

IOWA ASSOCIATION OF SCHOOL BOARDS
CONSOLIDATED FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

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INDEPENDENT AUDITOR'S 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) and its controlled entities as of June 30, 2007 and the related consolidated statements 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, 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, 2007 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.

Brooks Lodden, P.C.

November 2, 2007
West Des Moines, Iowa

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2007

ASSETS

Cash and cash equivalents	\$ 539,737
Certificates of deposit	100,228
Assets held on behalf of others:	
Cash - Iowa Council of School Board Attorney's Fund	41,036
Certificates of deposit	7,100,000
Repurchase agreements	249,689,000
U.S. Government Agency Obligations	103,585,749
Commercial paper	3,286,592
Accounts receivable, net of allowance of \$-0-	1,648,557
Contributions receivable	9,377
Accrued interest receivable	813,757
Office property and equipment, net	4,255,598
Other assets	18,065
Deferred tax benefit	663,200
	<hr/>
Total assets	\$ 371,750,896

LIABILITIES

Accounts payable	\$ 621,244
Due to Iowa Department of Natural Resources	335,731
Deferred revenue	831,230
Customer deposits	95,065
Interest rate swap	15,117
Accrued interest	4,872
Accrued property taxes	122,968
	<hr/>
	\$ 2,026,227
	<hr/>
Agency fund - Iowa Council of School Board Attorney's Fund	\$ 41,074
	<hr/>
Agency fund - held in trust for participants in ISJIT	\$ 363,064,039
	<hr/>
Accrued pension benefit liability	\$ 409,825
	<hr/>
Contributions payable, net of discount	\$ 9,377
	<hr/>
Mortgage payable	\$ 1,198,120
	<hr/>
Total liabilities	\$ 366,748,662

NET ASSETS

Unrestricted	\$ 4,979,600
Temporarily restricted net assets	22,634
Total net assets	<hr/>
	\$ 5,002,234
	<hr/>
Total liabilities and net assets	\$ 371,750,896

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Consolidated Totals
REVENUES			
Memberships	\$ 1,125,278	\$ -	\$ 1,125,278
Publications, forms and materials	184,338	-	184,338
Convention and conferences	545,939	-	545,939
Consulting services	22,033	-	22,033
Professional services	611,094	-	611,094
Contributions	21,701	133,694	155,395
Administrative services	2,077,554	-	2,077,554
Advertising	17,670	-	17,670
Sponsorships	151,580	-	151,580
Risk management and insurance program	340,175	-	340,175
Grants	401,626	-	401,626
Rental income	112,191	-	112,191
Energy distribution	3,039,157	-	3,039,157
Energy supply	19,984,765	-	19,984,765
Investment income	17,250,991	-	17,250,991
Net assets released from restrictions satisfied by payments	111,710	(111,710)	-
	\$ 45,997,802	\$ 21,984	\$ 46,019,786
Total revenues			
EXPENSES			
Program services:			
Advocacy services	\$ 209,135	\$ -	\$ 209,135
Governance and leadership services	1,372,074	-	1,372,074
Convention and conferences	603,978	-	603,978
Lighthouse	272,119	-	272,119
CLIK	164,624	-	164,624
Investment services	635,846	-	635,846
Administrative services	249,001	-	249,001
Employee benefits services	55,298	-	55,298
Online payment services	457,001	-	457,001
Energy services	22,894,513	-	22,894,513
Background check services	154,753	-	154,753
Drug and alcohol testing services	218,021	-	218,021
Assessment services	261,448	-	261,448
Other programs	290,827	-	290,827
	\$ 27,838,638	\$ -	\$ 27,838,638
Supporting services:			
Management and general	\$ 3,214,055	\$ -	\$ 3,214,055
Fundraising	58,331	-	58,331
	\$ 3,272,386	\$ -	\$ 3,272,386
Total expenses	\$ 31,111,024	\$ -	\$ 31,111,024

(Continued)

