

IOWA STATE ASSOCIATION OF COUNTIES

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

JUNE 30, 2015 AND 2014

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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, 2015 and 2014, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 Association'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 Association'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, 2015 and 2014, 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 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, 2015 and 2014, 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 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 12, 2015, 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 12, 2015

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

	Iowa State Association of Counties			Iowa Counties Technology Services	ISAC Education Foundation	Eliminations	Total
	Association Activities	Program Activities	Total				
Cash and cash equivalents	\$ 101,562	\$ 806,246	\$ 907,808	\$ 177,348	\$ 45,697	\$ -	\$ 1,130,853
Investments in marketable securities	210,127	19,099,445	19,309,572	6,921	-	-	19,316,493
Investments in certificates of deposit	1,079,321	1,069,019	2,148,340	494,749	-	-	2,643,089
Accounts receivable	135,264	223,864	359,128	344,791	1,863	(71,204)	634,578
Due from Wellmark	-	254,654	254,654	-	-	-	254,654
Prepaid expenses	41,993	-	41,993	6,188	-	-	48,181
Interest receivable	1,750	82,736	84,486	-	-	-	84,486
Property and equipment, net of accumulated depreciation	177,546	-	177,546	41,416	-	-	218,962
CSN software, net of accumulated amortization of \$235,833	-	-	-	731,827	-	-	731,827
Investment in limited liability company	6,303	-	6,303	-	-	-	6,303
TOTAL ASSETS	\$ 1,753,866	\$ 21,535,964	\$ 23,289,830	\$ 1,803,240	\$ 47,560	\$ (71,204)	\$ 25,069,426
Accounts payable and accrued liabilities	\$ 35,702	\$ 169,634	\$ 205,336	\$ 56,992	\$ 27,498	\$ (71,204)	\$ 218,622
Claims incurred but not reported	-	3,791,589	3,791,589	-	-	-	3,791,589
Unearned revenue	63,512	722,114	785,626	-	7,920	-	793,546
Compensated absences	72,262	-	72,262	16,509	-	-	88,771
Funds held for benefit of members	-	16,852,627	16,852,627	-	-	-	16,852,627
TOTAL LIABILITIES	171,476	21,535,964	21,707,440	73,501	35,418	(71,204)	21,745,155
NET ASSETS - UNRESTRICTED	1,582,390	-	1,582,390	1,729,739	12,142	-	3,324,271
TOTAL LIABILITIES AND NET ASSETS	\$ 1,753,866	\$ 21,535,964	\$ 23,289,830	\$ 1,803,240	\$ 47,560	\$ (71,204)	\$ 25,069,426

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

	Iowa State Association of Counties			Iowa Counties	ISAC	Eliminations	Total
	Association Activities	Program Activities	Total	Technology Services	Education Foundation		
Cash and cash equivalents	\$ 133,475	\$ 1,817,100	\$ 1,950,575	\$ 256,761	\$ 47,967	\$ -	\$ 2,255,303
Investments in marketable securities	2,897	19,794,860	19,797,757	605	-	-	19,798,362
Investments in certificates of deposit	1,177,041	1,634,363	2,811,404	149,919	-	-	2,961,323
Accounts receivable	122,371	101,717	224,088	49,248	235	(55,784)	217,787
Due from Wellmark	-	529,845	529,845	-	-	-	529,845
Prepaid expenses	54,077	-	54,077	6,188	-	-	60,265
Interest receivable	2,129	83,605	85,734	-	-	-	85,734
Property and equipment, net of accumulated depreciation	177,063	-	177,063	40,882	-	-	217,945
CSN software, net of accumulated amortization of \$138,428	-	-	-	775,463	-	-	775,463
Investment in limited liability companies	5,541	-	5,541	-	-	-	5,541
TOTAL ASSETS	\$ 1,674,594	\$ 23,961,490	\$ 25,636,084	\$ 1,279,066	\$ 48,202	\$ (55,784)	\$ 26,907,568
Accounts payable and accrued liabilities	\$ 23,528	\$ 213,008	\$ 236,536	\$ 41,709	\$ 27,739	\$ (55,784)	\$ 250,200
Claims incurred but not reported	-	3,537,394	3,537,394	-	-	-	3,537,394
Unearned revenue	67,678	816,358	884,036	-	16,990	-	901,026
Compensated absences	73,177	-	73,177	8,729	-	-	81,906
Funds held for benefit of members	-	19,394,730	19,394,730	-	-	-	19,394,730
TOTAL LIABILITIES	164,383	23,961,490	24,125,873	50,438	44,729	(55,784)	24,165,256
NET ASSETS - UNRESTRICTED	1,510,211	-	1,510,211	1,228,628	3,473	-	2,742,312
TOTAL LIABILITIES AND NET ASSETS	\$ 1,674,594	\$ 23,961,490	\$ 25,636,084	\$ 1,279,066	\$ 48,202	\$ (55,784)	\$ 26,907,568

