IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Iowa Association of School Boards
Des Moines, Iowa

We have audited the accompanying consolidated statement of financial position of the Iowa Association of School Boards (the Association) as of June 30, 2006 and the related consolidated statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, accounting principles generally accepted in the United States of America require that the reporting entity include the assets, liabilities, and net assets, activities, and cash flows of other nonprofit organizations that are under the control of a nonprofit organization and an economic interest is present. Accordingly, the accompanying consolidated financial statements are not intended to present the assets, liabilities, and net assets or the activities of the entire reporting entity. As more fully described in Note 1 to the financial statements, the Association has not included the assets, liabilities, and net assets or the activities of the Iowa Association of School Boards Foundation (ISBF), Iowa Joint Utility Management Program (IJUMP), Iowa Schools Cash Anticipation Program (ISCAP), and National School Foundation Association (NSFA).

In our opinion, except for the effects on the financial statements of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Association as of June 30, 2006 and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brooks Lodden, P.C.

September 8, 2006
West Des Moines, Iowa

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IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2006

ASSETS	
Cash and cash equivalents	$ 1,766,214
Cash and cash equivalents held on behalf of the Iowa Council of School Board Attorney's Fund	37,764
Certificates of deposit	99,932
Accounts receivable	2,657,453
Accrued interest receivable	135,656
Office property and equipment, net	2,715,828
Other assets	14,566
Deferred tax benefit	81,000
Pension intangible asset	59,394
Total assets	$ 7,567,807
LIABILITIES	
Accounts payable	$ 177,563
Interest rate swap	7,876
Accrued expenses	
Interest	5,050
Accrued property taxes	187,854
	$ 378,343
Deferred revenue:	
Memberships	$ 232,926
Exhibits	35,170
Other	9,192
Total deferred revenue	$ 277,288
Agency fund-Iowa Council of School Board Attorney's Fund	$ 37,799
Accrued pension benefit liability	$ 473,281
Contributions payable, net of discount	$ 13,646
Mortgage payable	$ 1,543,697
Total liabilities	$ 2,724,054
NET ASSETS AND ACCUMULATED (DEFICIT)	
Unrestricted:	
Designated for the Insurance Division	$ 2,817,685
Designated for the Legal Service Fund	61,343
Undesignated	2,343,207
Accumulated (deficit)	(124,980)
Additional minimum pension liability	(260,636)
Temporarily restricted net assets	7,134
Total net assets and accumulated (deficit)	$ 4,843,753
Total liabilities, net assets, and accumulated (deficit)	$ 7,567,807

See Notes to Consolidated Financial Statements.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Memberships	$ 1,078,733	$ -	$ 1,078,733
Publications	146,449	-	146,449
Advertising	13,570	-	13,570
Convention	312,856	-	312,856
Forms and materials	10,372	-	10,372
Conferences	182,660	-	182,660
Administrative and financial advisor services	1,073,516	-	1,073,516
Risk management and insurance division	367,172	-	367,172
Consulting services	23,350	-	23,350
Professional services	1,141,278	-	1,141,278
Federal lighthouse grant	561,239	-	561,239
Rental income	27,604	-	27,604
Other	2,388	-	2,388
Net assets released from restrictions			
Restrictions satisfied by payments	1,000	(1,000)	-
Total revenues	$ 4,942,187	$ (1,000)	$ 4,941,187
EXPENSES			
Advocacy	$ 1,431,243	$ -	$ 1,431,243
Governance and leadership services	2,439,292	-	2,439,292
Administration and capacity building	1,405,659	-	1,405,659
Local Government Services expenses	294,573	-	294,573
Total expenses	$ 5,570,767	$ -	$ 5,570,767
OTHER REVENUE (EXPENSE)			
Interest income	$ 196,482	$ -	$ 196,482
Change in value of interest rate swap	(7,876)	-	(7,876)
Income tax benefit	81,000	-	81,000
Total other revenue	$ 269,606	$ -	$ 269,606
Change in net assets and accumulated (deficit)	$ (358,974)	$ (1,000)	$ (359,974)
Net assets at beginning of year	5,456,229	8,134	5,464,363
Net assets before additional minimum pension liability	$ 5,097,255	$ 7,134	$ 5,104,389
Additional minimum pension liability	(260,636)	-	(260,636)
Net assets and accumulated (deficit) at end of year	$ 4,836,619	$ 7,134	$ 4,843,753

See Notes to Consolidated Financial Statements.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets and net (loss)	$ (369,974)
Adjustments to reconcile the change in net assets and net (loss) to net cash (used in) operating activities:	
Depreciation and amortization	191,906
Deferred taxes	(81,000)
Amortization of contributions payable discounting	990
Change in assets and liabilities:	
(Increase) in accounts receivable	(548,252)
(Increase) in accrued interest receivable	(98,203)
Decrease in prepaid pension costs	16,380
Decrease in other assets	10,120
Decrease in agency funds	10,911
Increase in accounts payable	30,768
Increase in swap liability	7,876
Increase in accrued property taxes	143,404
Increase in accrued interest	5,050
(Decrease) in contributions payable	(5,000)
Increase in accrued and additional pension benefit liability	146,791
(Decrease) in deferred revenue	(12,323)
Net cash (used in) operating activities	$ (550,556)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from maturity of certificates of deposit	$ 97,221
Purchase of property and equipment	(372,844)
Net cash (used in) investing activities	$ (275,623)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on notes payable	$ (1,560)
Net cash (used in) financing activities	$ (1,560)
Net (decrease) in cash and cash equivalents	$ (827,739)
Cash and cash equivalents at beginning of year	2,593,953
Cash and cash equivalents at end of year	$ 1,766,214
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash payments for interest	$ 20,373
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Building purchased by mortgage payable	$ 1,545,257

See Notes to Consolidated Financial Statements.