IOWA ASSOCIATION OF SCHOOL BOARDS
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Consolidated Totals</u>
OTHER REVENUE (EXPENSE)			
Interest income	\$ 223,371	\$ -	\$ 223,371
Other income	20,895	-	20,895
Dividends issued to participants in ISJIT	(16,181,453)	-	(16,181,453)
Change in value of interest rate swap	(7,241)	-	(7,241)
Income tax benefit	582,200	-	582,200
(Loss) on pledges	(10,532)	(84,928)	(95,460)
Gain on sale of fixed assets	442,083	-	442,083
	<u> </u>	<u> </u>	<u> </u>
Total other revenue (expense)	\$ (14,930,677)	\$ (84,928)	\$ (15,015,605)
	<u> </u>	<u> </u>	<u> </u>
Change in net assets	\$ (43,899)	\$ (62,944)	\$ (106,843)
	<u> </u>	<u> </u>	<u> </u>
Net assets at beginning of year	5,023,499	85,578	5,109,077
	<u> </u>	<u> </u>	<u> </u>
Net assets at end of year	\$ 4,979,600	\$ 22,634	\$ 5,002,234
	<u> </u>	<u> </u>	<u> </u>

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(106,843)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation and amortization		361,642
(Gain) on sale of fixed assets		(442,083)
Deferred taxes		(582,200)
Amortization of contributions payable discounting		731
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable		835,840
Pledges receivable		5,044
Accrued interest receivable		(405,852)
Prepaid pension costs		59,394
Adjustments for loss on pledges		84,928
Other assets		1,585
Decrease (increase) in liabilities:		
Agency funds		3
Due to Iowa Association of Schools Boards		(175,141)
Accounts payable		43,230
Swap liability		7,241
Accrued property taxes		(44,318)
Accrued interest		(4,145)
Contributions payable		(5,000)
Accrued pension liability		197,181
Customer deposits		6,521
Interest expense accrued, net		26,815
Deferred revenue		143,027
Net cash provided by operating activities	\$	<u>7,600</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of securities	\$	12,282,059,972
Purchases of securities		(12,316,561,410)
Proceeds from sale of fixed assets		1,138,000
Purchase of property and equipment		(2,868,335)
Net cash (used in) investing activities	\$	<u>(36,231,773)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of common stock	\$	271,010
Units sold		1,313,964,558
Units issued		(1,295,308,958)
Dividends issued		16,181,453
Principal payments on notes payable		(345,577)
Net cash provided by financing activities	\$	<u>34,762,486</u>

Net (decrease) in cash and cash equivalents \$ (1,461,687)

Cash and cash equivalents at beginning of year 2,001,424

Cash and cash equivalents at end of year 539,737

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest \$ 117,064

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Principles of consolidation:

The consolidated financial statements include the accounts of the Iowa Association of School Boards (the Association) and its wholly-owned subsidiary Local Government Services, Inc. (LGS) along with the accounts of the Iowa Schools Joint Investment Trust (ISJIT), Iowa Association of School Boards Foundation (ISBF), Iowa Joint Utility Management Program (IJUMP) and Iowa Schools Cash Anticipation Program (ISCAP). The accounts of ISJIT, ISBF, IJUMP, and ISCAP are included in the consolidated financial statements as the majority of the board of directors of these organizations are appointed by the board of directors of the Association, and the Association has an economic interest in these organizations. All material inter-company accounts and transactions are eliminated in consolidation.

Nature of organization:

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.

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. 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.

ISJIT was formed under a joint and cooperative undertaking under the provision of Chapter 28E, Code of Iowa. ISJIT is exempt from federal and state income taxes under Internal Revenue Code Section 115. The organization was formed to allow Iowa schools to invest monies pursuant to a joint investment agreement.

ISBF is a separate organization 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 programs are Communities for Literate Iowa Kids (CLIK) and Lighthouse.

IJUMP is a separate organization 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of organization: *(Continued)*

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.

Other related parties:

National School Foundation Association, Inc. (NSFA) is a separate organization 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. NSFA is considered a related party to the Association through common board members and management. NSFA is not considered to be part of the reporting entity as the organization does not have a majority of the voting interest.

