IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2011 AND 2010

CONTENTS

IOWA SCHOOL BOARDS EMPLOYEE BENEFITS ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2011

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, 2011. The reader is 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, 2011 increased $117,775 compared to June 30, 2010, primarily due to receiving the retrospective premium and lower costs of the program for the year. Net assets at June 30, 2011 totaled $4,236,003, while net assets at June 30, 2010 were $4,118,228.

This discussion and analysis is intended to serve as an introduction to ISEBA's basic financial statements. ISEBA's basic financial statements consist of: the statements of net assets, the statements of revenues, expenses and changes in net assets, and the statements of cash flows. 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

Statements of net assets: The statements of net assets presents the assets, liabilities, and net assets of ISEBA as of the end of the year for the past two years. The statements of net assets are a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of ISEBA. The statements of net assets includes year-end information concerning current assets that can reasonably be expected to be collected or consumed within a year. Readers of the financial statements are able to determine ISEBA's financial position over time by analyzing the increases and decreases in net assets. This statement is a reliable 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.

Overview of the Financial Statements *(Continued)*

	2011	2010	2009
Current assets	$ 6,648,317	$ 6,267,753	$ 4,446,176
Non-current assets	-	-	9,599
Total assets	$ 6,648,317	$ 6,267,753	$ 4,455,775
Current liabilities:			
Advanced premiums	$ 2,366,475	$ 2,016,295	$ 2,907,891
Accounts payable	45,839	133,230	44,815
Total current liabilities	$ 2,412,314	$ 2,149,525	$ 2,952,706
Net assets, unrestricted	$ 4,236,003	$ 4,118,228	$ 1,503,069
Total liabilities and net assets	$ 6,648,317	$ 6,267,753	$ 4,455,775

Statement of revenues, expenses and changes in net assets: Changes in total net assets, as presented on the statement of net assets, are based on the activity presented in the statements of revenues, expenses, and changes in net assets. The purpose of this statement is to present the revenues received by ISEBA, both operating and non-operating, and the expenses paid by ISEBA, both operating and non-operating, and any other revenues, expenses, gains and losses received or incurred by ISEBA.

Operating revenues are received as premiums and commissions, and comprised $59,472,702 of the $59,475,960 in total revenues. Operating expenses were incurred for claims and administration, and comprised $59,358,185 in total expenses. Non-operating revenues and non-operating expenses consisted of interest income on cash accounts and loss on disposal of fixed assets.

	2011	2010	2009
Operating revenues	$59,472,702	$64,278,520	$58,531,123
Non-operating revenues	3,258	2,759	16,175
Total revenues	$59,475,960	$64,281,279	$58,547,298
Operating expenses	$59,358,185	$61,658,452	$58,066,977
Non-operating expenses	-	7,668	11,836
Total expenses	$59,358,185	$61,666,120	$58,078,813
Change in net assets	$ 117,775	$ 2,615,159	$ 468,485
Net assets, unrestricted, beginning	$ 4,118,228	$ 1,503,069	$ 1,034,584
Net assets, unrestricted, ending	$ 4,236,003	$ 4,118,228	$ 1,503,069

Overview of the Financial Statements *(Continued)*

Statement of cash flows: The statement of cash flows is an important tool in helping the reader 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.

	2011	2010	2009
Cash (used in) provided by:			
Operating activities	$ 2,573,845	$ (420,969)	$(2,085,873)
Investing activities	295,448	(289,181)	16,175
Non-capital financing activities	-	-	(11,836)
Net increase (decrease) in cash	$ 2,869,293	$ (710,150)	$(2,081,534)
Cash, beginning of year	3,699,477	4,409,627	6,491,161
Cash, end of year	$ 6,568,770	$ 3,699,477	$ 4,409,627

Economic Factors

ISEBA transferred responsibility for all marketing and program administration to Local Government Services, Inc. (LGS), a wholly-owned for-profit subsidiary of the Iowa Association of School Boards (IASB), in June 2007. On February 15, 2010, ISEBA entered into a contract with Reynolds and Reynolds to provide the third-party administration for ISEBA. LGS still provides accounting services for ISEBA.

While health care inflation had been rising at double digit rates in recent years, ISEBA had good claims experience in FY 2011, which enabled ISEBA to issue an average renewal rate of 7.78% for FY 2011.

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, 300 Walnut St., Suite 200, Des Moines, Iowa 50309.

