IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2007 AND 2006

C O N T E N T S

IOWA SCHOOL BOARDS EMPLOYEE BENEFITS ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2007

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, 2007. 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 for fiscal year June 30, 2007 increased $224,636 over June 30, 2006, mainly as a result of a reduction in program administration costs. June 30, 2007 net assets (deficit) totaled $(921,834). June 30, 2006 net assets (deficit) were $(1,146,470).

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 statements of net assets, the statements of revenues, expenses and changes in net assets (deficit), and the statements of cash flows provide information about the activities of ISEBA. 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 (deficit) 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 within 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.

	2007	2006
Current assets	$ 6,132,499	$ 6,254,438
Noncurrent assets	21,474	27,220
Total assets	$ 6,153,973	$ 6,281,658
Current liabilities:		
Unpaid claims	$ -	$ 105,312
Advanced premiums	2,664,703	2,764,892
State premium assessment	-	150,000
Accounts payable	4,411,104	4,407,924
Total current liabilities	$ 7,075,807	$ 7,428,128
Net assets (deficit), unrestricted	$ (921,834)	$ (1,146,470)
Total liabilities and net assets (deficit)	$ 6,153,973	$ 6,281,658

Overview of the Financial Statements *(Continued)*

Statements 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 statements of revenue, expenses and changes in net assets (deficit). 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 $60,969,521 of the $61,151,996 total revenue. Operating expenses were expended for claims and administration, and totaled $60,813,143 of the $61,025,143 total expenses. Nonoperating revenues consisted of interest income on cash accounts. Nonoperating expenses consisted of interest expense.

	2007	2006
Operating revenue	$ 60,969,521	$ 61,465,443
Nonoperating revenue	182,475	94,996
Total revenue	$ 61,151,996	$ 61,560,439
Operating expenses	60,813,143	61,656,443
Nonoperating expenses	212,000	243,381
Change in unpaid claims estimate	(97,783)	-
Change in state assessment estimate	-	(596,938)
Change in net assets	$ 224,636	$ 257,553
Net assets (deficit), unrestricted, beginning	(1,146,470)	(1,404,023)
Net assets (deficit), unrestricted, ending	$ (921,834)	$ (1,146,470)

Statements of cash flows: The final statements included in ISEBA's basic financial statements are the statements of cash flows. The statements of cash flows are 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.

	2007	2006
Cash provided by (used in):		
Operating activities	$ (837,512)	$ 10,067,023
Investing activities	182,475	76,173
Non-capital financing activities	(212,000)	(5,518,382)
Net (decrease) in cash	$ (867,037)	$ 4,624,814
Cash, beginning of year	5,592,643	967,829
Cash, end of year	$ 4,725,606	$ 5,592,643

Economic Factors

ISEBA served as a partially self-insured plan from July 1, 1999 to July 1, 2004. ISEBA has been fully insured each year beginning with fiscal year 2005.

ISEBA transferred responsibility for all marketing and program administration to Local Government Services, Inc., a wholly-owned for-profit subsidiary of the Iowa Association of School Boards in June 2007.

While health care inflation had been rising at double digit rates in recent years, ISEBA had good claims experience in FY 2006, which enabled the Association to issue a renewal rate with average increase of 1.84%. No school has had an increase of 10% or more since the conversion to a fully-insured program. The reduced growth trend in health insurance rates for both ISEBA and the economy in general continued through FY 2007.

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, Shareholder
Bruce W. Hartley, CPA, Shareholder
John E. Lamale, CPA, Shareholder
Brent L. Alexander, CPA, Shareholder
James E. Benbow, CPA, Director

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, 2007 and 2006, 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 audits.

