system users resulting from operational changes required of member counties as they seek to be compliant with both state and federal requirements. The changes instituted in 2014 should position the ETC Board to be proactive in responding to the ever changing environment in which it operates.

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, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 257,366	$ 422,499
Certificate of deposit	149,919	-
Accounts receivable	49,248	-
Prepaid expenses	6,188	6,188
Total current assets	462,721	428,687
CAPITAL ASSETS		
Furniture and equipment	82,621	71,648
Computer software	60,568	43,568
Leasehold improvements	20,085	20,085
	163,274	135,301
Less accumulated depreciation and amortization	(122,392)	(111,954)
Net capital assets	40,882	23,347
OTHER ASSETS - CSN software, net of accumulated amortization of $138,428 (2014) and $51,000 (2013)	775,463	850,812
TOTAL ASSETS	$ 1,279,066	$ 1,302,846

LIABILITIES AND NET POSITION

	2014	2013
CURRENT LIABILITIES		
Due to Iowa State Association of Counties	$ 28,198	$ 55,248
Accounts payable	13,508	44,484
Deferred revenue	-	72,028
Compensated absences	8,729	3,737
Total current liabilities	50,435	175,497
NET POSITION - unrestricted	1,228,631	1,127,349
TOTAL LIABILITIES AND NET POSITION	$ 1,279,066	$ 1,302,846

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, 2014 AND 2013

	2014	2013
OPERATING REVENUE		
Membership dues	$ 736,256	$ 675,002
Administration fee revenue	144,000	-
Total operating revenue	880,256	675,002
OPERATING EXPENSES		
Professional services	32,127	12,437
Contract labor	212,915	-
Administrative expenses	15,698	11,003
CSN software maintenance	28,097	20,723
Staff salaries	262,444	305,604
Consulting fees	77,906	132,500
Depreciation and amortization	98,091	61,373
Office expense	43,639	33,734
Travel	7,000	3,881
Miscellaneous	1,743	383
Total operating expenses	779,660	581,638
OPERATING INCOME	100,596	93,364
NON-OPERATING REVENUES		
Contribution of CSN software	-	874,281
Interest income	686	677
Total non-operating revenues	686	874,958
INCREASE IN UNRESTRICTED NET POSITION	101,282	968,322
UNRESTRICTED NET POSITION, beginning of year	1,127,349	159,027
UNRESTRICTED NET POSITION, end of year	$ 1,228,631	$ 1,127,349

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

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member dues and services	$ 614,980	$ 683,582
Cash received from County Rate Information System	-	72,028
Cash received from administrative fee revenue	144,000	-
Cash received from other operating receipts	686	677
Cash paid to suppliers for goods and services	(450,014)	(202,617)
Cash paid to employees for services	(284,502)	(314,078)
Net cash provided by operating activities	25,150	239,592
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for capital assets	(28,286)	-
Cash paid for software development costs	(12,078)	(4,468)
Purchase of certificate of deposits	(149,919)	-
Proceeds from the sale of investments	-	150,219
Net cash used by investing activities	(190,283)	145,751
Net increase (decrease) in cash and cash equivalents	(165,133)	385,343
CASH AND CASH EQUIVALENTS, beginning of year	422,499	37,156
CASH AND CASH EQUIVALENTS, end of year	$ 257,366	$ 422,499
Reconciliation of increase in net position to net cash provided by operating activities:		
Increase in net position	$ 101,282	$ 968,322
Adjustments to reconcile increase in net position to net cash provided by operating activities:		
Depreciation	10,663	10,373
Amortization	87,428	51,000
Contribution of CSN software	-	(874,281)
Loss on disposal of capital assets	87	-
Change in:		
Accounts receivable	(49,248)	8,580
Prepaid expenses	-	(6,188)
Due to Iowa State Association of Counties	(27,050)	(8,474)
Deferred revenue	(72,028)	72,028
Accounts payable and compensated absences	(25,984)	18,232
Net cash provided by operating activities	$ 25,150	$ 239,592
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities:		
Acquisition of capital assets 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.

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.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

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, 2014 and 2013 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.

Investments - The Organization is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Organization; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Organization had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Accounts Receivable - Accounts receivable at June 30, 2014 consists of a monthly administrative fee from County Case Management Services and a refund for overpayment of services. Based on its review of the receivables, management believes no allowance for doubtful accounts is necessary at June 30, 2014.

Capital assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. The Organization capitalizes purchases of $1,000 or greater. Depreciation is provided by the straight-line method over the estimated economic useful lives of the 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 $87,428 and $51,000 at June 30, 2014 and 2013, respectively. Estimated amortization expense for each of the ensuing years through June 30, 2018 is $87,428. During 2014, $39,610 of additional capitalized software costs were incurred. Management has analyzed software costs for impairment and has determined there was no impairment as of June 30, 2014 and 2013.

Deferred revenue - Deferred revenue at June 30, 2013 consists of unearned membership dues. Deferred amounts were applied against the Organization's membership dues owed for fiscal year 2014 by former County Rate Information System members.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2015 and 2014.

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 - CERTIFICATE OF DEPOSIT

The Organization held a certificate of deposit at June 30, 2014, with an interest rate of .25% and maturing in August 2014. There were no certificates of deposit held at June 30, 2013.

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, salaries and related employee benefits. Amounts owed to ISAC are non-interest bearing. Total amounts paid to ISAC were $338,759 and $352,329 for fiscal years ended June 30, 2014 and 2013, 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, 2014 and 2013, employer contributions to the 401(a) plan were equal to 8.50% of an employee's eligible compensation; however, the employee was required to contribute 4.25% of eligible wages to the 457(b) plan to qualify for the employer contribution. Employer contributions for the years ended June 30, 2014 and 2013 totaled $15,010 and $14,990, respectively.

NOTE E - COMMITMENT

On July 1, 2014, 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, 2015 are expected to be a minimum of approximately $54,000.

NOTE F - RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Organization assumes liability for any deductibles and claims in excess of coverage limitations.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Electronic Transactions Clearinghouse

We have audited, 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2014.

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 to determine the audit procedures 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 of 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 which 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

1601 West Lakes Parkway, Suite 300
West Des Moines, Iowa 50266
515-288-3279 • Fax: 515-280-1490

www.mhcscpa.com

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106 E. Jefferson Street, P.O. Box 312
Winterset, Iowa 50273-0312
515-462-1882 • Fax: 515-462-1577

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 results 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 1, 2014

ELECTRONIC TRANSACTIONS CLEARINGHOUSE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

1. The auditor's report expresses an unmodified opinion on the financial statements of Electronic Transactions Clearinghouse.

2. No material weaknesses were reported during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Electronic Transactions Clearinghouse were disclosed during the audit.

4. No instances of findings related to required statutory reporting were disclosed during the audit.