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

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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 8, 2011, on our consideration of ISEBA's internal control over financial reporting and on 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 important for assessing the results of our audit.

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

Brooks Lodden, P.C.

West Des Moines, Iowa
November 8, 2011

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, 2011 and 2010

CURRENT ASSETS	**2011**	**2010**
Cash and cash equivalents	**$ 6,568,770**	**$ 3,699,477**
Premiums receivable	**6,565**	**82,520**
Retrospective premium	**-**	**2,144,591**
Other receivables	**10,611**	**341,165**
Prepaid premiums	**62,371**	**-**
Total current assets	**$ 6,648,317**	**$ 6,267,753**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advanced premiums	**$ 2,366,475**	**$ 2,016,295**
Accounts payable	**45,839**	**133,230**
Total current liabilities	**$ 2,412,314**	**$ 2,149,525**
NET ASSETS	**$ 4,236,003**	**$ 4,118,228**
Total liabilities and net assets	**$ 6,648,317**	**$ 6,267,753**

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
Years Ended June 30, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Premiums earned	$ 59,110,894	$ 61,705,470
Retrospective premium	-	2,144,591
Commission income	361,795	427,322
Other revenue	13	1,137
Net operating revenues	$ 59,472,702	$ 64,278,520
OPERATING EXPENSES		
Premiums paid to insurance companies	$ 57,761,223	$ 59,980,939
Program administration	1,332,630	1,126,552
Commissions	178,118	459,040
Accounting	8,850	12,419
Professional fees	24,115	19,844
Office supplies	68	109
Board expense	1,512	3,201
Insurance	23,974	25,022
Wellness services	27,695	29,645
Depreciation and amortization	-	1,681
Total operating expenses	$ 59,358,185	$ 61,658,452
Operating income	$ 114,517	$ 2,620,068
NON-OPERATING REVENUES (EXPENSES)		
Loss on disposal of assets	$ -	$ (7,668)
Interest income	3,258	2,759
Total non-operating revenues (expenses)	$ 3,258	$ (4,909)
Change in net assets	$ 117,775	$ 2,615,159
Net assets, beginning of year	$ 4,118,228	$ 1,503,069
Net assets, end of year	$ 4,236,003	$ 4,118,228

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	**$ 61,718,018**	**$ 61,138,454**
Cash received from commissions	**364,567**	**422,576**
Cash payments to insurance companies	**(57,945,149)**	**(60,414,939)**
Cash payments for program and administration services	**(1,330,761)**	**(995,062)**
Cash payments for general and administrative expenses	**(232,830)**	**(571,998)**
Net cash provided by (used in) operating activities	**$ 2,573,845**	**$ (420,969)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash received from (paid to) related entities	**$ 292,190**	**$ (292,190)**
Cash on sale of fixed assets	**-**	**250**
Investment income	**3,258**	**2,759**
Net cash provided by (used in) investing activities	**$ 295,448**	**$ (289,181)**
Net increase (decrease) in cash and cash equivalents	**$ 2,869,293**	**$ (710,150)**
Cash and cash equivalents at beginning of year	**3,699,477**	**4,409,627**
Cash and cash equivalents at end of year	**$ 6,568,770**	**$ 3,699,477**
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	**$ 114,517**	**$ 2,620,068**
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**-**	**1,681**
Changes in assets and liabilities:		
Decrease (increase) in receivables	**2,258,910**	**(2,248,411)**
(Increase) decrease in prepaids	**(62,371)**	**8,874**
Increase (decrease) in advanced premiums	**350,180**	**(891,596)**
(Decrease) increase in accounts payable	**(87,391)**	**88,415**
Net cash provided by (used in) operating activities	**$ 2,573,845**	**$ (420,969)**

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 the statements of cash flows, ISEBA considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

<u>Retrospective premium:</u> ISEBA had 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.

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 loss on disposal of fixed assets are classified as non-operating revenue and expenses.

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, 2011 and 2010 were invested in the Iowa Schools Joint Investment Trust in accordance with Chapters 12B and 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, 2011 and 2010, the carrying amounts of ISEBA's cash deposits were $6,568,770 and $3,699,477, respectively.