Note 1. Nature of Organization, Reporting Entity, and Significant Accounting Policies

Nature of organization:

The Iowa Association of School Boards (the Association) is a nonprofit organization operating to develop, strengthen, and correlate the work of the school boards of the public schools in their efforts to promote the educational interests of the state of Iowa and to provide such services as will enhance these purposes. Services offered to members by the Association include publications, research, consulting, conferences, conventions, cash management, and risk management.

Local Government Services, Inc. (LGS) is a for-profit, wholly-owned subsidiary of the Association. LGS operates in a support capacity for the Association, which includes technology, infrastructure, and back-office operations. LGS also seeks to create aggregation opportunities for members of the Association and other educational and government institutions in Iowa and other states, and operates the Association's sponsored programs in Iowa. LGS is run for the benefit of the members of the Association, and all net revenue returned to the Association is invested into member services. By creating new business services and making existing business services more efficient, LGS preserves resources for the Association's members for student achievement and allows administrators to focus on the core mission of public education. Business services include marketing and administrative support for both nonprofits and intergovernmental organizations, Payschools, and other Association sponsored programs.

Iowa Schools Employee Benefit Association (ISEBA) is considered a related party to the Association by common board members and management. The organization was formed to provide insurance to school employees. ISEBA currently offers medical, prescription drug, vision, and dental insurance coverage to members. ISEBA is not considered to be part of the reporting entity as the Association does not have a majority of voting interest. The ISEBA Board consists of three Board members appointed by the Association, three Board members appointed by the Iowa State Education Association (ISEA), one superintendent, one teacher, one business manager or board secretary, each of which is appointed jointly by the Association and the ISEA.

Iowa Schools Joint Investment Trust (ISJIT) is considered a related party to the Association by common board members. The organization was formed to allow Iowa schools to invest monies pursuant to a joint investment agreement. ISJIT is not considered to be part of the reporting entity as the Association does not have an economic interest in the assets of ISJIT. The assets of ISJIT are the property of school corporations and other organizations that participate in ISJIT.

Note 1. Nature of Organization, Reporting Entity, and Significant Accounting Policies *(Continued)*

Nature of organization: *(Continued)*

In fulfilling this purpose, the Association maintains control of the Iowa Association of School Boards Foundation (ISBF), Iowa Joint Utility Management Program (IJUMP), Iowa Schools Cash Anticipation Program (ISCAP), and National School Foundation Association, Inc. (NSFA). These organizations are related to the Association by common management, a majority voting interest in the boards by the Association, and the Association has an economic interest in each organization. All of these entities are separate corporations, filing their own tax returns, and having a year end of June 30. The Association has not included the assets, liabilities, net assets, activities, and cash flows for ISBF, IJUMP, ISCAP, and NSFA in this financial report. Accordingly, these financial statements are not considered to be the reporting entity financial statements. Following is a description of the organizations:

ISBF is a separate Association formed under 501(c)(3) of the Internal Revenue Code and is subject to federal income taxes only on any unrelated business income under the Internal Revenue Code. ISBF was formed to serve the educational needs of Iowa public school boards. The organization's current primary program is Communities for Literate Iowa Kids (CLIK). CLIK provides an initiative way to learn how communities and schools can unite to form partnerships, identify needs and implement initiatives to support early literacy development. The majority of the Board of Directors of ISBF are also on the Board of Directors of the Association.

IJUMP is a separate Association formed under Iowa Nonprofit Corporation Act, Chapter 504A, of the Code of Iowa, 2001, and is a tax-exempt organization as described in Section 501(c)(4) of the Internal Revenue Code. IJUMP is subject to federal income taxes only on any unrelated business income under the Internal Revenue Code. IJUMP was formed to provide energy and energy-related services to school districts, other public agencies, and nonprofit organizations. The majority of the Board of Directors of IJUMP are also on the Board of Directors of the Association.

ISCAP was formed under a joint and cooperative undertaking under the provision of Chapter 28E, Code of Iowa. ISCAP is exempt from federal and state income taxes under Internal Revenue Code Section 115. The organization was organized to provide a method of funding general fund deficits for school corporations participating in the ISCAP program. The Administrative Fund of the ISCAP program collects fees to cover expenses for the administration of the Program. The majority of the Board of Directors of ISCAP are also on the Board of Directors of the Association.

NSFA is a separate Association formed under 501(c)(3) of the Internal Revenue Code and is subject to federal income taxes only on any unrelated business income under the Internal Revenue Code. NSFA was formed to provide help, guidance, and direction to schools with the intent on establishing their own foundations and equipping schools to use the abundant funding opportunities to provide services that can be made available through school foundations. The majority of the Board of Directors of NSFA are either on the Board of Directors of the Association or are on the management team of the Association.

Note 1. Nature of Organization, Reporting Entity, and Significant Accounting Policies *(Continued)*

Principals of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary LGS. All material inter-company accounts and transactions are eliminated in consolidation.

A summary of the organization's significant accounting policies is as follows:

Classification of net assets:

Unrestricted – assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Association's governing board may earmark portions of its unrestricted net assets as board-designated for various purposes.

Temporarily restricted – assets resulting from contributions and other inflows of assets whose use by the organization is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the organization meeting the purpose of the restriction.

Permanently restricted – assets resulting from contributions which are permanently restricted by donors. Although such assets may not be expended, the investment income earned on them is generally to be expended for a specific purpose. The organization currently has no such assets.