Iowa Schools Employee Benefit Association (ISEBA) was formed under a joint and cooperative undertaking under the provision of Chapter 28E, Code of Iowa to provide insurance to school employees. ISEBA currently offers medical, prescription drug, vision, and dental insurance coverage to members. ISEBA is considered a related party to the organization through common board members and management. ISEBA is not considered to be part of the reporting entity as the Association does not have a majority of the voting interest in ISEBA. 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.

Classification of net assets:

Unrestricted – assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The organization'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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 organization considers all unrestricted deposits, savings, and money market accounts, and certificates of deposit purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable:

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and regularly evaluating individual customer receivables, considering a customer's financial condition and credit history. Accounts are considered past due 30 days past invoice date. Interest is not normally charged on past due accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Promises to give:

Contributions, which are defined as unconditional transfers of cash or other assets including unconditional promises to give those items in the future, are measured at fair value on the date received and recognized as revenue. The imposition of restrictions on how a contribution is to be used does not delay recognition. However, the recognition of conditional gifts is delayed until the conditions are met.

The organization distinguishes between contributions received with temporary restrictions and those without donor-imposed restrictions. Contributions with donor-imposed restrictions are reported as restricted support. Receipts of unconditional promises to give with payments due in future periods are reported as restricted support unless it is clear that the donor intended the gift to be used to support activities in the current period. Gifts of long-lived assets received without donor-imposed restrictions are considered unrestricted support.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Repurchase agreements:

ISJIT's investment policy allows the organization to enter into collateralized perfected repurchase agreements secured by the U.S. government or U.S. government agency obligations. A repurchase agreement involves the sale of such securities to ISJIT with the concurrent agreement of the seller to repurchase them at a specified time and price to yield an agreed upon rate of interest. The securities collateralizing the agreement are held in custody and are regularly verified by the custodian and are maintained daily in an amount equal to at least 102% of the agreements. At June 30, 2007, the securities purchased under overnight agreements to resell were collateralized by government and government agency securities in the name of ISJIT with market values of approximately \$258,854,000.

Fair value of financial instruments:

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

Investments in certificates of deposit, repurchase agreements, U.S. government agency obligations, and commercial paper, are recorded at amortized cost which approximates the fair value of the financial instruments based upon quoted market prices.

Property and equipment:

All acquisitions and betterments of property and equipment in excess of \$3,000 for each item for computer hardware and software and \$1,500 for each item of other classes of property and equipment are capitalized. 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 funds:

The organization holds funds 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.

ISJIT maintains three portfolios in which member school corporations in the Association can participate by investing monies. Income earned on the pooled investments is allocated to the respective participants. Assets held in trust for participants represent the school's interest in the portfolios.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Deferred revenue:

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

Derivative instruments and hedging activities:

The organization accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires that all derivative instruments be recorded on the statements of financial position at fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Program services of the organization are as follows:

Advocacy services – Include expenses associated with government relations, personnel and labor relations, school finance and other advocacy programs.

Governance and leadership services – Include expenses associated with board and leadership development, executive search, policy, and other governance and leadership programs.

Convention and conferences – Include expenses associated with the IASB annual convention and other statewide or locally held conferences organized by the organization.

Lighthouse – Includes expenses associated with the original Lighthouse Study, the second phase of continued research, and the Multi-State replication phase.

Communities for Literate Iowa Kids Project (CLIK) – Includes expenses associated with early literacy development programs.

Investment services – Include expenses associated with ISJIT and other investment programs.

Administrative services – Include expenses associated with ISCAP and administrative service programs.

Employee benefit services – Include expenses associated with ISEBA medical, vision, life, dental, and accidental death insurance coverage and other employee benefit programs.

Online payment services – Include expenses associated with PaySchools, Give2Schools and other online payment programs.

Energy services – Include expenses associated with IJUMP natural gas and other energy-related programs.

Background check services – Include expenses associated with the employee background check program.

Drug and alcohol testing services – Include expenses associated with the Iowa Drug & Alcohol Testing Program (IDATP).

Assessment services – Include expenses associated with Skills Iowa and other assessment programs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Income taxes:

The organization is made up of nonprofit and governmental corporations as noted above and is exempt from federal and state taxes on related income. The organization 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 is subject to federal and state income taxes as provided below.

