

**IOWA COUNTIES TECHNOLOGY SERVICES**

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

**JUNE 30, 2015 AND 2014**

## CONTENTS

	<u>PAGE</u>
Officials	1
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15
Schedule of Findings	17

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Melvyn Houser	President	Pottawattamie County
Joan McCalmant	1 <sup>st</sup> Vice President	Linn County
Peggy Rice	2 <sup>nd</sup> Vice President	Humboldt County
Lonny Pulkrabek	3 <sup>rd</sup> Vice President	Johnson County
Deb McWhirter	Member	Butler County
Russell Wood	Member	Franklin County
Matt Cosgrove	Member	Webster County
AJ Mumm	Member	Polk County
Danny Waid	Member	Hamilton County
Joe Neary	Member	Palo Alto County
Joel Rohne	Member	Worth County
Kathy Babcock	Member	Chickasaw County
Wayne Clinton	Member	Story County
Cara Marker-Morgan	Member	Freemont County
Eric Stierman	Member	Dubuque County
Tim Huey	Member	Scott County
Linda Langston	Member	Linn County
Grant Veeder	NACo Representative	Black Hawk County
Darin Raymond	Past President	Plymouth County
Wayne Walter	Past President	Winneshiek County
Harlan Hansen	Past President	Humboldt County
Elizabeth Ledvina	Member	Tama County



*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  
Iowa Counties Technology Services

**Report on the Financial Statements**

We have audited the accompanying financial statements of Iowa Counties Technology Services, which comprise the statements of net position as of June 30, 2015 and 2014, 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 and the standards applicable in 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 audit 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 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 Iowa Counties Technology Services as of June 30, 2015 and 2014, 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.

## ***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 4 through 8 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 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 12, 2015 on our consideration of Iowa Counties Technology Services' 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 Iowa Counties Technology Services' internal control over financial reporting and compliance.

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

West Des Moines, Iowa  
October 12, 2015

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Iowa Counties Technology Services (ICTS) 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, 2015. We encourage readers to consider this information in conjunction with ICTS's financial statements, which follow.

**2014 FINANCIAL HIGHLIGHTS**

- The Organization's operating revenues increased 39% or \$341,059 from fiscal year 2014 to fiscal year 2015, primarily due to an increase in membership dues offset by a decrease in administration fee revenue from Case Management and Mental Health Disability Services.
- The Organization's operating expenses were 7.3% or \$56,938 lower in fiscal year 2015 than in fiscal year 2014, primarily as a result of a decrease in contract labor, offset by an increase in staff salaries, board expenses, depreciation and amortization.
- The Organization's non-operating revenue increased 267%, or \$1,832, from fiscal year 2014 to fiscal year 2015, primarily due to an increase in interest income.
- The Organization's net position increased 40.8%, or \$501,111, from June 30, 2014 to June 30, 2015.

**USING THIS ANNUAL REPORT**

The Iowa Counties Technology Services 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 ICTS'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 ICTS's financial activities.

The Statement of Net Position presents information on ICTS's assets and deferred outflows of resources less ICTS'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 ICTS 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 ICTS's operating revenues and expenses, non-operating revenues and expenses and whether ICTS'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 ICTS's cash and cash equivalents during the year. This information can assist the user of the report in determining how the ICTS 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.

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF IOWA COUNTIES TECHNOLOGY SERVICES**

*Statement of Net Position*

As noted earlier, net position may serve over time as a useful indicator of ICTS's financial position. ICTS's net position as of June 30, 2015 totaled approximately \$1,729,000. This compares to approximately \$1,229,000 at the end of fiscal year 2014. A summary of ICTS's net position is presented below:

<u>Net Position</u>	June 30,	
	2015	2014
Current assets	\$ 1,029,997	\$ 462,721
Capital assets - at cost, less accumulated depreciation	41,416	40,882
Other assets - CSN software, net of accumulated amortization	731,827	775,463
Total assets	1,803,240	1,279,066
Less current liabilities	73,498	50,435
Total net position – unrestricted	\$ 1,729,742	\$ 1,228,631

