IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

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Brooks Lodden P.C.
certified public accountants

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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, 2012 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. The prior year summarized comparative information has been derived from the Association's 2011 financial statements and, in our report dated April 6, 2012, we expressed an unqualified opinion on those financial statements.

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 Iowa Association of School Boards as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in schedules 1 through 10 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Brooks Lodden, P.C.

West Des Moines, Iowa
January 29, 2013

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IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2012
With Comparative Totals for 2011

ASSETS	2012 Consolidated Totals	2011 Comparative Totals
Cash and cash equivalents	$ 2,206,460	$ 1,432,724
Assets held on behalf of others in an agency capacity:		
Cash - Iowa Schools Joint Investment Trust	1,607,455	1,523,545
Accrued interest receivable	1,169,633	655,069
Certificates of deposit	1,225,000	980,000
Repurchase agreements	232,223,000	222,258,000
U.S. government agency obligations	314,197,322	456,874,289
Accounts receivable, net of allowance 2012: $82,611; 2011: $131,508	337,772	541,413
Office property and equipment, net	3,054,121	3,180,687
Other assets	136,241	5,000
Total assets	$ 556,157,004	$ 687,450,727
LIABILITIES		
Accounts payable	$ 474,409	$ 228,513
Deferred revenue	388,387	386,816
Interest rate swap	247,117	236,536
Accrued wages	130,766	185,847
Accrued vacation	26,128	64,177
Accrued interest	1,410	1,329
Accrued property taxes	69,293	103,332
	$ 1,337,510	$ 1,206,550
Agency fund - held in trust for participants in ISJIT	$ 549,434,037	$ 681,465,829
Accrued pension benefit liability	$ 1,042,052	$ 693,410
Mortgage payable	$ 1,079,940	$ 1,107,990
Total liabilities	$ 552,893,539	$ 684,473,779
NET ASSETS		
Unrestricted	$ 3,253,171	$ 2,966,654
Temporarily restricted	10,294	10,294
Total net assets	$ 3,263,465	$ 2,976,948
Total liabilities and net assets	$ 556,157,004	$ 687,450,727

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Comparative Totals for 2011

	Unrestricted	Temporarily Restricted	2012 Consolidated Totals	2011 Comparative Totals
REVENUES				
Memberships	$ 1,166,335	$ -	$ 1,166,335	$ 1,208,584
Publications, forms and materials	186,541	-	186,541	190,155
Convention and conferences	530,481	-	530,481	507,481
Consulting services	21,400	-	21,400	10,771
Professional services	174,055	-	174,055	272,033
Contributions	50	-	50	1,700
Administrative services	1,052,870	-	1,052,870	1,291,461
Online payment services	2,482,705	-	2,482,705	2,133,077
Sponsorships	129,156	-	129,156	261,423
Risk management and insurance program	421,336	-	421,336	526,446
Grants	138,368	-	138,368	3,395,246
Rental income	118,251	-	118,251	127,658
Total revenues	$ 6,421,548	$ -	$ 6,421,548	$ 9,926,035
EXPENSES				
Salaries	$ 1,840,403	$ -	$ 1,840,403	$ 2,341,316
Payroll taxes	147,095	-	147,095	180,716
Retirement benefits	19,167	-	19,167	151,975
Staff insurance	207,748	-	207,748	225,058
Program management	326,868	-	326,868	323,035
Staff development	872	-	872	4,010
Marketing	116,969	-	116,969	156,053
Travel	119,294	-	119,294	204,770
Building operations	202,110	-	202,110	244,155
Equipment and computers	83,061	-	83,061	82,071
Depreciation and amortization	126,566	-	126,566	194,591
Office supplies	32,973	-	32,973	51,665
Cartage and postage	18,489	-	18,489	24,520
Telephone	30,742	-	30,742	36,927
Investment advisory fees	178,928	-	178,928	206,768
Professional fees	1,167,458	-	1,167,458	1,425,711
Skills Iowa expenses	37,628	-	37,628	2,905,491
Rating service	9,000	-	9,000	14,910
Sponsorship fees	345,753	-	345,753	292,418
Printing	39,938	-	39,938	24,476
Reference materials	2,292	-	2,292	6,925
Dues	90,497	-	90,497	89,941
Conventions and conferences	243,404	-	243,404	233,806
Interest	100,275	-	100,275	98,625
Web hosting, registration and internet	52,910	-	52,910	49,040
Contributions	44,832	-	44,832	44,115
Assistance to members	300	-	300	5,040
Miscellaneous	50,629	-	50,629	134,498
Program banking fees	1,087,841	-	1,087,841	864,445
Total expenses	$ 6,724,042	$ -	$ 6,724,042	$ 10,617,071