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 organization'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 Estimates

LGS

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.

IJUMP

Included in the IJUMP accounts receivable balance are unbilled amounts that management expects to collect from the customer's latest billed meter read date through the end of the fiscal year for services rendered. These receivables are considered an estimate as it relates to management's allocation of customer charges between days in the billing cycle that cross the fiscal year-end.

Note 3. Concentrations

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

IJUMP purchases virtually all of the gas from one supplier. A request for proposal process is conducted by management on a regular basis to receive bids. The current two-year arrangement expired June 30, 2007. The organization has entered into a new two-year commitment expiring on June 30, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Contributions Receivable

ISBF has recorded the receipt of one unconditional promise to give. This unconditional promise totaled \$10,000 at June 30, 2007.

Total contributions receivable presented at fair value as of June 30, 2007 is as follows:

Contributions receivable:		
Receivable in less than one year		\$ 5,000
Receivable in one to five years		5,000
Unamortized discount at 6.5%		<u>(623)</u>
		<u><u>\$ 9,377</u></u>

Note 5. Property and Equipment

At June 30, 2007 the cost and accumulated depreciation of property and equipment were as follows:

	<u>Association</u>	<u>LGS</u>	<u>Total</u>
Land	\$ -	\$ 505,638	\$ 505,638
Buildings and improvements	-	2,928,272	2,928,272
Office equipment	-	119,395	119,395
Computer equipment	-	319,732	319,732
Computer software	<u>27,250</u>	<u>888,095</u>	<u>915,345</u>
	<u>\$ 27,250</u>	<u>\$4,761,132</u>	<u>\$4,788,382</u>
Less accumulated depreciation and amortization	<u>4,542</u>	<u>528,242</u>	<u>532,784</u>
	<u><u>\$ 22,708</u></u>	<u><u>\$4,232,890</u></u>	<u><u>\$4,255,598</u></u>

Note 6. Income Taxes

LGS 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 carryforwards

Deferred taxes consist of the following:

Deferred tax assets	\$ (663,200)
Valuation allowance	<u>-</u>
	<u><u>\$ (663,200)</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Income Taxes (Continued)

As of June 30, 2007, LGS had a net operating loss carryforward of \$1,490,162 that can be deducted against future taxable income. This tax carryforward amount will expire as follows:

<u>June, 30</u>	<u>Amount</u>
2026	\$ 203,323
2027	<u>1,286,839</u>
	<u>\$1,490,162</u>

Note 7. Due to Iowa Department of Natural Resources

The Association received \$350,000 from the Iowa Department of Natural Resources on December 29, 1997 under a contract to establish and administer a revolving loan fund for public schools in Iowa to provide, but not be limited to, temporary financing for energy studies and associated costs related to direct energy purchase infrastructure improvements. The contract is non-interest bearing and is to be repaid on December 31, 2007. Based on borrowing rates currently available to IJUMP for bank loans with similar terms and maturities, the fair value of due to Iowa Department of Natural Resources is \$335,731 at June 30, 2007.

For financial reporting purposes, the contract amount was discounted at 8.5%. This contract, with a balance of \$203,741, was transferred to IJUMP effective July 1, 2001 along with cash of \$14,558. Additional cash of \$144,704 was transferred January 31, 2002. As of June 30, 2002, the funds were fully expended. The accreted interest expense was \$26,521 for the year ended June 30, 2007.