*Statement of Revenues, Expenses and Changes in Net Position*

Operating revenues consists of membership dues from the member counties and administrative fees received from Case Management and Mental Health Disability Services (CM&MHDS) for software module maintenance. Operating expenses are expenses paid to develop and operate ICTS's website and for the development and maintenance of CSN software. Non-operating revenue is comprised of interest income and special assessments. 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, 2015 and 2014 is presented below:

<u>Changes in Net Position</u>	June 30,	
	2015	2014
Operating revenues		
Membership dues	\$ 1,125,315	\$ 736,256
Administration fee revenue	96,000	144,000
Total operating revenue	1,221,315	880,256
Operating expenses		
Professional services	38,192	32,127
Contract labor	-	212,915
Administrative expenses	15,875	14,056
Board expenses	18,584	1,642
CSN software maintenance	12,266	28,097
Staff salaries and related benefits	395,232	262,444

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF IOWA COUNTIES TECHNOLOGY SERVICES, continued**

<u>Changes in Net Position, continued</u>		June 30,	
	2015	2014	
Consulting fees	68,850	77,906	
Depreciation and amortization	111,371	98,091	
Office expense	48,496	43,639	
Travel	9,981	7,000	
Miscellaneous	3,875	1,743	
Total operating expenses	<u>772,722</u>	<u>779,660</u>	
Operating income	498,593	100,596	
Non-operating revenues			
Interest income	<u>2,518</u>	<u>686</u>	
Increase in net position	501,111	101,282	
Net position, beginning of year	<u>1,228,631</u>	<u>1,127,349</u>	
Net position, end of year	<u>\$ 1,729,742</u>	<u>\$ 1,228,631</u>	

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase of \$342,891 in total revenues and an increase of \$501,111 in net position for the 2015 fiscal year, primarily as the result of an increase membership dues charged to its members. During fiscal year ended June 30, 2015, total expenses decreased by approximately \$57,000, or 7.3%. The decrease in expenses was primarily the result of a decrease in contract labor, offset by increases in staff salaries, board expenses and depreciation and amortization.

*Statement of Cash Flows*

The Statement of Cash Flows presents 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 and administrative fees 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 reduced by cash received for special assessments.

**CAPITAL ASSETS**

At June 30, 2015, ICTS had approximately \$41,400 invested in capital assets, net of accumulated depreciation of approximately \$135,000. Depreciation charges totaled \$13,966 during the fiscal year ended June 30, 2015.

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF IOWA COUNTIES TECHNOLOGY SERVICES, continued**

**CAPITAL ASSETS , continued**

At June 30, 2015, ICTS had approximately \$732,000 invested in the development of a software program (CSN), net of accumulated amortization of approximately \$236,000. Amortization expense totaled \$97,405 during the fiscal year ended June 30, 2015.

More detailed information about ICTS's capital assets and internally developed software is presented in Note A to the financial statements.

**ECONOMIC FACTORS**

Iowa Counties Technology Services (ICTS) began operations on July 1, 2003. Some of the following realities that were initially challenges to ICTS 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.
- ICTS was created to meet a federal standard for receipt of electronic medical transactions and maintaining electronic personal information (PI), personally identifiable information (PII), and medical information. 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 ICTS, but this will require continual development to meet the provider demands.

ICTS membership encompassed all 99 Iowa counties during the fiscal year ending June 30, 2015 and 2014. ICTS was developed as the platform for implementation and operation of the Community Services Network (CSN).

The State of Iowa's Mental Health Re-Design project has presented both CSN and ICTS with new challenges and opportunities. While CSN and ICTS have made functionality changes to accommodate the needs of counties working as a region, additional work will need to be done to as regions continue to solidify their business practices. In addition, the Iowa State Association of Counties (ISAC) Board of Directors currently functions as the ICTS Board of Directors. 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, 2015 will revolve around the changing role regions and case management agencies are playing in the mental health and disability services field with the advent of managed care organizations (MCO). At this time it is unknown the role the CSN will assume with providing data to the MCOs. Additionally, there could be significant variation in how each of these newly appointed MCOs do business and regions continue to make decisions on what services they will develop and provide. This would include the services provided by ICTS/CSN. 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.