Note 3. Related Party Transactions

ISEBA is a related party to the Iowa Association of School Boards (IASB) through common board members. ISEBA had an administrative services agreement with Local Government Services, Inc., a wholly owned subsidiary of IASB, 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 fees, and interest expense). The agreement was for LGS to serve in the role of management and provide administration services including all marketing and benefit services staff, make recommendations to the board on vendor selection, pricing and plan design, and perform various additional responsibilities. The administrative services fee was 1.75% of monthly billed medical premiums until February 15, 2010, at which time, the fee was reduced to .50% of monthly billed medical premiums. The services provided by LGS were changed from administering the program to providing accounting and sponsorship services. For the years ended June 30, 2011 and 2010, $266,124 and $714,972 were paid to LGS for administrative services. Total amount due to LGS at June 30, 2011 and 2010 was $-0- and $117,912, respectively. LGS has an agreement with both IASB and Iowa State Education Association (ISEA) for LGS to pay 10 basis points of the medical premiums collected by ISEBA for sponsoring the program. Amounts paid by LGS to IASB and ISEA for June 30, 2011 and 2010 was $51,215 and $51,892, respectively.

Note 3. Related Party Transactions *(Continued)*

Effective February 15, 2010, ISEBA entered into an agreement with Reynolds & Reynolds, Inc. to provide certain administrative services to ISEBA. The administrative service fee was 2% of monthly billed medical premiums. For the years ended June 30, 2011 and 2010, $1,066,505 and $411,850 were paid to Reynolds & Reynolds, Inc. for administrative services. In addition, the agreement called for 50/50 sharing of commissions between ISEBA and Reynolds & Reynolds for non-medical products. For any commissions earned on any other services the sharing is 25/75 for ISEBA and Reynolds & Reynolds, and commissions earned on any new non-medical business acquired after the effective date of the agreement the sharing is 20/80 ISEBA and Reynolds & Reynolds. For the years ended June 30, 2011 and 2010, $178,118 and $67,925 were paid to Reynolds & Reynolds, Inc. for commissions. Total amount due to Reynolds & Reynolds, Inc. at June 30, 2011 and 2010 was $8,495 and $11,017, respectively.

Note 4. 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, 2011 and 2010 was $-0- and $2,144,591, respectively. This agreement expired in 2010, therefore, no amount was accrued for 2011.

Note 5. Subsequent Events

Management has evaluated subsequent events through November 8, 2011, the date the audit report was available to be issued.

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

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, 2011, and have issued our report thereon dated November 8, 2011. 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as II-A-11 to be a material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Brooks Lodden, P.C.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items III-A-11 and III-B-11.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit management's response and, accordingly, we express no opinion on it.

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

Brooks Lodden, P.C.

West Des Moines, Iowa
November 8, 2011

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

Financial Statement Section:

Type of auditor's report issued:	**Unqualified Opinion**	
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	___ No
Significant deficiency(s) identified not considered to be material weaknesses?	___ Yes	X No
Noncompliance material to financial statements noted?	___ Yes	X No

Part II: Findings Related to the Financial Statement Audit

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.*

II-A-11: Segregation of Duties and Supervision and Review: ISEBA contracts with LGS, a wholly owned subsidiary of IASB to provide accounting services. LGS's management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles. LGS's management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Accounting Manager had access to all accounting software, calculated and posted the majority of transactions of the organization, performed bank reconciliations, and prepared financial statements for the organization. The duties performed by the accounting personnel at LGS had not been reviewed by an independent individual. LGS's management response to this finding in the prior year indicated that management had implemented internal controls to ensure financial transactions and bank reconciliations are independently reviewed by multiple individuals and such reviews were documented noting that the review actually took place. Based upon our review and discussions with LGS's accounting personnel, these controls had not been implemented.

Recommendation: The Board should require LGS's management to review and document current internal controls and establish a process for an ongoing review of these controls and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records noting the review took place. In addition, since LGS's management stated in the prior year that this had been implemented, but in actuality the controls were not implemented, the Board should request a statement from LGS's management each month certifying that the financial statements are correct and that all account reconciliations and transactions have been properly recorded and reviewed by an independent individual.

Part II: Findings Related to the Financial Statement Audit *(Continued)*

Response: Management will continue to work with the LGS accounting staff to further improve the internal controls. Currently, the IASB CFO is providing an independent review and documenting said review. LGS's management will provide monthly certification of the independent review.

Part III: Instances of Non-Compliance:

III-A-11: Publication of Board Minutes: Per Chapter 28E.6(3) of the Code of Iowa, board minutes are to be published within 20 days after each meeting. There were two instances in which board minutes were published after 20 days. The September 14, 2010 minutes were published October 16, 2010 (32 days after the meeting), and the November 1, 2010 minutes were published December 2, 2010 (30 days after the meeting).

