IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

CONTENTS

IOWA SCHOOL BOARDS EMPLOYEE BENEFITS ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Years Ended June 30, 2006 and 2005

This narrative overview and analysis of the financial activities of the Iowa Schools Employee Benefits Association (ISEBA) is presented by ISEBA's management and is for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with ISEBA's financial statements, which follow this overview.

Financial Highlights

ISEBA's total net assets (deficit) for fiscal year June 30, 2006 decreased $257,553 over June 30, 2005, mainly as a result of a reduction in a premium assessment owed to the Iowa Individual Health Reinsurance Association. June 30, 2006 net assets (deficit) totaled $(1,146,470). June 30, 2005 net assets (deficit) was $(1,404,023).

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to ISEBA's basic financial statements. ISEBA's basic financial statements consist of a series of financial statements. The statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows provide information about the activities of ISEBA and present a longer-term of ISEBA's finances. These basic financial statements also include the notes to the basic financial statements and explain some of the information in the statements and provide more detail.

Overview of the Financial Statements

Statement of net assets: The statement of net assets presents the assets, liabilities and net assets of ISEBA as of the end of the year. The statement of net assets is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of ISEBA to the readers of the financial statements. The statement of net assets includes year-end information concerning current assets that can reasonably expect to be collected or consumed with a year or less. Over time, readers of the financial statements are able to determine ISEBA's financial position by analyzing the increases and decreases in net assets. This statement is also a good source for readers to determine how much ISEBA owes to outside vendors and creditors. The statement also presents the available assets that can be used to satisfy those liabilities.

All of ISEBA's net assets are unrestricted and can be used to meet ISEBA's obligations.

	2006	**2005**
Current assets	**$ 6,254,438**	**$ 6,022,071**
Noncurrent assets	**27,220**	**14,612**
Total assets	**$ 6,281,658**	**$ 6,036,683**
Current liabilities:		
Unpaid claims	**$ 105,312**	**$ 150,000**
Advanced premiums	**2,764,892**	**744,878**
State premium assessment	**150,000**	**746,938**
Line of credit	**-**	**5,275,000**
Accounts payable	**4,407,924**	**500,415**
Accrued interest	**-**	**23,475**
Total current liabilities	**$ 7,428,128**	**$ 7,440,706**
Net assets (deficit), unrestricted	**$(1,146,470)**	**$(1,404,023)**
Total liabilities and net assets (deficit)	**$ 6,281,658**	**$ 6,036,683**

Overview of the Financial Statements *(Continued)*

Statement of revenues, expenses and changes in net assets (deficit): Changes in total net assets, as presented on that statement of net assets, are based on the activity presented in the statement of revenue, expenses and changes in net assets. The purpose of the statement is to present the revenue received by ISEBA, both operating and nonoperating, and the expenses paid by ISEBA, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by ISEBA.

Operating revenues are received as premiums and commissions, and totaled $61,465,443 of the $61,560,439 total revenue. Operating expenses totaled $61,650,227 and were expended for claims and administration. Nonoperating revenues consisted of interest income on cash accounts. Nonoperating expenses consisted of interest expense on the line of credit and amortization on the computer software.

	2006	2005
Operating revenue	$ 61,465,443	$ 64,695,963
Nonoperating revenue	94,996	30,652
Total revenue	$ 61,560,439	$ 64,726,615
Operating expenses	$ 61,650,227	$ 65,143,980
Nonoperating expenses	$ (429,173)	$ 258,283
Change in estimate	$ 596,938	$ 1,511,229
Change in net assets	$ 257,553	$ 835,581
Net assets (deficit), unrestricted, beginning	(1,404,023)	(2,239,604)
Net assets (deficit), unrestricted, ending	$ (1,146,470)	$ (1,404,023)

Statement of cash flows: The final statement included in ISEBA's basic financial statements is the statement of cash flows. The statement of cash flows is an important tool in helping the users to assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating and investment activities.