We conducted our audits 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 audits provide 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, 2007 and 2006, 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 October 16, 2007, 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
October 16, 2007

1441 29th Street, Suite 305 • West Des Moines, IA 50266 • Phone: 515.223.7300 • Fax: 515.223.8778

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF NET ASSETS
June 30, 2007 and 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	$ 4,725,606	$ 5,592,643
RECEIVABLES		
Premiums receivable	$ 23,412	$ 93,041
Premium assessment	-	41,414
Retrospective premium	1,051,807	-
Other receivables	38,672	313,653
Total receivables	$ 1,113,891	$ 448,108
PREPAID EXPENSES	$ 293,002	$ 213,687
Total current assets	$ 6,132,499	$ 6,254,438
FIXED ASSETS		
Computer software	$ 17,535	$ 17,535
Furniture, fixtures and equipment	18,823	18,823
Less accumulated depreciation and amortization	14,884	9,138
Total fixed assets	$ 21,474	$ 27,220
Total assets	$ 6,153,973	$ 6,281,658

LIABILITIES AND NET DEFICIT	2007	2006
CURRENT LIABILITIES		
Unpaid claims	$ -	$ 105,312
Advanced premiums	2,664,703	2,764,892
State premium assessment	-	150,000
Accounts payable	4,411,104	4,407,924
Total current liabilities	$ 7,075,807	$ 7,428,128
NET ASSETS (DEFICIT)	$ (921,834)	$ (1,146,470)
Total liabilities and net assets (deficit)	$ 6,153,973	$ 6,281,658

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)
Years Ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Premiums earned	$ 59,524,542	$ 60,973,591
Retrospective premium	1,051,807	-
Commission income	393,172	491,852
Net operating revenues	$ 60,969,521	$ 61,465,443
OPERATING EXPENSES		
Premiums paid to insurance companies	$ 59,428,722	$ 60,348,453
Program administration	150,309	680,939
Commissions	504,250	-
Salaries	365,349	238,900
Payroll taxes	28,688	20,829
Employee benefits	92,131	58,087
Accounting	11,269	18,020
Professional fees	34,809	128,237
Office supplies	18,453	14,026
Board expense	2,486	3,299
Insurance	65,820	55,914
Telephone	11,930	8,074
Repairs and maintenance	8,120	14,514
Training	1,276	500
Travel	11,896	9,553
Rent	64,167	50,442
Marketing	7,543	440
Connectivity	100	-
Licensing	80	-
Depreciation and amortization	5,745	6,216
Total operating expenses	$ 60,813,143	$ 61,656,443
Operating income (loss)	$ 156,378	$ (191,000)
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	$ (212,000)	$ (243,381)
Interest income	182,475	94,996
Total non-operating revenues (expenses)	$ (29,525)	$ (148,385)
Change in net assets (deficit) before change in estimates	$ 126,853	$ (339,385)
Change in estimate of state assessment	-	596,938
Change in estimate of unpaid claims	97,783	-
Change in net assets after change in estimates	$ 224,636	$ 257,553
Net assets (deficit), beginning of year	(1,146,470)	(1,404,023)
Net assets (deficit), end of year	$ (921,834)	$ (1,146,470)

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	$ 59,757,885	$ 62,692,866
Cash received from commissions	402,873	467,945
Cash received for claim assessments	-	3,067,305
Cash received from insurance settlement	-	1,840,000
Cash payments to insurance companies	(59,290,319)	(56,453,019)
Cash payments for claim assessments	-	(44,688)
Cash payments for program and administration services	(150,309)	(680,939)
Cash payments for prepaid expenses	(293,002)	(213,687)
Cash payments for general and administrative expenses	(1,264,640)	(608,760)
Net cash provided by (used in) operating activities	$ (837,512)	$ 10,067,023
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from line of credit	$ -	$ 7,466,338
Principal payments on line of credit	-	(12,741,338)
Interest payments on premiums payable	(212,000)	
Interest payments on line of credit	-	(243,382)
Net cash (used in) non-capital financing activities	$ (212,000)	$ (5,518,382)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	$ 182,475	$ 94,996
Cash payment for capital assets	-	(18,823)
Net cash provided by investing activities	$ 182,475	$ 76,173
Net (decrease) increase in cash and cash equivalents	$ (867,037)	$ 4,624,814
Cash and cash equivalents at beginning of year	5,592,643	967,829
Cash and cash equivalents at end of year	$ 4,725,606	$ 5,592,643
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 156,378	$ (191,000)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,745	6,216
Changes in assets and liabilities:		
(Increase) decrease in receivables	(707,196)	1,538,829
Decrease in assessment receivable	41,414	3,067,305
(Increase) in prepaids	(79,315)	(213,687)
(Decrease) in unpaid claims	(7,529)	(44,688)
(Decrease) increase in advanced premiums	(100,189)	2,020,014
(Decrease) in state assessment	(150,000)	-
(Decrease) in accrued interest	-	(23,475)
Increase in accounts payable	3,180	3,907,509
Net cash provided by (used in) operating activities	$ (837,512)	$ 10,067,023
Non-cash investing, capital, and financing activities:		
Change in unpaid claims estimate	$ 97,783	$ -
Change in state assessment estimate	-	596,938
Total non-cash investing, capital, and financing activities	$ 97,783	$ 596,938