Use of accounting estimates and assumptions:

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

Cash and cash equivalents:

The Association includes demand deposits, money market funds, and certificates of deposit purchased with a maturity of three months or less to be cash equivalents.

Fair value of financial instruments:

The carrying values of cash, receivables, accounts payable, and accrued expenses are reasonable estimates of their fair value because of short maturity of these financial instruments.

Based on the interest rates available to the Association, the carrying values of long-term debt is a reasonable estimation of fair value.

Note 1. Nature of Organization, Reporting Entity, and Significant Accounting Policies *(Continued)*

A summary of the organization's significant accounting policies *(Continued):*

Property and equipment:

Property and equipment are carried at cost. Depreciation and amortization on property and equipment is provided using the straight-line method over estimated lives ranging from 3 to 39 years. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

Agency fund:

The agency fund represents funds held by the Association on behalf of the Iowa Council of School Board Attorneys Fund (ICSBA). ICSBA is available to attorneys representing members of the Association who elect to pay membership dues to ICSBA. The funds received are used to provide membership in the National School Board Association's Council of School Attorneys and services such as special topic workshops and materials published by the Association. The Association serves as the fiscal agent and coordinator of ICSBA, however, ICSBA has retained the right to designate the resources of this fund.

Deferred revenue:

The Association records membership and other fees received in advance as deferred revenue. These amounts are recognized as revenue during the period in which they are earned.

Contributions payable:

Contributions authorized but unpaid at the end of the year are reported as liabilities in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made.*

Compensated absences:

Employees of the Association are entitled to paid vacations, depending on the job classification, length of service, and other factors. The Association has determined that this liability would not be material to the financial statements taken as a whole. Therefore, the Association's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 1. Nature of Organization, Reporting Entity, and Significant Accounting Policies *(Continued)*

A summary of the organization's significant accounting policies *(Continued):*

Expenses:

Advocacy includes government relations, personnel services, school finance, and other services.

Governance and leadership services include board and leadership development, executive search, policy services, and other services.

Administration and capacity building includes accounting, technology, communications, program administration, and other services.

Local Governmental Services expenses include expenses associated with carrying out the activities of LGS, including management and general as well as business service expenses.

Other expenses such as board of directors and convention expenses are allocated to all functions noted above.

Income taxes:

The Association has been recognized as a nonprofit corporation by the Internal Revenue Service as described in Section 501(c)(4) of the Internal Revenue Code (the Code) and is exempt from federal and state taxes on related income. The Association is, however, subject to federal and state income taxes on any net unrelated business income under the provisions of Section 511 of the Code. LGS, wholly owned subsidiary of the Association is subject to federal and state income taxes.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due or refundable plus deferred taxes. Deferred taxes result from the recognition of deferred tax liabilities and assets for expected future income tax consequence events that have been recognized in the Association's financial statements which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

Note 2. Significant Estimate

A liability is recorded for the value of an interest rate swap. This is an estimate of the swap's fair value based on benchmark levels of recent swaps entered into on similar terms and it is reasonably possible that the estimate may change significantly in the near term.

Note 3. Cash and Cash Equivalents

The Association routinely has cash balances at financial institutions in excess of FDIC insured limits. The Association has not experienced any losses as a result of this.

Note 4. Property and Equipment

At June 30, 2006 the cost and accumulated depreciation of property and equipment were as follows:

Land	$ 660,638
Buildings and improvements	2,168,827
Office equipment	377,174
Computer equipment	992,295
Computer software	566,502
	$4,765,436
Less accumulated depreciation and amortization	2,049,608
	$2,715,828

Note 5. Income Taxes

The Association accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose basis are different for financial reporting and income tax purposes. Deferred taxes are attributable to the effects of the following items:

- Differences in calculating depreciation on fixed assets
- Tax loss Carry-forwards

Deferred taxes consist of the following at June 30, 2006:

Deferred tax assets	$ 81,000
Valuation allowance	-
	$ 81,000

As of June 30, 2006, the Association had a net operating loss carryforward of $203,322 that can be deducted against future taxable income. This tax carryforward amount will expire June 30, 2026.

Note 6. Agency Fund

Agency fund activity for the Iowa Council of School Board Attorneys Fund for the year ended June 30, 2006 was as follows:

Balance at beginning of year	$ 22,567
Resources additions:	
Dues	23,490
Interest income	825
Other	1,550
Program, administrative and support services expenditures	(10,633)
Balance at end of year	$ 37,799

Note 7. Pension Plan

The Association sponsors a defined benefit pension plan (the Plan) covering substantially all of its employees. Benefits under the Plan are based on an employee's years of service and compensation during the years immediately preceding retirement. The Plan's assets include equity, debt, and real estate pooled separate accounts. The Association's policy is to fund pension cost accrued.

The following table summarized the benefit obligations, the fair value of Plan assets, and the funded status at the period ended June 30, 2006:

Fair value of plan assets at beginning of period	**$ 2,674,041**
Actual return of plan assets	**175,356**
Employer contributions	**361,382**
Benefits paid	**(78,397)**
Fair value of plan assets at end of period	**$ 3,132,382**
Benefit obligation at beginning of period	**$ 3,934,840**
Service cost	**416,342**
Interest cost	**214,254**
Actuarial loss	**183,057**
Benefits paid	**(78,397)**
Benefit obligation at end of period	**$ 4,670,096**
Plan assets in deficit of projected benefit obligation	**$(1,537,714)**

Plan assets in deficit of projected benefit obligation	**$(1,537,714)**
Amounts not recognized in the statements of financial position:	
Unrecognized net actuarial loss	**1,325,069**
Unrecognized prior service cost	**59,394**
Prepaid pension cost	**$ (153,251)**