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS OF IOWA COUNTIES TECHNOLOGY SERVICES, continued**

**ECONOMIC FACTORS, continued**

With the growth of EHR, the federal government is stepping up their compliance efforts. While CSN and ICTS 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 ICTS 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 ICTS 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 ICTS Board to be proactive in responding to the ever changing environment in which it operates.

**CONTACTING THE ICTS FINANCIAL MANAGEMENT**

This financial report is designed to provide Board of Directors and management with a general overview of ICTS's finances and to show the ICTS's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Iowa Counties Technology Services, 5500 Westown Parkway, Suite 190, West Des Moines, IA 50266.

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2015 AND 2014**

ASSETS	2015	2014
	2015	2014
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 177,348	\$ 256,761
Investments	6,921	605
Certificates of deposit	494,749	149,919
Dues receivable	334,064	-
Accounts receivable - other	10,727	49,248
Prepaid expenses	6,188	6,188
<b>Total current assets</b>	1,029,997	462,721
<b>CAPITAL ASSETS</b>		
Furniture and equipment	81,688	82,621
Computer software	75,068	60,568
Leasehold improvements	20,085	20,085
	176,841	163,274
Less accumulated depreciation and amortization	(135,425)	(122,392)
<b>Net capital assets</b>	41,416	40,882
<b>OTHER ASSETS</b> - CSN software, net of accumulated amortization of \$235,833 (2015) and \$138,428 (2014)	731,827	775,463
<b>TOTAL ASSETS</b>	\$ 1,803,240	\$ 1,279,066
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Due to Iowa State Association of Counties	\$ 45,758	\$ 28,198
Accounts payable	11,231	13,508
Compensated absences	16,509	8,729
<b>Total current liabilities</b>	73,498	50,435
<b>NET POSITION</b> - unrestricted	1,729,742	1,228,631
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 1,803,240	\$ 1,279,066

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

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

<b>OPERATING REVENUE</b>	<u>2015</u>	<u>2014</u>
Membership dues	\$ 1,125,315	\$ 736,256
Administration fee revenue	96,000	144,000
<b>Total operating revenue</b>	<u>1,221,315</u>	<u>880,256</u>
 <b>OPERATING EXPENSES</b>		
Professional services	38,192	32,127
Contract labor	-	212,915
Administrative expenses	15,875	14,056
Board and committee expenses	18,584	1,642
CSN software maintenance	12,266	28,097
Staff salaries	395,232	262,444
Consulting fees	68,850	77,906
Depreciation and amortization	111,371	98,091
Office expense	48,496	43,639
Travel	9,981	7,000
Miscellaneous	3,875	1,743
<b>Total operating expenses</b>	<u>722,722</u>	<u>779,660</u>
 <b>OPERATING INCOME</b>	498,593	100,596
 <b>NON-OPERATING REVENUES - Interest income</b>	<u>2,518</u>	<u>686</u>
 <b>INCREASE IN UNRESTRICTED NET POSITION</b>	501,111	101,282
 <b>UNRESTRICTED NET POSITION, beginning of year</b>	<u>1,228,631</u>	<u>1,127,349</u>
 <b>UNRESTRICTED NET POSITION, end of year</b>	<u><u>\$ 1,729,742</u></u>	<u><u>\$ 1,228,631</u></u>