	2006	2005
Cash provided by (used in):		
Operating activities	$ 10,067,023	$ (8,116,518)
Investing activities	76,173	13,117
Non-capital financing activities	(5,518,382)	5,043,115
Net increase (decrease) in cash	$ 4,624,814	$ (3,060,286)
Cash, beginning of year	967,829	4,028,115
Cash, end of year	$ 5,592,643	$ 967,829

Economic Factors

ISEBA served as a partially self-insured plan from July 1, 1999 to July 1, 2004. During fiscal year 2005 and 2006, the plan was fully insured.

ISEBA completed a restructuring by terminating its administration and marketing relationship with Morneau Sobeco. Bringing those operations in-house was principally responsible for the reduction in non-premium operating expense from $2,953,838 to $1,301,774, a 56% reduction. Also contributing to the improvement was a requested reduction of $240,000 by ISEBA's sponsoring associations.

While health care inflation had been rising at double digit rates in recent years, ISEBA had good claims experience in FY 2005, which (coupled with cost restructuring) enabled ISEBA to issue a renewal rate below a 1% increase. The reduced growth trend in health insurance rates for both ISEBA and the economy in general continued through FY 2006.

Contacting ISEBA's Financial Management

This financial report is designed to provide a general overview of ISEBA's finances, and to demonstrate ISEBA's accountability for the resources it receives. If you have questions about this report or need additional financial information, please contact the Iowa Schools Employee Benefits Association, 6000 Grand Avenue, Des Moines, Iowa 50312.

Brooks Lodden P.C.
certified public accountants

Telford A. Lodden, CPA. CFP®, CVA
James E. Benbow, CPA
Bruce W. Hartley, CPA
John E. Lamale, CPA
Brent L. Alexander, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Iowa Schools Employee Benefits Association

We have audited the accompanying statements of net assets of Iowa Schools Employee Benefits Association (ISEBA) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of ISEBA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISEBA as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 13, 2006, on our consideration of ISEBA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages i-iii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Brooks Lodden, P.C.

West Des Moines, Iowa
November 13, 2006

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IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	$ 5,592,643	$ 967,829
RECEIVABLES		
Premiums receivable	$ 93,041	$ 43,063
Premium assessment	41,414	3,108,719
Insurance settlement	-	1,840,000
Other receivables	313,653	62,460
Total receivables	$ 448,108	$ 5,054,242
PREPAID EXPENSES	$ 213,687	$ -
Total current assets	$ 6,254,438	$ 6,022,071
FIXED ASSETS		
Computer software	$ 17,535	$ 17,535
Furniture, fixtures and equipment	18,823	-
Less accumulated depreciation and amortization	9,138	2,923
Total fixed assets	$ 27,220	$ 14,612
Total assets	$ 6,281,658	$ 6,036,683

LIABILITIES AND NET DEFICIT	2006	2005
CURRENT LIABILITIES		
Unpaid claims	$ 105,312	$ 150,000
Advanced premiums	2,764,892	744,878
State premium assessment	150,000	746,938
Line of credit	-	5,275,000
Accounts payable	4,407,924	500,415
Accrued interest	-	23,475
Total current liabilities	$ 7,428,128	$ 7,440,706
NET ASSETS (DEFICIT), unrestricted	$ (1,146,470)	$ (1,404,023)
Total liabilities and net assets (deficit)	$ 6,281,658	$ 6,036,683

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)

Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Premiums earned	$ 60,973,591	$ 64,346,461
Commission income	491,852	349,502
Net operating revenues	$ 61,465,443	$ 64,695,963
OPERATING EXPENSES		
Premiums paid to insurance companies	$ 60,348,453	$ 61,950,142
Program administration and services:		
Claims administration - Principal Financial Group	$ 25,867	$ 713,410
Program administration - Morneau Sobeco	655,072	1,902,326
Sponsorship fees - IASB	-	120,000
Sponsorship fees - ISEA	-	120,000
Total program administration and services	$ 680,939	$ 2,855,736
General and administrative:		
Salaries	$ 238,900	$ -
Payroll taxes	20,829	-
Employee benefits	58,087	-
Accounting	18,020	20,200
Professional fees	128,237	240,998
Office supplies	14,026	12,474
Board expense	3,299	7,264
Insurance	55,914	53,376
Telephone	8,074	-
Repairs and maintenance	14,514	-
Training	500	-
Travel	9,553	-
Rent	50,442	-
Marketing	440	3,790
Depreciation and amortization	6,216	2,923
Total general and administrative	$ 627,051	$ 341,025
Total operating expenses	$ 61,656,443	$ 65,146,903
Operating (loss)	$ (191,000)	$ (450,940)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	$ (243,381)	$ (255,360)
Interest income	94,996	30,652
Total non-operating revenues (expenses)	$ (148,385)	$ (224,708)
Change in net assets (deficit) before change in estimates	$ (339,385)	$ (675,648)
Change in estimate of state assessment	596,938	-
Change in estimate of unpaid claims	-	1,511,229
Change in net assets after change in estimates	$ 257,553	$ 835,581
Net assets (deficit), unrestricted, beginning of year	(1,404,023)	(2,239,604)
Net assets (deficit), unrestricted, end of year	$ (1,146,470)	$ (1,404,023)

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	$ 62,692,866	$ 65,584,204
Cash received from commissions	467,945	287,042
Cash received for claim assessments	3,067,305	1,204,519
Cash received from reinsurance recoverable	-	505,335
Cash received from insurance settlement	1,840,000	-
Cash payments to insurance companies	(56,453,019)	(62,282,200)
Cash payments for claim assessments	(44,688)	(9,888,974)
Cash payments for state assessment	-	(697,916)
Cash payments to program and administration services	(680,939)	(2,538,601)
Cash payments for prepaid expenses	(213,687)	-
Cash payments for general and administrative expenses	(608,760)	(289,927)
Net cash provided by (used in) operating activities	$ 10,067,023	$ (8,116,518)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from line of credit	$ 7,466,338	$ 9,625,000
Principal payments on line of credit	(12,741,338)	(4,350,000)
Interest payments on line of credit	(243,382)	(231,885)
Net cash provided by (used in) non-capital financing activities	$ (5,518,382)	$ 5,043,115
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	$ 94,996	$ 30,652
Cash payment for capital assets	(18,823)	(17,535)
Net cash provided by investing activities	$ 76,173	$ 13,117
Net increase (decrease) in cash and cash equivalents	$ 4,624,814	$ (3,060,286)
Cash and cash equivalents at beginning of year	967,829	4,028,115
Cash and cash equivalents at end of year	$ 5,592,643	$ 967,829
Reconciliation of operating (loss) to net cash (used in) operating activities:		
Operating (loss)	$ (191,000)	$ (450,940)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,216	2,923
Changes in assets and liabilities:		
Decrease in receivables	1,538,829	1,558,534
Decrease in assessment receivable	3,067,305	1,204,519
(Increase) in prepaids	(213,687)	-
(Decrease) in unpaid claims	(44,688)	(9,888,974)
Increase in advanced premiums	2,020,014	107,084
(Decrease) in state assessment	-	(697,916)
(Decrease) in accrued interest	(23,475)	-
Increase in accounts payable	3,907,509	48,252
Net cash provided by (used in) operating activities	$ 10,067,023	$ (8,116,518)
Non-cash investing, capital, and financing activities:		
Change in unpaid claims estimate	$ -	$ 1,511,229
Change in state assessment estimate	596,938	-
Total non-cash investing, capital, and financing activities	$ 596,938	$ 1,511,229

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Iowa Schools Employee Benefits Association (ISEBA) was formed July 1, 1999 under Chapter 28E of the Code of Iowa and provides insurance for medical, vision, life, dental and accidental death coverage to Iowa school districts and area education agencies. ISEBA operated a partially self-funded plan until July 1, 2004 at which time ISEBA became a fully-insured plan.

Significant accounting policies:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as they apply to governmental entities. Pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting,* ISEBA has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

<u>Measurement focus and basis of accounting:</u> 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.