Accumulated benefit obligation	**$(3,605,663)**
Fair value of plan assets at end of period	**3,132,382**
Minimum (liability)	**$ (473,281)**
Net amount recognized	**153,251**
Additional minimum liability	**$ (320,030)**
Unrecognized prior service cost	**59,394**
Adjustment to net assets	**$ (260,636)**

Note 7. Pension Plan ***(Continued)***

Plan assets allocations are comprised of the following investment classifications at June 30, 2006:

Equity securities	**23%**
Debt securities	**74**
Real estate	**3**
	100%

The Association's investment objective with respect to the pension plan is to produce sufficient current income and capital growth through a portfolio of equity and fixed income investments that together with appropriate employer contributions, is sufficient to provide for the pension benefit obligations. Pension assets are managed by outside investment managers in accordance with the investment policies and guidelines established by the pension trustees, and are diversified by investment style, asset category, sector, industry, issuer, and maturity.

The following is a summary of the components of net periodic pension cost for the year ended June 30, 2006:

Service cost during the period	**$ 416,342**
Interest cost on projected benefit obligation	**214,254**
Expected return on plan assets	**(182,907)**
Amortization of:	
Prior service cost	**6,459**
Recognized net actuarial loss	**76,865**
Net periodic pension cost	**$ 531,013**

The following are the actuarial assumptions used by the Plan to develop the components of pension cost for the period ended June 30, 2006:

Discount rate	**5.50%**
Rate of increase in compensation levels	**5.58**
Expected long-term rate of return on plan assets	**6.75**

The following are actuarial assumptions used by the Plan to develop the pension projected benefit obligations for the period ended June 30, 2006:

Discount rate	**5.50%**
Rate of increase in compensation levels	**6.75**
Expected long-term rate of return on plan assets	**5.55**

The benefits expected to be paid in each year from 2007 to 2011 are $750,000, $610,000, $640,000, $380,000, and $250,000, respectively. The aggregate benefits expected to be paid in the five years from 2012 to 2016 are $1,950,000. The expected benefits to be paid are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2006 and include estimated employee service.

The Association expects to contribute $500,000 to its retirement plan in 2007.

The accrued benefits have been frozen as of August 31, 2006.

Note 8. Contributions Payable

Total contributions payable presented at fair value as of June 30, 2006 are as follows:

Contributions payable:	
To be paid in less than one year	**$ 5,000**
To be paid in one to five years	**10,000**
Unamortized discount (using rate of 6.25%)	**(1,354)**
	$ 13,646

Note 9. Long-term Debt

The Association has a single advance term note in the amount of $1,220,000 dated April 13, 2006, in which the proceeds were used to purchase a building. Interest on the note is equal to 2.00% plus the one-month LIBOR rate. Interest is calculated and paid on a monthly basis. The principal payments are being amortized over a 25-year period with the loan maturing in ten years. A final payment of approximately $953,300 will be made on April 30, 2016 for the unpaid principal amount. Monthly principal payments will be made based upon the following schedule:

First 12 months (beginning 5/10/06)	**$ 1,560**
The next 12 months (beginning 5/10/07)	**1,580**
The next 12 months (beginning 5/10/08)	**1,810**
The next 12 months (beginning 5/10/09)	**1,950**
The next 12 months (beginning 5/10/10)	**2,100**
The next 12 months (beginning 5/10/11)	**2,265**
The next 12 months (beginning 5/10/12)	**2,440**
The next 12 months (beginning 5/10/13)	**2,630**
The next 12 months (beginning 5/10/14)	**2,835**
The next 12 months (beginning 5/10/15)	**3,055**

At June 30, 2006 the balance of the single advance term note was $1,218,440 with an interest rate of 7.109%.

The Association also has a multiple advance term note in the amount of $768,000 dated April 13, 2006, in which $325,257 of the proceeds were used along with the single advance term note to purchase a building. The remaining portion of $442,743 was unused at June 30, 2006, but management plans to use the remaining portion for improvements to the newly purchased building. The Association has until October 31, 2006 to use additional advances on this note. Interest on the note is equal to 2.00% plus the one-month LIBOR rate. Interest is calculated and paid on a monthly basis. The principal payments are being amortized over a 25-year period with the loan maturing in ten years. A final payment of approximately $613,800 is expected to be made on April 30, 2016 for the unpaid principal amount. Monthly principal payments will be made based upon the following schedule:

Note 9. Long-term Debt (Continued)

First 6 months (beginning 5/10/06)	$ -
The next 6 months (beginning 5/10/07)	900
The next 12 months (beginning 5/10/08)	1,000
The next 12 months (beginning 5/10/09)	1,100
The next 12 months (beginning 5/10/10)	1,150
The next 12 months (beginning 5/10/11)	1,200
The next 12 months (beginning 5/10/12)	1,300
The next 12 months (beginning 5/10/13)	1,400
The next 12 months (beginning 5/10/14)	1,550
The next 12 months (beginning 5/10/15)	1,800
The next 12 months (beginning 5/10/15)	1,900

At June 30, 2006 the balance of the multiple advance term note was $325,257 with an interest rate of 7.109%.

The single and multiple advance term notes are collateralized by the building and rent. In addition, IASB has guaranteed $1,000,000 of the debt. Net book value of the land and building as of June 30, 2006 was $1,573,232.