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

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from member dues and services	\$ 829,772	\$ 614,980
Cash received from administrative fee revenue	96,000	144,000
Cash paid to suppliers for goods and services	(225,690)	(450,014)
Cash paid to employees for services	(369,898)	(284,502)
<b>Net cash provided by operating activities</b>	<b>330,184</b>	<b>24,464</b>
<b>CASH FLOWS FROM CAPITAL ACTIVITIES</b>		
Cash paid for capital assets	(14,500)	(28,286)
Cash paid for software development costs	(46,469)	(12,078)
<b>Net cash used by capital activities</b>	<b>(60,969)</b>	<b>(40,364)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from interest income	2,518	686
Purchase of certificate of deposits	(551,146)	(150,524)
Proceeds from the sale of investments	200,000	-
<b>Net cash used by investing activities</b>	<b>(348,628)</b>	<b>(149,838)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(79,413)</b>	<b>(165,738)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>256,761</b>	<b>422,499</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 177,348</b>	<b>\$ 256,761</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 498,593	\$ 100,596
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	13,966	10,663
Amortization	97,405	87,428
Loss on disposal of capital assets	-	87
Change in:		
Accounts receivable	(295,543)	(49,248)
Due to Iowa State Association of Counties	17,560	(27,050)
Deferred revenue	-	(72,028)
Accounts payable and compensated absences	(1,797)	(25,984)
<b>Net cash provided by operating activities</b>	<b>\$ 330,184</b>	<b>\$ 24,464</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Non-cash investing activities:		
Acquisition of capital assets included in accounts payable	<b>\$ 7,300</b>	<b>\$ -</b>

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

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities - Iowa Counties Technology Services (ICTS) 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. ICTS changed its name from Electronic Transaction Clearinghouse during the year ended June 30, 2015.

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

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

Cash and Cash Equivalents (Continued) - The Organization's deposits in banks at June 30, 2015 and 2014 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.

Dues Receivable - Dues receivable at June 30, 2015 represents amounts owed from members. Management believes no allowance for doubtful accounts is necessary at June 30, 2015, based on its evaluation of the collectability of the individual receivable balances.

Accounts Receivable - Other - Accounts receivable - other at June 30, 2015 consists of a monthly administrative fee from Case Management and Mental Health Disability Services and a refund for overpayment of services.

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 - Community Services Network (CSN) software was developed internally and is used to assist counties in managing services provided by the Organization. The Organization is amortizing the software on a straight line basis over an estimated useful life of ten years. Amortization expense was \$97,405 and \$87,428 at June 30, 2015 and 2014, respectively. Estimated amortization expense for each of the ensuing years through June 30, 2023 is \$97,405. During 2015 and 2014, \$53,769 and \$39,610 of additional capitalized software development costs were incurred, respectively. Management has analyzed software costs for impairment and has determined there was no impairment as of June 30, 2015 or 2014.

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 current rates.

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.

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Income Tax Matters** - ICTS 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 - CERTIFICATES OF DEPOSIT**

At June 30, 2015 and 2014, the Organization held certificates of deposit, with interest rates ranging from .25% to .55%, maturing at various times during the fiscal year ended June 30, 2016.

**NOTE C - DUE TO IOWA STATE ASSOCIATION OF COUNTIES**

Iowa State Association of Counties (ISAC) and ICTS share the same Board of Directors. Certain administrative expenses are paid by ISAC on behalf of ICTS and then reimbursed to ISAC on a periodic basis. In addition, ISAC provides ICTS 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 \$470,168 and \$338,759 for fiscal years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014 totaled \$26,956 and \$15,010, respectively.

**NOTE E - 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.

**NOTE F - COMMITMENTS**

On June 25, 2015, the Organization entered into a one year 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, 2016 are expected to be a minimum of approximately \$56,000. The Organization incurred consulting expenses of \$68,850 and \$77,906 for the years ended June 30, 2015 and 2014, respectively.

On June 11, 2015 the Organization entered into a consulting agreement for a redesign of the CSN software. Costs under the consulting agreement for the year ended June 30, 2016 are expected to be approximately \$250,000.



*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 Counties Technology Services

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 Counties Technology Services as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Iowa Counties Technology Services' 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 Counties Technology Services' 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. 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 Counties Technology Services' financial statements are free from 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 12, 2015

**IOWA COUNTIES TECHNOLOGY SERVICES**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2015**

1. The auditor's report expresses an unmodified opinion on the financial statements of Iowa Counties Technology Services.
2. No material weaknesses were reported during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Iowa Counties Technology Services were disclosed during the audit.
4. No instances of findings related to required statutory reporting were disclosed during the audit.