(Continued)

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Comparative Totals for 2011

	Unrestricted	Temporarily Restricted	2012 Consolidated Totals	2011 Comparative Totals
OTHER REVENUE (EXPENSE)				
Interest income	$ 8,288	$ -	$ 8,288	$ 6,183
Other income	277,677	-	277,677	30,113
Investment income	909,488	-	909,488	1,304,545
Dividends issued to participants in ISJIT	(101,687)	-	(101,687)	(572,274)
Change in value of interest rate swap	(10,581)	-	(10,581)	22,048
Change in accrued pension liability	(494,164)	-	(494,164)	102,274
Gain on the sale of assets	-	-	-	1,289
(Loss) gain on the cost of issuance	(10)	-	(10)	4,951
Total other revenue	$ 589,011	$ -	$ 589,011	$ 899,129
Change in net assets	$ 286,517	$ -	$ 286,517	$ 208,093
Net assets at beginning of year	2,966,654	10,294	2,976,948	2,768,855
Net assets at end of year	$ 3,253,171	$ 10,294	$ 3,263,465	$ 2,976,948

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
With Comparative Totals for 2011

	2012 Consolidated Totals	2011 Comparative Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 286,517	$ 208,093
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	126,566	194,591
Swap liability	10,581	(22,048)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	207,568	146,364
Pledges receivable	-	5,030
Accrued interest receivable	(8,798)	(8,628)
Other assets	(131,241)	1,828
(Decrease) increase in liabilities:		
Accounts payable	241,969	(1,079,865)
Accrued property taxes	(34,039)	132
Accrued interest	8,879	4,258
Accrued wages	(55,081)	(154,194)
Accrued vacation	(38,049)	22,115
Accrued pension liability	348,642	(102,274)
Deferred revenue	1,571	69,076
Net cash provided by (used in) operating activities	$ 965,085	$ (715,522)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	$ -	$ (10,190)
Net cash (used in) investing activities	$ -	$ (10,190)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of units to ISCAP	$ (163,299)	$ 1,059,381
Principal payments on notes payable	(28,050)	(25,530)
Net cash (used in) provided by financing activities	$ (191,349)	$ 1,033,851
Net increase in cash and cash equivalents	$ 773,736	$ 308,139
Cash and cash equivalents at beginning of year	1,432,724	1,124,585
Cash and cash equivalents at end of year	$ 2,206,460	$ 1,432,724
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 100,184	$ 102,995

See Accompanying Independent Auditor's Report.

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) and Iowa Schools Cash Anticipation Program (ISCAP). The accounts of ISJIT, ISBF, and ISCAP are included in the consolidated financial statements as the majority of the boards 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 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 Foundation is dependent on the Iowa Association of School Boards (IASB) for financial and operating support.

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

Nature of organization: *(Continued)*

During the year ended June 30, 2011, the Board of Directors of the Foundation decided to suspend operation of the Foundation, subject to wrapping up current outstanding activities. The Board of Directors of the Foundation will remain intact but be placed on "inactive status." The Foundation, with the assistance of IASB, will provide the services necessary to complete existing grant and restricted contribution obligations. The IASB will provide the necessary financial funding during the wind down period.