Current maturities of long-term debt consisted of the following as of June 30, 2006:

June 30	Amount
2007	$ 26,720
2008	31,520
2009	35,250
2010	37,550
2011	40,030
Thereafter	1,372,627
	$1,543,697

Note 10. On-Balance Sheet Derivative Instruments and Hedging Activities (Interest Rate Swap)

Derivative Financial Instruments:

The Association has a stand-alone derivative financial instrument in the form of an interest rate swap agreement, which derives its value from underlying interest rates. These transactions involve both credit and market risk. The notional amount is an amount on which calculations, payments, and the value of the derivative is based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amount to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Association's balance sheet as a derivative liability.

The Association is exposed to credit related losses in the event of nonperformance by the counter-party to these agreements. The Association controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect the counter-party to fail its obligations. The Association deals only with one primary dealer.

Note 10. On-Balance Sheet Derivative Instruments and Hedging Activities *(Continued)*

Derivative Financial Instruments: *(Continued)*

Derivative instruments are generally negotiated over-the-counter contracts generally entered into between two counter-parties that negotiate specific terms, including the underlying instrument, amount, exercise prices, and maturity.

Derivative Financial Instruments – Description:

The Association has entered into an interest rate swap agreement with one counter- party to hedge the interest payments of the mortgage payable. The swap is pay variable, receive fixed. The objective of the interest rate swap agreement is to fix the interest rates on the mortgage payable at a lower rate than issuing fixed rate debt.

Risk Management Policies – Hedging Instruments:

The Association has entered the interest rate swap agreements to effectively manage the risk of rising interest rates on the mortgage payable. On an ongoing basis, the management shall monitor the monthly interest rate resets of the variable rate mortgage payable; receive, at least monthly, valuation statements of the swap agreements; record the fair value adjustments of the swap in the accounting records; and internally assess the effectiveness of the swap agreements each month and if any material changes become evident, inform the Board of Directors of those facts and circumstances.

Interest Rate Risk Management – Fair Value of Hedging Instruments:

The Association has variable rate debt. Management believes that it is prudent to limit the variability in the fair value portion of its variable-rate debt by entering into this interest rate swap. It is the Association's objective to fix interest rates on the variable rate debt in a way that was more cost effective than natural fixed rate debt to protect against the risk of rising interest rates in the long term.

To meet this objective, the Association utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the debt due to changes in expected interest rate assumptions. These interest rate swap agreements are contracts to make a series of variable rate payments in exchange for receiving a series of fixed rate payments. The Association believes that the hedge remains effective at June 30, 2006.

At June 30, 2006, the information pertaining to outstanding interest rate swap agreements used to hedge variable-rate debt is as follows:

Swap #21257A	
Notional amount	**$1,571,880**
Weighted average pay rate	**5.17%**
Weighted average receive rate	**5.62%**
Weighted average maturity in years	**9.9**
Unrealized (loss) relating to swap	**$ (7,876)**

The above agreement provides for the Association to make payments at a variable-rate of 5.17% in exchange for receiving payments at a fixed rate of 5.65%. At June 30, 2006, the unrealized gain (loss) related to use of interest rate swaps was recorded as a derivative liability in accordance with SFAS No. 133.

Note 11. Related Entity Transactions

Administrative and financial advisor services paid to the Association from related entities are as follows:

ISCAP	$ 467,805
ISJIT	233,883
IJUMP	220,000
ISBF	17,379
NSFA	20,683
	$959,750

The amounts included accounts receivable from financial advisor fees from ISCAP at June 30, 2006 was $168,178. The amounts included in accounts receivable from administrative fees from ISJIT at June 30, 2006 was $29,058.

The Association occasionally pays the expenses of these related organizations and is reimbursed by the organizations. Amounts included in accounts receivable from these organizations related to expenses paid on behalf of the organization by the Association are as follows:

ISCAP	$ 16,685
ISBF	76,897
ISJIT	15,581
IJUMP	7,528
ISEBA	4,510
NSFA	166,511
	$287,712

Under an agreement dated September 20, 2001 between the Association and IJUMP for funds borrowed from the Association by IJUMP, the interest rate is the Association's pooled investment rate plus 0.25 percent. At June 30, 2006, $1,664,164 had been advanced and is included in accounts receivable. Accrued interest receivable was $135,577 for 2006 with the June 30, 2006 interest rates of 5.14%.

LGS has a rental agreement with ISEBA to pay $12,500 a month for rent of office space in a building owned by LGS and to provide technical support and management services. For the year ended June 30, 2006, $25,000 was received from ISEBA for this office space, technical support, and management services.

Note 12. Restricted Net Assets

Restricted net assets consisted of the following as of June 30, 2006:

Temporarily restricted net assets:	
Restricted due to purpose:	
To recognize the dedication and leadership of Iowa's school boards through education programs that enhance student learning	$ 7,134

Note 13. Contingencies

The Association created the insurance division under the Association, to sponsor insurance plans for its members. Premium payments on the plans are made to the respective insurance carriers by the members participating in the program. The Association is reimbursed for various administrative and program services from this fund. Section 10.2 of charter of the Insurance Division states that upon termination of the Insurance Division by the Association's board any remaining surplus in the fund would be distributed on a prorata basis determined by the extent of participation by each member participating in the Insurance Division insurance plans. The fund was created to establish a premium stabilization reserve and investment account for future premium increases on the insurance plans. The amount in the premium stabilization reserve is not recorded as a liability in the Association's financial statements as the Association's Board has reserved the right to amend the Insurance Division charter which would also include the termination clause in the charter. In addition, the liability would be contingent upon the termination of the Insurance Division in its current form, however, the Association does not expect to terminate the Insurance Division in the near term. The balance in this premium stabilization reserve at June 30, 2006 $2,817,685. The stabilization reserve amount has been classified under unrestricted net asset as designated by the Association Board of Directors for the Insurance Division.