Note 8. Agency Funds

Agency fund activity for the year ended June 30, 2007 was as follows:

	<u>ICSBA</u>	<u>ISJIT</u>
Balance at beginning of year	\$ 37,799	\$ 328,227,049
Resources additions:		
Dues	12,050	-
Interest income	1,195	-
Other	1,500	-
Units sold	-	1,313,964,558
Units redeemed	-	(1,295,309,022)
Dividends issued	-	16,181,454
Program, administrative and support services expenditures	<u>(11,470)</u>	<u>-</u>
Balance at end of year	<u>\$ 41,074</u>	<u>\$ 363,064,039</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Retirement Plans

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 for the year ended June 30, 2007:

Fair value of plan assets at beginning of period	\$ 3,132,382
Actual return of plan assets	247,536
Employer contributions	184,696
Benefits paid	<u>(343,611)</u>
 Fair value of plan assets at end of period	 <u>\$ 3,221,003</u>
 Benefit obligation at beginning of period	 \$ 4,670,096
Effect of curtailment	(1,064,433)
Service cost	201,394
Interest cost	177,686
Actuarial (gain)	(10,304)
Benefits paid	<u>(343,611)</u>
 Projected/accumulated benefit obligation at end of period	 <u>\$ 3,630,828</u>
 Plan assets in deficit of projected/accumulated benefit obligation	 <u>\$ (409,825)</u>

Plan assets allocations are comprised of the following investment classifications at June 30, 2007:

Equity securities	25%
Debt securities	71
Real estate	<u>4</u>
	<u>100%</u>

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 expected long-term return on plan assets was based upon historical and future expected returns of multiple asset classes that were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Retirement Plans *(Continued)*

Pension Plan: *(Continued)*

The following are actuarial assumptions used by the Plan to develop the pension projected benefit obligations for the period ended June 30, 2007:

Discount rate	5.50%
Expected long-term rate of return on plan assets	6.75

The benefits expected to be paid in each year from 2008 to 2012 are \$1,260,000, \$200,000, \$200,000, \$130,000, and \$340,000, respectively. The aggregate benefits expected to be paid in the five years from 2013 to 2017 are \$1,120,000. The expected benefits to be paid are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2007 and include estimated employee service.

The Association expects to contribute \$200,000 to its retirement plan in 2008.

There has been a plan curtailment during the period due to freezing the accrued benefits as of August 31, 2006.

The value of the liabilities and assets are calculated using a measurement date of April 1, 2007.

401(k) Plan:

The organization also has a 401(k) plan which covers substantially all employees. Under the terms of the plan, employer-matching contributions are equal to 100% of the employee contributions, up to 2% of eligible wages after six months of employment. The organization also made a discretionary contribution of 5% for the fiscal year ending June 30, 2007. The contributions to the plan for the year ended June 30, 2007 were as follows:

IASB	\$149,958
LGS	72,552
ISBF	<u>8,799</u>
Total	<u>\$231,309</u>

Note 10. Contributions Payable

Total contributions payable presented at fair value as of June 30, 2007 are as follows:

Contributions payable:	
To be paid in less than one year	\$ 5,000
To be paid in one to five years	5,000
Unamortized discount (using rate of 6.25%)	<u>(623)</u>
	<u>\$ 9,377</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Long-term Debt

LGS 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, 2007 the balance of the single advance term note was \$1,198,120 with an interest rate of 7.32%. The single advance term note is collateralized by the building and rent. Net book value of the land and building as of June 30, 2007 was \$3,086,615.

The organization had a multiple advance term note in the amount of \$768,000 dated April 13, 2006, in which \$325,257 of 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. At June 30 2007, the balance of the multiple advance term note was \$-0-.

Current maturities of long-term debt consisted of the following as of June 30, 2007:

<u>Years</u>	<u>Amount</u>
2008	\$ 19,420
2009	22,000
2010	23,700
2011	25,530
2012	27,530
Thereafter	<u>1,079,940</u>
	<u>\$1,198,120</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. On-Balance Sheet Derivative Instruments and Hedging Activities

Derivative Financial Instruments:

LGS 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 organization is exposed to credit related losses in the event of nonperformance by the counter-party to these agreements; however, risk is mitigated by the fact that the counter-party is a creditor to the organization. The organization 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 organization deals only with one primary dealer.

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 organization 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 organization has entered the interest rate swap agreement to effectively manage the risk of rising interest rates on the mortgage payable. On an ongoing basis, management monitors 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 12. On-Balance Sheet Derivative Instruments and Hedging Activities (Continued)

Interest Rate Risk Management – Fair Value of Hedging Instruments:

The organization 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 organization'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 organization 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 organization believes that the hedge remains effective at June 30, 2007.