<u>Use of estimates:</u> The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<u>Cash and cash equivalents:</u> For purposes of statement of cash flows, ISEBA considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

<u>Premium assessment:</u> ISEBA assessed all participants for the run-out liability and financial shortages from the partially self-funded program.

<u>State premium assessment:</u> ISEBA was assessed by the Iowa Individual Health Benefit Reinsurance Association pursuant to Section 513C.10, Iowa Code. During 2006, management negotiated a reduction in the state assessment amount of $596,938.

<u>Unpaid claims:</u> Unpaid claims is a liability for reported and unreported incurred claims for the partially self-insured plan which terminated July 1, 2004. The unpaid claims liability represents the remaining estimated unpaid claims based upon prior claims experience and subsequent claim lag reports. Changes in estimates are reflected in change in estimate of unpaid claims in the statement of revenues, expenses and changes in net assets (deficit).

Note 1. Nature of Business and Significant Accounting Policies ***(Continued)***

Significant accounting policies: ***(Continued)***

Depreciation and amortization: Depreciation and amortization for financial reporting purposes is computed using the straight-line methods over the estimated useful service lives of the assets. For financial reporting purposes, the service life of the computer software is three years and furniture, fixtures, and equipment is seven years.

Premiums paid to insurance companies: Premiums paid to insurance companies consist of premiums for health, vision, life, dental and accidental death premiums paid by ISEBA on behalf of the participants.

Operating revenues and expenses: Operating revenues result from exchange transactions associated with the principle activity of ISEBA, the providing of insurance coverage. Operating expenses are defined as expenses directly related to, or incurred in support of, the providing of insurance coverage to participating members. Interest income, interest expense, and amortization are classified as nonoperating expenses and revenue.

Income taxes: ISEBA was formed under Chapter 28E of the Iowa Code and is tax-exempt as it is an instrumentality of the state of Iowa.

Note 2. Deposits

ISEBA's deposits as of June 30, 2006 and 2005 were entirely covered by federal depository insurance, or collateralized by a multiple financial institution collateral pool in accordance with Chapter 12C, Code of Iowa. This Chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. As of June 30, 2006 and 2005, the carrying amounts of ISEBA's cash deposits were $5,592,643 and $967,829, respectively.

Note 3. Line of Credit

ISEBA had a $7,000,000 line of credit with a bank which expired March 31, 2006. Interest was paid at the annual LIBOR rate plus 260 basis points adjusted daily as the LIBOR rate adjusts. The interest rate at June 30, 2005 was 5.94 percent. The line of credit was secured by all of the assets of ISEBA. Borrowings on the line of credit were used to pay run out claims from fiscal year 2004 in which the partially self-funded plan terminated. Outstanding borrowings on the line of credit totaled $-0- and $5,275,000 at June 30, 2006 and 2005, respectively.

The Iowa Association of School Boards (the Association) provided a limited guarantee on the line of credit and was limited to the principal amount of $1,650,000, plus any interest which may be accrued on the indebtedness of the line of credit. Accrued interest on the line of credit was $-0- and $23,475 at June 30, 2006 and 2005, respectively. If ISEBA failed to pay the line of credit, the Association would have been responsible for all costs, expenses, and fees (including reasonable attorneys' fees) paid or incurred by the bank at any time in attempting to enforce the guaranty.

Note 4. Related Party Transactions

ISEBA has a support services agreement with the Iowa Association of School Boards, an affiliate. The agreement is subject to termination by either party upon six months written notice. During the years ended June 30, 2006 and 2005, sponsorship fees of $-0- and $120,000 were incurred, respectively. In addition, the Iowa Association of School Boards occasionally pays expenses of ISEBA and requests reimbursement from these expenses. At June 30, 2006 and 2005, ISEBA owed the Iowa Association of School Boards $4,510 and $-0- for these expenses, respectively.