Recommendation: We recommend the organization ensure the minutes are submitted to be published in accordance with 28E.6(3) of the Code of Iowa.

Response: The delay in regards to publishing the minutes was related to the transition and training of accounting staff. Since the transition, all minutes have been submitted in a timely fashion.

III-B-11: Required Government Filings: The organization is required to file IRS Form 1099-MISC on services paid to a vendor that exceeds $600. During the audit, we noted the organization paid one vendor greater than $600, however, a 1099-MISC was not prepared nor remitted to the IRS.

Recommendation: We recommend the Board require management of LGS to prepare and submit this required form to the IRS. In addition, the Board should require management of LGS to establish procedures to ensure that the organization has the controls in place to properly identify the necessary compliance requirements for ISEBA and ensure these forms are filed on behalf of ISEBA in a timely manner to avoid any penalties that might be assessed by the IRS.

Response: LGS management will prepare and submit the identified 1099-MISC. In addition, LGS management will establish and implement the necessary procedures as recommended.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2011

Part I: Findings – Financial Statement Audit Reported in the Year Ended June 30, 2010 Audit

II-A-10: Segregation of Duties and Supervision and Review: Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Director of Finance of IASB had access to all accounting software and calculated and posted the majority of transactions of the organization. After the termination of the Director of Finance, Mr. Schick, interim CFO of IASB, was given full access to the accounting system and was added as an authorized signatory on the bank account without any compensating controls being established to oversee his activities. During the year ended June 30, 2010 and subsequent to June 30, 2010, the duties performed by the accounting personnel had not been reviewed by an independent individual.

Recommendation: The Board should require management to review and document current internal controls and establish a process for an ongoing review of these controls and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records noting the review took place.

Current Status: Finding was repeated in the June 30, 2011 audit.

II-B-10: Critical Accounting Routines and Timeliness of Financial Statements: Critical accounting routines are tasks which are to be completed on a regular basis in order to ensure the timeliness and accuracy of the flow of information to management, and to provide the Board of Directors sufficient timely and accurate information so that they are able to fulfill their oversight responsibilities. During the audit and review of subsequent activity, it became apparent that certain accounts were not being reconciled and financial statements had not been provided to the Board after the termination of the IASB Director of Finance on September 17, 2009. It was not until the prior Director of Finance of IASB returned to IASB in March 2010 that financial statements were starting to be prepared and provided to the Board. Financial statements were updated through June 30, 2010 by the prior Director of Finance and were provided to the Board. This individual provided a two-month resignation in order to ensure proper transition of the position and is no longer working with IASB. IASB did not take timely measures in order to properly transition the duties performed by this individual. Subsequently, reconciliations and financial statements were not being prepared in a timely manner.

Recommendation: The Board should ensure that formal policies are incorporated to require management to timely reconcile accounts and provide complete and accurate financial statements on a monthly basis to the Board to review. If management does not provide timely financial statements on a monthly basis to the Board, the Board should obtain an explanation from management to determine if the delay is appropriate.

Current Status: Finding was corrected in fiscal year June 30, 2011.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2011

Part II: Instances of Non-Compliance Reported in the Year Ended June 30, 2010 Audit

III-A-10: Unauthorized Transfers

On December 1, 2009, it appears Kevin Schick made unauthorized transfers from the ISEBA account in the amount of $500,000 to IASB and LGS, its wholly-owned subsidiary. Mr. Schick did not have the authority to make this transfer nor did the Board approve Mr. Schick to be an authorized signor on the account. Brooks Lodden, P.C. obtained the signature cards from the bank and noted the signature cards were changed on September 21, 2009 to include Maxine Kilcrease, Kevin Schick, and Mary Delagardelle. No banking resolution authorizing this change on September 21, 2009 was approved by the Board; nor were proper controls established to oversee the duties performed by Kevin Schick. Outside legal counsel researched whether or not ISEBA could loan funds to either the Iowa Association of School Boards or its wholly-owned subsidiary. Based upon their research of the Iowa Constitution Article VII, this transfer would not be permissible under the Iowa Code.

Recommendations:

1. The organization should establish controls over authorization and the transfer of funds from the organization's bank account.

2. The organization should establish controls to formally adopt a resolution to add or remove individuals from the bank signatory card.

3. The Board should report the unauthorized transfer to the proper authorities for investigation.

4. The Board should work with IASB to pay the remaining balance due to the organization.

Current Status: Finding was corrected in fiscal year June 30, 2011.