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Iowa State Association of Counties				Iowa Counties Technology Services	ISAC Education Foundation	Eliminations	Total	Prior Year Total
	Association Activities		Program Activities	Total					
	Budget (Unaudited)	Actual							
REVENUE									
Schools, workshops, committees & seminars	\$ 397,920	\$ 421,793	\$ -	\$ 421,793	\$ -	\$ -	\$ -	\$ 421,793	\$ 358,074
Dues	515,425	574,825	-	574,825	1,125,315	-	-	1,700,140	1,231,831
Royalties	356,500	368,985	-	368,985	-	-	-	368,985	370,136
Investment income	7,000	9,513	238,762	248,275	2,518	13	-	250,806	394,889
Magazine advertising and subscriptions	35,750	37,165	-	37,165	-	-	-	37,165	35,899
Administration fees	1,073,499	1,008,066	-	1,008,066	96,000	-	(429,643)	674,423	842,971
County premiums	-	-	25,711,464	25,711,464	-	-	-	25,711,464	24,726,118
Special event revenue	-	-	-	-	-	43,811	-	43,811	35,602
Miscellaneous	-	37,156	-	37,156	-	-	-	38,326	40,259
Total Revenues	2,386,094	2,457,503	25,950,226	28,407,729	1,223,833	44,994	(429,643)	29,246,913	28,035,779
EXPENSES									
Salaries and fringe benefits	1,827,547	1,608,813	-	1,608,813	395,232	-	(368,145)	1,635,900	1,622,629
Contract labor	-	-	-	-	-	-	-	-	212,915
Schools, workshops and meetings	179,500	206,380	-	206,380	-	-	-	206,380	152,273
Board of Directors' meeting expenses	50,000	44,439	-	44,439	-	-	-	44,439	51,313
Other board authorized expense	12,000	2,961	-	2,961	-	-	-	2,961	9,207
NACO conference	20,000	20,872	-	20,872	-	-	-	20,872	22,124
Staff travel and training	55,000	51,144	-	51,144	9,981	-	-	61,125	64,488
Public relations	500	8,715	-	8,715	-	-	-	8,715	-
Consulting/professional services	31,000	51,196	-	51,196	38,192	-	-	89,388	57,479
Rents and utilities	208,537	213,031	-	213,031	31,286	-	(23,929)	220,388	222,214
Supplies, printing and postage	18,000	26,999	-	26,999	7,646	-	-	34,645	28,395
Depreciation and amortization expense	-	44,546	-	44,546	111,371	-	-	155,917	141,227
Equipment and software purchases	45,000	11,468	-	11,468	-	-	-	11,468	15,821
Maintenance and lease agreements	23,470	12,510	-	12,510	-	-	-	12,510	12,762
Professional membership	5,000	5,722	-	5,722	-	-	-	5,722	4,635
Library	4,000	6,125	-	6,125	-	-	-	6,125	4,793
Magazine	36,360	36,609	-	36,609	-	-	-	36,609	35,890
Insurance and bonds	17,500	19,836	-	19,836	9,564	-	(2,814)	26,586	23,842
Special event expense	-	-	-	-	-	12,420	-	12,420	13,856
Miscellaneous	12,750	9,860	9,922	19,782	11,375	405	(324)	31,238	22,741
Scholarships	-	-	-	-	-	23,500	-	23,500	27,725
Claims and premiums paid	-	-	25,716,042	25,716,042	-	-	-	25,716,042	24,319,360
Change in claims incurred but not reported	-	-	254,195	254,195	-	-	-	254,195	354,689
Administration	-	-	293,446	293,446	26,959	-	(34,431)	285,974	253,057
Wellness program	-	-	757,857	757,857	-	-	-	757,857	457,954
County technologies clearinghouse	10,000	4,098	-	4,098	-	-	-	4,098	3,078
Affordable Care Act fees	-	-	10,464	10,464	-	-	-	10,464	10,084
Transitional reinsurance fee	-	-	317,709	317,709	-	-	-	317,709	-
Refund of unemployment premiums	-	-	1,132,694	1,132,694	-	-	-	1,132,694	-
Consulting fees - rate setting	-	-	-	-	68,850	-	-	68,850	77,906
Project management and development	-	-	-	-	12,266	-	-	12,266	28,097
Total Expenses	2,556,164	2,385,324	28,492,329	30,877,653	722,722	36,325	(429,643)	31,207,057	28,250,554
DECREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	<u>\$ (2,542,103)</u>	<u>(2,542,103)</u>	-	-	-	<u>(2,542,103)</u>	<u>(333,219)</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (170,070)</u>	72,179	-	72,179	501,111	8,669	-	581,959	118,444
NET ASSETS, BEGINNING OF YEAR		1,510,211		1,510,211	1,228,628	3,473	-	2,742,312	2,623,868
NET ASSETS, END OF YEAR		<u>\$ 1,582,390</u>		<u>\$ 1,582,390</u>	<u>\$ 1,729,739</u>	<u>\$ 12,142</u>	<u>\$ -</u>	<u>\$ 3,324,271</u>	<u>\$ 2,742,312</u>