The Association also established a Legal Service Fund (LSF) which is available to members of the Association who elect to pay membership dues to the LSF. The funds are used to provide financial assistance and legal service to members involved in cases determined by the LSF to be of significant statewide importance. Article XI of the LSF Rules and Regulations, states that upon termination of the LSF, any remaining funds shall be distributed on a pro rata basis to the LSF members. The amount in the LSF is not recorded as a liability in the Association's financial statements as the Association's Board has reserved the right to amend the LSF Rules and Regulations which would also include the termination clause. In addition, the liability would be contingent upon the termination of the LSF in its current form, however, the Association does not expect to terminate the LSF in the near term. The balance in the LSF at June 30, 2006 was $61,343. The LSF amount has been classified under unrestricted net assets as designated by the Association Board of Directors for the Legal Services Fund.

Note 14. Commitments

The Association has provided a limited guarantee on the line of credit obtained by ISEBA and is limited to the principal amount of $1,650,000, plus any interest which may be accrued on the indebtedness of the line of credit. If ISEBA fails to pay the line of credit, the Association would also be responsible for all costs, expenses, and fees (including reasonable attorney fees) paid or incurred by the bank at any time in attempting to enforce the guaranty. As of June 30, 2006, the current balance of the line of credit is zero.

The Association has provided a limited guarantee on the single and multiple advance term note obtained by LGS and is limited to the principal amount of $1,000,000 of the debt. Current outstanding debt related to these notes was $1,543,657 at June 30, 2006.

Schedule 1

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2006

ASSETS	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations	Consolidating Totals
Cash and cash equivalents	$ 1,650,940	$ 115,274	$ -	$ 1,766,214
Cash and cash equivalents held on behalf of the Iowa Council of School Board Attorney's Fund	37,764	-	-	37,764
Certificates of deposit	99,932	-	-	99,932
Accounts receivable	2,965,619	4,702	(312,868)	2,657,453
Accrued interest receivable	135,656	-	-	135,656
Office property and equipment, net	973,974	1,741,854	-	2,715,828
Other assets	9,877	4,689	-	14,566
Deferred tax benefit	-	81,000	-	81,000
Pension intangible asset	59,394	-	-	59,394
Total assets	$ 5,933,156	$ 1,947,519	$ (312,868)	$ 7,567,807
LIABILITIES				
Accounts payable	$ 128,091	$ 362,340	$ (312,868)	$ 177,563
Interest rate swap	-	7,876	-	7,876
Accrued expenses:				
Interest	-	5,050	-	5,050
Accrued property taxes	44,318	143,536	-	187,854
	$ 172,409	$ 518,802	$ (312,868)	$ 378,343
Deferred revenue:				
Memberships	$ 232,926	$ -	$ -	$ 232,926
Exhibits	35,170	-	-	35,170
Other	9,192	-	-	9,192
Total deferred revenue	$ 277,288	$ -	$ -	$ 277,288
Agency fund - Iowa Council of School Board Attorney's Fund	$ 37,799	$ -	$ -	$ 37,799
Accrued pension benefit liability	$ 473,281	$ -	$ -	$ 473,281
Contributions payable, net of discount	$ 13,646	$ -	$ -	$ 13,646
Mortgage payable	$ -	$ 1,543,697	$ -	$ 1,543,697
Total liabilities	$ 974,423	$ 2,062,499	$ (312,868)	$ 2,724,054
NET ASSETS AND ACCUMULATED (DEFICIT)				
Unrestricted:				
Designated for the Insurance Division	$ 2,817,685	$ -	$ -	$ 2,817,685
Designated for the Legal Service Fund	61,343	-	-	61,343
Undesignated	2,333,207	-	10,000	2,343,207
Common stock	-	10,000	(10,000)	-
Accumulated (deficit)	-	(124,980)	-	(124,980)
Additional minimum pension liability	(260,636)	-	-	(260,636)
Temporarily restricted net assets	7,134	-	-	7,134
Total net assets and accumulated (deficit)	$ 4,958,733	$ (114,980)	$ -	$ 4,843,753
Total liabilities, net assets, and accumulated (deficit)	$ 5,933,156	$ 1,947,519	$ (312,868)	$ 7,567,807