See 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>Retrospective premium:</u> ISEBA has an agreement with an insurance provider to return a portion of premiums paid if the actual claims incurred on the policy is below a certain percentage of the premiums paid. Retrospective premium revenue is estimated based upon actual claims incurred during the reporting period and is subject to change.

<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 statements 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 and interest expense 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, 2007 and 2006 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, 2007 and 2006, the carrying amounts of ISEBA's cash deposits were $4,725,606 and $5,592,643, respectively.

Note 3. Related Party Transactions

ISEBA is a related party to the Iowa Association of School Boards (IASB) through common board members. IASB occasionally pays expenses of ISEBA and requests reimbursement for these expenses. At June 30, 2007 and 2006, ISEBA owed IASB $6,381 and $4,510, respectively.

ISEBA contracted with Morneau Sobeco, Ltd. (Morneau) to provide program administration 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 year ended June 30, 2006, variable fees totaling $655,072 were incurred.

Note 3. Related Party Transactions ***(Continued)***

ISEBA had a rental agreement with Local Government Services, Inc. (LGS), a wholly-owned subsidiary of IASB. LGS is considered a related party through common board members of IASB. ISEBA was required to pay $12,500 per month for office space rental in a building owned by LGS. In addition, ISEBA also received technical support and management services. The agreement was revised on June 1, 2007 to an administrative services agreement which encompasses all operating expenses of ISEBA including management and oversight, marketing, and administration, except those that are strictly entity specific (i.e. premiums expense, professional fess, and interest expense). The administrative services fee is 1.75% of monthly billed medical premiums. For the years ended June 30, 2007 and 2006, $214,476 and $25,000 were paid to LGS for rent and administrative services. ISEBA pays for the administrative services the month prior to service, therefore, as of June 30, 2007; the prepaid administration service fee to LGS was $80,527.

Note 4. Unpaid Claims

The unpaid claims balance was 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 was subject to change based upon management's evaluation of reported and unreported insured events. Because of the uncertainties associated with unpaid claims, it was reasonably possible that management's estimates of the unpaid claims balance may change in the near term.

ISEBA established a liability for both reported and unreported insured events, which included 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, 2007 and 2006:

	2007	**2006**
Unpaid claims, beginning of year, net of reinsurance	**$ 105,312**	**$ 150,000**
Change in estimate of unpaid claims	**(97,783)**	**-**
Claims paid, net of reinsurance	**(7,529)**	**(44,688)**
Unpaid claims, end of year	**$ -**	**$ 105,312**

During the years ended June 30, 2007 and 2006, management estimated the remaining unpaid claims at June 30, 2007 and 2006 to be approximately $-0- and $105,312, respectively. Based upon this estimate, ISEBA adjusted its unpaid claim estimate by $97,783 and $-0- for the years ended June 30, 2007 and 2006, 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.

Note 5. Retrospective Premium

The retrospective premium balance is considered an estimate that is susceptible to change as it relates to the determination of unreported claims incurred during the reporting period to which the retrospective premium agreement with the insurance provider relates. Based upon management's estimates, the retrospective premium accrued in the financial statements for June 30, 2007 and 2006 was $1,051,807 and $-0-, respectively.

Note 6. Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

Brooks Lodden P.C.
certified public accountants

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

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, 2007 and have issued our report thereon dated October 16, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

1441 29th Street, Suite 305 • West Des Moines, IA 50266 • Phone: 515.223.7300 • Fax: 515.223.8778

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, 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.*

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
October 16, 2007