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Iowa State Association of Counties				Iowa Counties Technology Services	ISAC Education Foundation	Eliminations	Total
	Association Activities		Program Activities	Total				
	Budget (Unaudited)	Actual						
REVENUE								
Schools, workshops, committees & seminars	\$ 365,675	\$ 358,074	\$ -	\$ 358,074	\$ -	\$ -	\$ -	\$ 358,074
Dues	495,600	495,575	-	495,575	736,256	-	-	1,231,831
Royalties	378,250	370,136	-	370,136	-	-	-	370,136
Investment income	8,000	4,313	389,884	394,197	686	6	-	394,889
Magazine advertising and subscriptions	28,500	35,899	-	35,899	-	-	-	35,899
Administration fees	1,056,030	970,404	-	970,404	144,000	-	(271,433)	842,971
County premiums	-	-	24,726,118	24,726,118	-	-	-	24,726,118
Special event revenue	-	-	-	-	-	35,602	-	35,602
Miscellaneous	-	36,744	-	36,744	-	3,515	-	40,259
Total Revenues	2,332,055	2,271,145	25,116,002	27,387,147	880,942	39,123	(271,433)	28,035,779
EXPENSES								
Salaries and fringe benefits	1,776,983	1,561,849	-	1,561,849	262,444	-	(201,664)	1,622,629
Contract labor	-	-	-	-	212,915	-	-	212,915
Schools, workshops and meetings	185,500	152,273	-	152,273	-	-	-	152,273
Board of Directors' meeting expenses	50,000	51,313	-	51,313	-	-	-	51,313
Other board authorized expense	12,000	9,207	-	9,207	-	-	-	9,207
NACO conference	20,000	22,124	-	22,124	-	-	-	22,124
Staff travel and training	55,000	57,488	-	57,488	7,000	-	-	64,488
Public relations	500	-	-	-	-	-	-	-
Consulting/professional services	32,000	25,352	-	25,352	32,127	-	-	57,479
Rents and utilities	209,733	206,708	-	206,708	25,433	-	(9,927)	222,214
Supplies, printing and postage	16,000	19,662	-	19,662	8,733	-	-	28,395
Depreciation and amortization expense	-	43,136	-	43,136	98,091	-	-	141,227
Equipment and software purchases	40,000	15,821	-	15,821	-	-	-	15,821
Maintenance agreements	23,132	12,762	-	12,762	-	-	-	12,762
Professional membership	4,250	4,635	-	4,635	-	-	-	4,635
Library	4,000	4,793	-	4,793	-	-	-	4,793
Magazine	35,750	35,890	-	35,890	-	-	-	35,890
Insurance and bonds	17,500	17,092	-	17,092	9,473	-	(2,723)	23,842
Special event expense	-	-	-	-	-	13,856	-	13,856
Miscellaneous	12,050	8,342	13,233	21,575	1,743	-	(577)	22,741
Scholarships	-	-	-	-	-	27,725	-	27,725
Claims and premiums paid	-	-	24,319,360	24,319,360	-	-	-	24,319,360
Change in claims incurred but not reported	-	-	354,689	354,689	-	-	-	354,689
Administration	-	-	293,901	293,901	15,698	-	(56,542)	253,057
Wellness program	-	-	457,954	457,954	-	-	-	457,954
County technologies clearinghouse	10,000	3,078	-	3,078	-	-	-	3,078
Affordable Care Act fees	-	-	10,084	10,084	-	-	-	10,084
Consulting fees - rate setting	-	-	-	-	77,906	-	-	77,906
Project management and development	-	-	-	-	28,097	-	-	28,097
Total Expenses	2,504,398	2,251,525	25,449,221	27,700,746	779,660	41,581	(271,433)	28,250,554
DECREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	-	-	\$ (333,219)	(333,219)	-	-	-	(333,219)
INCREASE (DECREASE) IN NET ASSETS	\$ (172,343)	19,620	-	19,620	101,282	(2,458)	-	118,444
NET ASSETS, BEGINNING OF YEAR	-	1,490,591	-	1,490,591	1,127,346	5,931	-	2,623,868
NET ASSETS, END OF YEAR	\$ 1,510,211	\$ 1,510,211	\$ 1,510,211	\$ 1,510,211	\$ 1,228,628	\$ 3,473	\$ -	\$ 2,742,312