ISEBA also has a support services agreement with the Iowa State Education Association, an affiliate. The agreement is subject to termination by either party upon six months written notice. During the years ended June 30, 2006 and 2005, sponsorship fees of $-0- and $120,000 were incurred, respectively.

ISEBA contracted with Morneau Sobeco, Ltd. (Morneau) to provide services to ISEBA. The agreement called for an annual fixed fee to be paid to Morneau in the amount of $804,000 per annum, payable in equal monthly installments for consulting and service fees. During 2006, ISEBA terminated this relationship. The agreement also had variable charges per participant for administrative fees on billing and premium reconciliation transaction services and other miscellaneous charges. During the years ended June 30, 2006 and 2005, variable fees totaling $655,072 and $1,098,326 were incurred, respectively. Miscellaneous amounts due from Morneau as of June 30, 2006 and 2005 were $-0- and $16,719, respectively, and administrative fees payable to Morneau as of June 30, 2006 and 2005 were $-0- and $317,134, respectively.

ISEBA had a contract with Principal Financial Group (Principal) to provide services to ISEBA. The agreement calls for certain fees based upon a pre-established schedule as set forth in the agreement to process claims and perform other administrative functions for the self-funded plan which terminated July 1, 2004. During the years ended June 30, 2006 and 2005, fees totaling $25,867 and $713,410 were incurred, respectively. The amounts due to ISEBA as of June 30, 2006 and 2005 were $-0- and $31, 929, respectively, for discounts received from providers.

ISEBA has a rental agreement with Local Government Services, Inc. (LGS), a wholly-owned subsidiary of the Iowa Association of School Boards. LGS is considered a related party through common board members of the Iowa Association of School Boards. ISEBA is required to pay $12,500 a month for rent of office space in a building owned by LGS. In addition, ISEBA also receives technical support and management services. For the year ended June 30, 2006, $25,000 was paid to LGS for rent of this office space, technical support, and management services. The term of the lease is ten years beginning on April 28, 2006 and ending on April 30, 2016. The future minimum lease payments are as follows:

2007	**$ 125,000**
2008	**125,000**
2009	**125,000**
2010	**125,000**
2011	**125,000**
Thereafter	**600,000**
	$1,225,000

Note 5. Significant Estimate

Unpaid claims balance is considered an estimate that is particularly susceptible to significant change as it relates to the determination of reported and unreported insured events. The unpaid claims balance is subject to change based upon management's evaluation of reported and unreported insured events. Because of the uncertainties associated with unpaid claims, it is reasonably possible that management's estimates of the unpaid claims balance may change in the near term.

ISEBA establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims expenses under the partially self-insured plan which terminated on July 1, 2004. The following represents changes in those aggregate liabilities for ISEBA during the years ended June 30, 2006 and 2005:

	2006	**2005**
Unpaid claims, beginning of year, net of reinsurance	**$ 150,000**	**$11,044,868**
Change in estimate of unpaid claims	**-**	**(1,511,229)**
Reinsurance received	**-**	**505,335**
Claims paid, net of reinsurance	**(44,688)**	**(9,888,974)**
Unpaid claims, end of year	**$ 105,312**	**$ 150,000**

During the years ended June 30, 2006 and 2005, management estimated the remaining unpaid claims at June 30, 2006 and 2005 to be approximately $105,312 and $150,000, respectively. Based upon this estimate, ISEBA adjusted its unpaid claim estimate by $-0- and $1,511,229 for the years ended June 30, 2006 and 2005, respectively. The change in estimate is shown as a separate line item in the statements of revenues, expenses, and changes in net assets (deficit) as a change in estimate of unpaid claims.

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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*

The Board of Directors
Iowa Schools Employee Benefits Association

We have audited the financial statements of the Iowa Schools Employee Benefits Association (ISEBA) as of and for the year ended June 30, 2006 and have issued our report thereon dated November 13, 2006. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ISEBA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISEBA' s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and 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 that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the board of directors, ISEBA's management, and the state of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

Brooks Lodden, P.C.

West Des Moines, Iowa
November 13, 2006

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