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. During the year ended June 30, 2012, ISCAP received $199,475 from the Securities and Exchange Commission vs. GE Capital Marketing Services Inc. settlement. ISCAP intends to use the funds for administrative costs of ISCAP. The amount is included in other income on the consolidated statement of activities.

Other related parties:

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 Association 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, and 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 Association's governing board may earmark portions of its unrestricted net assets as board-designated for various purposes.

Temporarily restricted – assets resulting from contributions and other inflows of assets whose use by the Association is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Association 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 Association currently has no such assets.

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

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

Use of accounting estimates and assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

The Association considers all unrestricted deposits, savings and money market accounts to be cash equivalents.

Assets held on behalf of others (Agency Funds):

The Association has presented on its statement of financial position certain assets designated as "Assets held on behalf of others in an agency capacity." These assets represent assets being held on behalf of school corporations participating in ISJIT, which includes cash equivalents (demand deposits and repurchase agreements), U.S. government agency obligations, certificates of deposit, and commercial paper. These assets are designated for the use and purpose of these school corporations and cannot be used in the operations of the Association. Activity within these assets is netted for purposes of cash flow disclosure due to the agency capacity in which they are held. Income earned on the pooled investments is allocated to the respective participants.

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.

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

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

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 Association 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.

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 by the custodian and regularly verified and maintained daily in an amount equal to at least 102% of the agreements. At June 30, 2012, 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 $236,194,950, held in an agency capacity.

Fair value of financial instruments:

Investments in certificates of deposit, U.S. government agency obligations, U.S. treasury bills and commercial paper (including those held in an agency capacity) are recorded at amortized cost which approximates the fair value of the financial instruments based upon quoted market prices.

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

Interest rate swap value is determined through a valuation model used by the holder which uses interest rate factors from the market.

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.

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

Compensated absences:

Employees of the Association are entitled to paid vacations, depending on the job classification, length of service, and other factors. A financial statement element called "accrued vacation" is recorded as a liability in the consolidated statement of financial position to account for this benefit.

Derivative instruments and hedging activities:

The Association accounts for derivatives and hedging activities in accordance with authoritative guidance issued by the FASB, which requires that all derivative instruments be recorded in the statement of financial position at fair value.

Program services of the organization are as follows:

Advocacy services, which includes government relations, personnel and labor relations, school finance and other advocacy programs.

Governance and leadership services, which includes board and leadership development, executive search, board policy, and other governance and leadership programs, including Lighthouse training.

Convention and conferences, which includes the Association's annual convention and other statewide or locally-held conferences organized by the Association.

Investment services, which includes ISJIT and other investment programs.

Administrative services, which includes ISCAP and other programs requiring administrative services.

PaySchools, which is an online payment processing program.

Other Programs, which includes employee background check program, the Iowa Drug & Alcohol Testing Program (IDATP), Skills Iowa, I-Growth, and other assessment programs.

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 reporting entity is comprised of nonprofit, for-profit, and governmental corporations as noted above and is exempt from federal and state taxes on related income. The reporting entity 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, the wholly-owned for-profit subsidiary of the Association, 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 Association's financial statements which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse. Management periodically reviews the value of deferred tax assets to determine the future realization of the asset. If management determines the asset will not be realized a valuation allowance is applied to the asset.

Management believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. Any interest and penalty payments would be recorded in separate accounts in the operating expenses. The Association's remaining open years subject to examination include the years ended June 30, 2009 through 2012.

Note 2. Significant Estimates

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.

The deferred tax asset valuation allowance is based upon management's estimate of the future realization of the deferred tax asset. It is reasonably possible that the valuation allowance may change significantly in the near term.

Pension plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimates and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Note 3. Concentrations

LGS maintains cash on deposit in a noninterest-bearing transaction account at a financial institution which routinely is in excess of the traditional FDIC insurable limits of $250,000. Pursuant to recent legislation, these types of accounts have temporary unlimited FDIC coverage through December 31, 2012.