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

Year Ended June 30, 2015

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Total Program Activities
REVENUE					
Investment income	\$ 233,805	\$ -	\$ 4,957	\$ -	\$ 238,762
County premiums	25,334,319	116,369	260,776	-	25,711,464
Total Revenues	25,568,124	116,369	265,733	-	25,950,226
EXPENSES					
Miscellaneous	9,804	41	77	-	9,922
Claims and premiums paid	25,418,539	107,739	189,764	-	25,716,042
Change in claims incurred but not reported	254,195	-	-	-	254,195
ACA fees	10,464	-	-	-	10,464
Administration	266,810	8,736	17,900	-	293,446
Wellness program	757,857	-	-	-	757,857
Transitional reinsurance fee	317,709	-	-	-	317,709
Refund of unemployment premiums	-	-	1,132,694	-	1,132,694
Total Expenses	27,035,378	116,516	1,340,435	-	28,492,329
DECREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS	(1,467,254)	(147)	(1,074,702)	-	(2,542,103)
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	17,018,982	586	2,371,551	3,611	19,394,730
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 15,551,728	\$ 439	\$ 1,296,849	\$ 3,611	\$ 16,852,627

Year Ended June 30, 2014

	Health Fund	AD&D Fund	Unemployment Fund	Multi-County Service Agency Fund	Total Program Activities
REVENUE					
Investment income	\$ 375,740	\$ -	\$ 14,144	\$ -	\$ 389,884
County premiums	24,340,876	122,350	262,892	-	24,726,118
Total Revenues	24,716,616	122,350	277,036	-	25,116,002
EXPENSES					
Miscellaneous	13,233	-	-	-	13,233
Claims and premiums paid	24,019,077	113,173	187,110	-	24,319,360
Change in claims incurred but not reported	354,689	-	-	-	354,689
ACA fees	10,084	-	-	-	10,084
Administration	266,823	9,178	17,900	-	293,901
Wellness program	457,954	-	-	-	457,954
Total Expenses	25,121,860	122,351	205,010	-	25,449,221
INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS	(405,244)	(1)	72,026	-	(333,219)
FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR	17,424,226	587	2,299,525	3,611	19,727,949
FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR	\$ 17,018,982	\$ 586	\$ 2,371,551	\$ 3,611	\$ 19,394,730

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

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 581,959	\$ 118,444
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation and amortization	155,917	141,227
Realized and unrealized (gains) losses on investments	49,195	(77,732)
Change in:		
Accounts receivable	(416,791)	(43,174)
Prepaid expenses	12,084	(25,826)
Interest receivable	1,248	(1,826)
Accounts payable and accrued liabilities	(38,878)	51,205
Due to/from Wellmark	275,191	(475,802)
Claims incurred but not reported	254,195	354,689
Unearned revenue	(107,480)	220,972
Compensated absences	6,865	22,457
Funds held for benefit of members	(2,542,103)	(333,219)
	<u>(1,768,598)</u>	<u>(48,585)</u>
Net cash used by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(55,144)	(47,583)
Software development costs	(50,854)	(12,079)
Proceeds from maturities and sales of investments	3,603,685	5,476,751
Purchases of investments	(2,852,777)	(4,830,428)
Change in investment in limited liability companies	(762)	(3,440)
	<u>644,148</u>	<u>583,221</u>
Net cash provided by investing activities		
NET CHANGE CASH AND CASH EQUIVALENTS	(1,124,450)	534,636
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,255,303</u>	<u>1,720,667</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,130,853</u>	<u>\$ 2,255,303</u>

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 1964 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, is 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 Iowa Counties Technology Services (ICTS), formerly Electronic Transactions Clearinghouse, and Iowa State Association of Counties Education Foundation, Inc. (Education Foundation). ICTS 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. ICTS 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, building rents and maintenance expenses. Program costs consist entirely of amounts directly related to the operation of each program. Administration costs totaling \$285,546 and \$286,001 during 2015 and 2014, 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 \$1,000 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, 2015 or 2014.