III-B-10: Publication of Board Minutes: Per Chapter 28E.6(3) of the Code of Iowa, board minutes are to be published within 20 days after each meeting. There were four instances in which board minutes were published after 20 days. The November 4, 2009 minutes were published December 5, 2009 (31 days after the meeting), the December 7, 2009 minutes were published December 28, 2009 (21 days after the meeting), the February 8, 2010 minutes were published March 4, 2010 (24 days after the meeting), and the April 15, 2010 minutes were published May 14, 2010 (29 days after the meeting).

Recommendation: We recommend the organization ensure the minutes are submitted to be published in accordance with 28E.6(3) of the Code of Iowa.

Current Status: Finding was repeated in the June 30, 2011 audit.

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

To the Board of Directors
Iowa Schools Employee Benefits Association
Des Moines, Iowa

We have audited the financial statements of the Iowa Schools Employee Benefits Association (ISEBA) for the year ended June 30, 2011, and have issued our report thereon dated November 8, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 9, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ISEBA are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by ISEBA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate to the financial statements taken as a whole. Please see attached listing for the adjustments made.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

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

Significant Audit Findings ***(Continued)***

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 8, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to ISEBA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as ISEBA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Iowa Schools Employee Benefits Association and is not intended to be and should not be used by anyone other than these specified parties.

Brooks Lodden, P.C.

West Des Moines, Iowa
November 8, 2011

Client: **_09099 - Iowa Schools Employee Benefits Association_**
Engagement: **_Audit 11 - ISEBA_**
Period Ending: **_6/30/2011_**
Trial Balance: **_3010 - TB_**
Workpaper: **_3030 - Adjusting Journal Entries Report_**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1				
To clean up trial balance.				
10-1070-01-0100	Retrospective Premium Receivable		0.42	
10-2050-00-0101	Accounts Payable-R&R		34.29	
10-4030-00-0100	Interest Income		6.09	
10-1070-00-0101	Accounts Receivable-R&R			34.28
10-2080-00-0100	AP - ERRP			6.09
10-3500-00-0100	Fund Balance			0.42
10-5950-00-1001	SUSPENSE ACCOUNT			0.01
Total			**40.80**	**40.80**
Adjusting Journal Entries JE # 2				
To adjust accounts receivable and advanced premiums.				
10-4010-00-0101	Premiums-Medical/RX		20,392.05	
10-1060-00-0100	Premiums Receivable			17,625.44
10-2050-00-0100	Accounts Payable			225.96
10-4040-00-0103	Commissions-Life & LTD			2,540.65
Total			**20,392.05**	**20,392.05**
Adjusting Journal Entries JE # 3				
To adjust accounts payable.				
10-5950-00-1001	SUSPENSE ACCOUNT		275.00	
10-2050-00-0100	Accounts Payable			275.00
Total			**275.00**	**275.00**
Adjusting Journal Entries JE # 4				
To adjust Accounts receivable.				
10-1070-00-0100	Accounts Receivable		7,048.54	
10-4040-00-0103	Commissions-Life & LTD			7,023.18
10-4040-00-0301	Commissions-Mini Med			25.36
Total			**7,048.54**	**7,048.54**
Adjusting Journal Entries JE # 5				
To adjust commissions revenue.				
10-4040-00-0102	Commissions-Dental		8,663.47	
10-4040-00-0103	Commissions-Life & LTD		2,336.14	
10-5920-00-0102	Commissions-Reynolds & Reynolds			2,336.14
10-5920-00-0102	Commissions-Reynolds & Reynolds			8,663.47
Total			**10,999.61**	**10,999.61**
Adjusting Journal Entries JE # 6				
To adjust Commissions received by Reynolds & Reynolds.				
10-5920-00-0102	Commissions-Reynolds & Reynolds		437.57	
10-5920-00-0102	Commissions-Reynolds & Reynolds		2,327.07	
10-4040-00-0103	Commissions-Life & LTD			2,327.07
10-4040-00-0104	Commissions-Vision			437.57
Total			**2,764.64**	**2,764.64**
Adjusting Journal Entries JE # 7				
To record Reynolds & Reynolds portion of Principal commission.				
10-5920-00-0102	Commissions-Reynolds & Reynolds		3,511.59	
10-2050-00-0100	Accounts Payable			3,511.59
Total			**3,511.59**	**3,511.59**