At June 30, 2007, the information pertaining to outstanding interest rate swap agreements used to hedge variable-rate debt is as follows:

Swap #21257A

Notional amount	\$1,545,720
Weighted average pay rate	5.32%
Weighted average receive rate	5.62%
Weighted average maturity in years	<u>8.9</u>
Unrealized (loss) relating to swap	<u>\$ (15,117)</u>

The above agreement provides for the organization to make payments at a variable rate of 5.32% in exchange for receiving payments at a fixed rate of 5.62%. At June 30, 2007, the unrealized gain (loss) related to use of interest rate swaps was recorded as a derivative liability in accordance with SFAS No. 133.

IJUMP:

During the 2007 fiscal year, IJUMP entered into commodity derivatives to manage its exposure to natural gas price fluctuations caused by commodity-price volatility. As of June 30, 2007, the derivative instruments that had been settled resulted in a net realized (loss) of \$(2,447,914) in the consolidated statement of activities under the energy services program.

At June 30, 2007, IJUMP had outstanding commitments to purchase commodity derivatives of \$5,404,980.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Net Assets

Net assets consisted of the following as of June 30, 2007:

Unrestricted net assets:	
Undesignated	\$1,041,592
Board designated:	
Loss Reserve-ISCAP	1,058,980
Insurance Division	2,817,685
Legal Service Fund	<u>61,343</u>
Total	<u>\$4,979,600</u>
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 CLIK	\$ 6,134 <u>16,500</u>
Total	<u>\$ 22,634</u>

Note 14. Related Entity Transactions

ISEBA

The organization occasionally pays expenses of ISEBA and requests reimbursement for these expenses. At June 30, 2007, ISEBA owed the organization \$6,381. The organization also had a rental and management services 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, 2007, \$137,500 was received from ISEBA for rent of this office space, technical support, and management services. On June 1, 2007, a new agreement between LGS and ISEBA was entered into to manage the program for 1.75% of the billed medical premiums on the first \$100 million of billed medical premiums and 1% of billed medical premiums greater than \$100 million. During the year ended June 30, 2007, LGS received \$76,975 under this new agreement to manage the ISEBA program.

NSFA

LGS occasionally pays expenses of NSFA and requests reimbursement for these expenses. At June 30, 2007, NSFA owed LGS \$35,943 for these expenses. In addition, LGS has an agreement with NSFA to pay for certain administrative services performed at a fee of 9% of expenses. The fee charged for June 30, 2007 was \$20,932 and remained unpaid as of June 30, 2007.

The Association has an agreement with NSFA to provide a cash flow loan to cover operating expenses of NSFA. The Association charges interest on the advances at their daily effective interest rate which they would receive at their current bank plus 1 percent. The interest rate as of June 30, 2007 was 5.92%. Total amounts advanced to NSFA during the year ended June 30, 2007 was \$95,050. The interest accrued on the advances was \$13,983 for the year ended June 30, 2007. Total amount owed to the Association at June 30, 2007 was \$261,561.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15. Contingencies

The organization created the insurance division under the organization 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, 2007 was \$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 organization also established a Legal Service Fund (LSF) which is available to members of the organization 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 prorata 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, 2007 was \$61,343. The LSF amount has been classified under unrestricted net assets as designated by the Association Board of Directors for the Legal Service Fund.

Note 16. Commitments

On August 30, 2001, IJUMP entered into an agreement with WPS Energy Services, Inc., now Integrys Energy Services, to provide program administration, transportation, delivery, and billing services. The contract was terminated effective November 30, 2006. On December 1, 2006, Integrys Energy Services began providing nomination services to IJUMP. The agreement expires June 30, 2010 and is automatically renewable for twelve months unless terminated at the end of the primary term by either party by giving written notice no later than April 1 of the anniversary year. Fees charges during the years ended June 30, 2007 were \$88,157.

ISCAP has created a loss reserve to reduce future costs of issuance by strategies including reduced insurance costs. The balance designated by management for the loss reserve for the years ended June 30, 2007 and 2006 were \$1,058,980.