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, 2015 and 2014. 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 2015 or 2014. 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.

Concentration of Credit Risk - The Association has bank deposits in excess of federally insured limits totaling approximately \$253,000 at June 30, 2015. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately \$221,000 at June 30, 2015 invested in a sweep account not insured by the FDIC; however, a financial institution has pledged mortgage-backed securities as collateral for these deposits.

CSN Software - The CSN software was developed internally and is used to assist counties in managing services provided. ICTS is amortizing the software over an estimated useful life of ten years. Amortization expense was \$97,405 and \$87,281 at June 30, 2015 and 2014, respectively. Estimated amortization expense for each of the ensuing years through June 30, 2018 is expected to be \$97,405. During 2015 and 2014, ICTS incurred \$53,769 and \$39,610 of additional software development costs. Management has analyzed software costs for impairment and has determined there was no impairment as of June 30, 2015 and 2014.

Unearned Revenue - Unearned revenue consists primarily of health insurance premiums by participating counties that are collected in the current fiscal year relating to the subsequent fiscal year.

Compensated Absences - Vacation earned, but unused, is recorded as a liability in the financial statements. The liability for these compensated absences has been computed based on rates of pay in effect at July 1, 2015 and 2014.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

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

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.

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

Subsequent Events - Management has evaluated subsequent events through October 12, 2015, 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 at June 30:

	2015		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	\$ 581,400	\$ 581,400	\$ -
U.S. Treasury Notes	526,211	526,565	354
Federal Home Loan Bank Notes and Debentures	5,054,557	4,955,108	(99,449)
Federal Farm Credit Bank Notes	4,585,674	4,462,748	(122,926)
Federal Home Loan Mortgage Corporation Notes	3,030,142	2,945,891	(84,251)
Federal National Mortgage Association Notes	5,897,662	5,844,781	(52,881)
	<u>\$ 19,675,646</u>	<u>\$ 19,316,493</u>	<u>\$ (359,153)</u>
	2014		
	Cost	Fair Value	Unrealized Gains (Losses)
Money market funds	\$ 2,023,493	\$ 2,023,493	\$ -
U.S. Treasury Notes	526,211	527,615	1,404
Federal Home Loan Bank Notes and Debentures	5,054,556	4,948,891	(105,665)
Federal Farm Credit Bank Notes	4,585,174	4,508,090	(77,084)
Federal Home Loan Mortgage Corporation Notes	3,030,142	2,952,808	(77,334)
Federal National Mortgage Association Notes	4,889,312	4,837,465	(51,847)
	<u>\$ 20,108,888</u>	<u>\$ 19,798,362</u>	<u>\$ (310,526)</u>

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS IN MARKETABLE SECURITIES - Continued

The fair value of debt securities by contractual maturity at June 30, 2015 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.

	2016	2017	2018	2019	2020	Total
U.S. Treasury Notes	\$ -	\$ -	\$ -	\$ 526,565	\$ -	\$ 526,565
Federal Home Loan Bank Notes and Debentures	-	502,235	4,452,873	-	-	4,955,108
Federal Farm Credit Bank Notes	602,808	-	3,360,345	499,595	-	4,462,748
Federal Home Loan Mort. Corp. Notes	701,330	377,100	1,867,461	-	-	2,945,891
Federal National Mort. Assn. Notes	1,008,790	503,795	2,742,127	585,839	1,004,230	5,844,781
	<u>\$ 2,312,928</u>	<u>\$ 1,383,130</u>	<u>\$ 12,422,806</u>	<u>\$ 1,611,999</u>	<u>\$ 1,004,230</u>	<u>\$ 18,735,093</u>

Following is a summary of the Association's investment income (loss) for the years ended June 30:

	2015	2014
Interest income, net of investment fees of \$37,692 (2015) and \$39,111 (2014)	\$ 300,001	\$ 317,157
Net realized and unrealized gains (losses) on investments	(49,195)	77,732
Net investment income	<u>\$ 250,806</u>	<u>\$ 394,889</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 0.35% and 0.75% at June 30, 2015. Anticipated future maturities of the certificates of deposit are \$2,044,900 in fiscal year 2016 and \$598,190 in fiscal year 2017.