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 2

CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	Iowa Association of School Boards			Local		
	Unrestricted	Temporarily Restricted	Total	Government Services, Inc.	Eliminations	Consolidating Totals
REVENUES						
Memberships	$ 1,078,733	$ -	$ 1,078,733	$ -	$ -	$ 1,078,733
Publications	146,449	-	146,449	-	-	146,449
Advertising	13,570	-	13,570	-	-	13,570
Convention	312,856	-	312,856	-	-	312,856
Forms and materials	10,372	-	10,372	-	-	10,372
Conferences	182,660	-	182,660	-	-	182,660
Administrative and financial advisor services	973,892	-	973,892	99,624	-	1,073,516
Risk management and insurance division	367,172	-	367,172	-	-	367,172
Consulting services	23,350	-	23,350	-	-	23,350
Professional services	1,172,266	-	1,172,266	-	(30,988)	1,141,278
Federal lighthouse grant	561,239	-	561,239	-	-	561,239
Rental income	-	-	-	27,604	-	27,604
Other	2,388	-	2,388	-	-	2,388
Net assets released from restrictions						
Restrictions satisfied by payments	1,000	(1,000)	-	-	-	-
Total revenues	$ 4,845,947	$ (1,000)	$ 4,844,947	$ 127,228	$ (30,988)	$ 4,941,187
EXPENSES						
Advocacy	$ 1,431,243	$ -	$ 1,431,243	$ -	$ -	$ 1,431,243
Governance and leadership services	2,439,292	-	2,439,292	-	-	2,439,292
Administration and capacity building	1,405,659	-	1,405,659	-	-	1,405,659
Local Government Services expenses	-	-	-	325,561	(30,988)	294,573
Total expenses	$ 5,276,194	$ -	$ 5,276,194	$ 325,561	$ (30,988)	$ 5,570,767
OTHER REVENUE (EXPENSE)						
Interest income	$ 196,253	$ -	$ 196,253	$ 229	$ -	$ 196,482
Change in value of interest rate swap	-	-	-	(7,876)	-	(7,876)
Income tax benefit	-	-	-	81,000	-	81,000
Change in value of investment in LGS	(10,000)	-	(10,000)	-	10,000	-
Total other revenue	$ 186,253	$ -	$ 186,253	$ 73,353	$ 10,000	$ 269,606
Change in net assets and net (loss)	$ (243,994)	$ (1,000)	$ (244,994)	$ (124,980)	$ 10,000	$ (359,974)
Net assets at beginning of year	5,456,229	8,134	5,464,363	-	-	5,464,363
Net assets and net (loss) before additional minimum pension liability	$ 5,212,235	$ 7,134	$ 5,219,369	$ (124,980)	$ 10,000	$ 5,104,389
Additional minimum pension liability	(260,636)	-	(260,636)	-	-	(260,636)
Net assets and net (loss) at end of year	$ 4,951,599	$ 7,134	$ 4,958,733	$ (124,980)	$ 10,000	$ 4,843,753

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 3

CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations	Consolidating Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in net assets and net (loss)	$ (244,994)	$ (124,980)	$ -	$ (369,974)
Adjustments to reconcile the change in net assets and net (loss) to net cash (used in) operating activities:				
Depreciation and amortization	183,289	8,617	-	191,906
Deferred taxes	-	(81,000)	-	(81,000)
Amortization of contributions payable discounting	990	-	-	990
Change in assets and liabilities				
(Increase) in accounts receivable	(866,418)	(4,702)	322,868	(548,252)
(Increase) in accrued interest receivable	(98,203)	-	-	(98,203)
Decrease in prepaid pension costs	16,380	-	-	16,380
Decrease (increase) in other assets	14,809	(4,689)	-	10,120
Decrease in agency funds	10,911	-	-	10,911
(Decrease) increase in accounts payable	(18,704)	49,472	-	30,768
Increase in swap liability	-	7,876	-	7,876
(Decrease) increase in accrued property taxes	(132)	143,536	-	143,404
Increase in accrued interest	-	5,050	-	5,050
(Decrease) in contributions payable	(5,000)	-	-	(5,000)
Increase in accrued and additional pension benefit liability	146,791	-	-	146,791
(Decrease) in deferred revenue	(12,323)	-	-	(12,323)
Net cash (used in) operating activities	$ (872,604)	$ (820)	$ 322,868	$ (550,556)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from maturity of certificates of deposit	$ 97,221	$ -	$ -	$ 97,221
Purchase of property and equipment	(167,630)	(205,214)	-	(372,844)
Net cash (used in) investing activities	$ (70,409)	$ (205,214)	$ -	$ (275,623)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of common stock	$ -	$ 10,000	$ (10,000)	$ -
Proceeds from borrowings from IASB	-	312,868	(312,868)	-
Principal payments on notes payable	-	(1,560)	-	(1,560)
Net cash provided by (used in) financing activities	$ -	$ 321,308	$ (322,868)	$ (1,560)
Net (decrease) increase in cash and cash equivalents	$ (943,013)	$ 115,274	$ -	$ (827,739)
Cash and cash equivalents at beginning of year	2,593,953	-	-	2,593,953
Cash and cash equivalents at end of year	$ 1,650,940	$ 115,274	$ -	$ 1,766,214

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 4

CASH AND INVESTED FUNDS

June 30, 2006

Cash and cash equivalents:		
Alliance Capital Reserve	$	**121**
Bankers Trust Company, N.A.		**440,840**
Bankers Trust Custodial Account		**1,354**
Bankers Trust Stabilization Reserve		**1,153,521**
IMG Award for Excellence Fund		**8,593**
IMG Liquid Assets Funds		**4,017**
Merrill Lynch Ready Asset Trust		**42,424**
Morgan Stanley Liquid Asset Fund		**10**
Petty Cash		**60**
Total cash and cash equivalents	**$**	**1,650,940**
Cash and cash equivalents held on behalf of the Iowa Council of School Board Attorney's Fund:		
Bankers Trust	**$**	**27,964**
IMG Liquid Assets Funds		**9,800**
Total cash and cash equivalents held on behalf of the Iowa Council of School Board Attorney's Fund	**$**	**37,764**
Certificates of deposit:		
Morgan Stanley Dean Witter, 4.62%, matures January 12, 2007	**$**	**99,932**
Total certificates of deposit	**$**	**99,932**
Total cash and invested funds	**$**	**1,788,636**

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 5

PROPERTY AND EQUIPMENT

June 30, 2006

	Balance June 30, 2005	Additions	Balance June 30, 2006
Cost:			
Land	$ 155,000	$ -	$ 155,000
Office building	1,010,053	13,037	1,023,090
Office equipment	377,174	-	377,174
Computer equipment	933,521	26,892	960,413
Computer software	371,587	127,701	499,288
	$ 2,847,335	$ 167,630	$ 3,014,965
Accumulated depreciation and amortization:			
Office building	$ 441,236	$ 33,886	$ 475,122
Office equipment	323,585	25,216	348,801
Computer equipment	795,040	71,219	866,259
Computer software	297,841	52,968	350,809
	$ 1,857,702	$ 183,289	$ 2,040,991
Property and equipment, net	$ 989,633	$ (15,659)	$ 973,974

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 6

CONVENTION REVENUES AND DIRECT EXPENSE

Years Ended June 30, 2006

Revenues:		
Registration	$	**190,190**
Commercial exhibits		**102,260**
School finance boot camp		**5,500**
Show and tell		**6,580**
Early bird workshop		**8,326**
Total revenues	$	**312,856**
Direct expense:		
Program planning and execution	$	**77,686**
Registration		**794**
Commercial exhibits		**18,734**
Show and tell		**8,413**
Early bird workshop		**3,374**
IASBO lunch		**462**
Attendance promotion		**2,718**
General and administration		**14,288**
School finance boot camp		**2,717**
Parking		**2,252**
AEA meeting		**-**
Student talent		**1,124**
Saleable items		**1,430**
Total direct expenses	$	**133,992**
Net convention revenues	$	**178,864**

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONFERENCE REVENUE AND EXPENSE
Year Ended June 30, 2006

	Revenues	Presenters' Fees and Expenses	Meeting Rooms and Food
ABLE I	$ 23,230	$ -	$ 6,223
ABLE II	16,360	-	3,269
Administrators	-	-	-
Administrators Advisory	-	-	-
Board Candidate	-	-	-
Delegate Assembly	2,420	-	17,281
District Meetings	5,709	-	5,706
Employee Relations	14,290	-	7,666
Fiscal Management	15,970	203	5,510
Follow the Leaders	-	-	2,850
High Schools Good to Great	-	-	-
Human Resources	10,215	100	7,106
IDATP Training	2,515	-	10,321
ISFLC	52,380	-	4,493
Leadership Academy	4,420	-	2,610
Leadership for Learning	-	-	-
Legislative	14,495	-	8,719
Multistate	-	-	13,980
Online Learning	3,135	-	-
President's Leadership	5,515	236	3,225
School Law	12,006	532	8,392
	$ 182,660	$ 1,071	$ 107,351

See Accompanying Independent Auditors' Report.

Schedule 7

Expenses: Materials and Postage	Expenses: Staff Travel	Expenses: Total	Net Conference Revenue (Expense)
$ 4,564	$ 2,037	$ 12,824	$ 10,406
1,850	1,603	6,722	9,638
-	-	-	-
30	1,744	1,774	(1,774)
2	-	2	(2)
5,192	16	22,489	(20,069)
1,324	4,832	11,862	(6,153)
837	21	8,524	5,766
793	193	6,699	9,271
-	-	2,850	(2,850)
58	-	58	(58)
875	230	8,311	1,904
28	70	10,419	(7,904)
625	3,116	8,234	44,146
1,034	503	4,147	273
3	-	3	(3)
905	269	9,893	4,602
-	-	13,980	(13,980)
-	-	-	3,135
161	346	3,968	1,547
870	726	10,520	1,486
$ 19,151	$ 15,706	$ 143,279	$ 39,381

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 8

FUNCTIONAL REVENUE AND EXPENSE
Year Ended June 30, 2006

	Advocacy	Governance and Leadership Services	Administration and Capacity Building	Totals
Revenues:				
Memberships	$ 388,344	$ 366,769	$ 323,620	$ 1,078,733
Publications	-	146,449	-	146,449
Advertising	-	13,570	-	13,570
Convention	-	312,856	-	312,856
Forms and materials	-	10,372	-	10,372
Conferences	-	182,660	-	182,660
Administrative and financial advisor services	-	1,453,890	-	1,453,890
Risk management and insurance division	-	367,172	-	367,172
Consulting services	-	49,118	-	49,118
Interest income	70,651	66,726	58,876	196,253
Professional services	-	666,499	-	666,499
Federal lighthouse grant	-	561,239	-	561,239
Other	-	2,389	-	2,389
Total revenues	$ 458,995	$ 4,199,709	$ 382,496	$ 5,041,200
Expenses:				
Salaries	$ 882,994	$ 833,938	$ 735,828	$ 2,452,760
Payroll taxes	53,916	50,921	44,930	149,767
Pension expense	191,165	180,544	159,304	531,013
Staff development	5,761	8,698	6,341	20,800
Travel	8,772	152,098	47,699	208,569
Building operations	-	-	89,935	89,935
Equipment and computer maintenance and rental	51,599	54,928	59,922	166,449
Depreciation and amortization	56,820	60,485	65,984	183,289
Library and reference subscriptions	8,491	7,982	4,769	21,242
Office supplies	7,912	20,972	9,360	38,244
Cartage and postage	6,975	14,355	8,180	29,510
Telephone	8,899	16,425	10,335	35,659
Accounting, legal, and consulting fees	14,046	584,596	16,820	615,462
Insurance	79,016	84,114	91,761	254,891
Printing of publications	12,272	38,117	5,012	55,401
Dues	21,466	22,853	24,930	69,249
Convention	-	133,992	-	133,992
Conferences	-	143,279	-	143,279
Internet access	2,747	2,924	3,190	8,861
Hosting and domain registrations	1,648	1,754	1,914	5,316
Interest	-	-	-	-
Legal service assistance to members	-	7,503	-	7,503
Contribution to NSBA Center for Public Education	-	990	-	990
Miscellaneous	16,744	17,824	19,445	54,013
Total expenses	$ 1,431,243	$ 2,439,292	$ 1,405,659	$ 5,276,194
Increase (decrease) in net assets	$ (972,248)	$ 1,760,417	$ (1,023,163)	$ (234,994)

See Accompanying Independent Auditors' Report.