NOTE D - PROPERTY AND EQUIPMENT

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

	2015	2014
Leasehold improvements	\$ 164,494	\$ 164,494
Equipment	258,445	248,971
Computer software	207,307	158,506
	630,246	571,971
Less accumulated depreciation	(411,284)	(354,026)
	<u>\$ 218,962</u>	<u>\$ 217,945</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>	
2016	91,228
2017	93,850
2018	96,471
2019	96,471
2020	96,471
Thereafter	<u>192,943</u>
Total future minimum lease payments	<u><u>\$ 667,434</u></u>

Office rent expense, including common area maintenance charges, totaled \$169,823 and \$161,706 during fiscal years 2015 and 2014, 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 sponsors 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 \$100,349 and \$99,208, respectively.

NOTE G - COMMITMENTS AND 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 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 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued

The liability for claims incurred but not reported (IBNR) at June 30, 2015 and 2014 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.

On June 25, 2015, the ICTS entered into a one year consulting agreement with a company who will perform provider reviews for ICTS'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 ICTS incurred consulting expenses of \$68,850 and \$77,906 for the years ended June 30, 2015 and 2014, respectively.

On June 11, 2015 the ICTS 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.

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,:

	<u>2015</u>	<u>2014</u>
Salaries and other personnel costs	\$ 195,952	\$ 225,955
General operating expenses	24,527	18,169
Education/information expenses	29,462	32,411
Meetings, committees, and workshops	47,365	50,674
	<u>\$ 297,306</u>	<u>\$ 327,209</u>

NOTE I - RELATED PARTY TRANSACTIONS

The Association provides Case Management and Mental Health Disability Services, formerly County Case Management Services, (entity formed under Iowa Code Chapter 28E), with management and administrative services. Administrative fees billed to the organization totaled \$23,080 and \$29,025 for the years ended June 30, 2015 and 2014, respectively, and is included in administration fees revenue. The Association remits payments for costs incurred by the organization and the organization periodically reimburses the Association throughout the year for those costs. Amounts billed to the organization by the Association and included in administration fees revenue totaled \$236,816 and \$345,069 for the years ended June 30, 2015 and 2014, respectively. The organization owed the Association \$16,695 and \$27,992 for these services at June 30, 2015 and 2014, respectively.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE J - BOARD DESIGNATED NET ASSETS

The Association's Board of Directors has designated the following amounts of its net assets at June 30, 2015:

Future needs and special projects (a specific purpose has not yet been identified)	\$ 639,041
Future non-budgeted replacement of property and equipment	<u>175,000</u>
	<u>\$ 814,041</u>

SUPPLEMENTAL INFORMATION

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION -
PROGRAM ACTIVITIES
JUNE 30, 2015

ASSETS

	Health Fund	AD&D Fund	Unemploy- ment Fund	Multi-County Service Agency Fund	Total
Cash and cash equivalents	\$ 599,800	\$ 11,567	\$ 191,268	\$ 3,611	\$ 806,246
Investments in marketable securities	19,098,675	-	770	-	19,099,445
Investments in certificates of deposit	-	-	1,069,019	-	1,069,019
Accounts receivable	133,151	7,632	83,081	-	223,864
Due from Wellmark	254,654	-	-	-	254,654
Prepaid expenses	-	-	-	-	-
Interest receivable	81,106	-	1,630	-	82,736
Total Assets	\$ 20,167,386	\$ 19,199	\$ 1,345,768	\$ 3,611	\$ 21,535,964

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 101,955	\$ 18,760	\$ 48,919	\$ -	\$ 169,634
Claims incurred but not reported	3,791,589	-	-	-	3,791,589
Unearned revenue	722,114	-	-	-	722,114
Funds held for the benefit of members	15,551,728	439	1,296,849	3,611	16,852,627
Total Liabilities	20,167,386	19,199	1,345,768	3,611	21,535,964
NET ASSETS - Unrestricted	-	-	-	-	-
Total Liabilities and Net Assets	\$ 20,167,386	\$ 19,199	\$ 1,345,768	\$ 3,611	\$ 21,535,964



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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statement of activities, program activities, and cash flows for the year then ended 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 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Iowa State Association of Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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 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 results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

West Des Moines, Iowa
October 12, 2015

IOWA STATE ASSOCIATION OF COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

1. The auditor's report expresses an unmodified opinion on the financial statements of Iowa State Association of Counties.
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 State Association of Counties were disclosed during the audit.
4. No instances of findings related to required statutory reporting were disclosed during the audit.