The Association maintains cash on deposit in interest-bearing transaction accounts and routinely has amounts on deposit at financial institutions in excess of the FDIC insurable limit. The Association has not experienced any losses as a result of this.

Note 4. Property and Equipment

At June 30, 2012 the cost and accumulated depreciation of property and equipment were as follows:

Land	**$ 505,638**
Buildings and improvements	**2,980,093**
Office equipment	**126,576**
Computer equipment	**428,576**
Computer software	**1,075,650**
	$5,116,533
Less accumulated depreciation and amortization	**2,062,412**
	$3,054,121

Note 5. Agency Funds

Agency fund activity for the year ended June 30, 2012 was as follows:

	ISJIT
Balance at beginning of year	**$ 681,465,829**
Revenue:	
Units sold	**1,633,299,490**
Units redeemed	**(1,764,444,596)**
Dividends issued	**101,687**
Eliminations	**(988,373)**
Balance at end of year	**$ 549,434,037**

Note 6. Income Taxes

LGS accounts for income taxes in accordance with authoritative guidance issued by the FASB, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose basis is 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 at June 30, 2012:

Deferred tax assets	**$ 1,577,665**
Valuation allowance	**(1,577,665)**
	$ -

The Board decided to apply a 100% valuation allowance to the deferred tax asset for periods going forward.

As of June 30, 2012, LGS had a net operating loss carryforward of $3,775,140 that can be deducted against future taxable income. This tax carryforward amount will expire as follows:

June 30,	
2027	**$ 1,234,581**
2028	**939,673**
2029	**1,119,306**
2030	**481,580**
	$3,775,140

Note 7. Retirement Plans

Pension Plan:

The Association sponsors a defined benefit pension plan (the Plan) covering substantially all of its employees. Benefits under the Plan were 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, 2012:

Fair value of plan assets at beginning of period	**$ 2,564,455**
Actual return of plan assets	**146,159**
Employer contributions	**145,522**
Benefits paid	**(149,735)**
Other	**(201,900)**
Fair value of plan assets at end of period	**$ 2,504,501**
Benefit obligation at beginning of period	**$ 3,257,865**
Interest cost	**174,508**
Actuarial (gain)	**465,815**
Benefits paid	**(149,735)**
Other	**(201,900)**
Projected/accumulated benefit obligation at end of period	**$ 3,546,553**
Plan assets in deficit of projected/accumulated benefit obligation	**$(1,042,052)**

Note 7. Retirement Plans (*Continued)*

Pension Plan: ***(Continued)***

Changes to unrestricted net assets are as follows:

Plan assets in deficit of projected/accumulated benefit obligation at June 30, 2011		**$ 693,410**
Change in accrued pension liability shown in the statement of activities:		
Components of net periodic benefit cost:		
Interest cost	**$ 174,508**	
Expected return of plan assets	**(119,416)**	
Amortization of net loss	**1,022**	
Effect of settlement	**41,665**	
Net periodic benefit cost	**$ 97,779**	
Other changes:		
Net (gain)/loss	**$ 439,072**	
Amortization of net gain/(loss)	**(1,022)**	
Amount recognized due to settlement	**(41,665)**	
Total other changes	**$ 396,385**	
Total change	**$ 494,164**	**494,164**
Employer contributions		**(145,522)**
Plan assets in deficit of projected/accumulated benefit obligation at June 30, 2012		**$1,042,052**

Plan assets allocations were comprised of the following investment classifications at June 30, 2012:

Equity securities	**30%**
Fixed income securities	**50**
Debt securities	**20**
	100%

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

The 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.

Note 7. Retirement Plans (*Continued)*

Pension Plan: *(Continued)*

The following are actuarial assumptions used by the Plan to develop the projected benefit obligations for the period ended June 30, 2012:

Discount rate	**4.25%**
Expected long-term rate of return on plan assets	**5.50%**

The benefits expected to be paid in each year from 2013 to 2017 are $150,000, $150,000, $140,000, $320,000, and $550,000, respectively. The aggregate benefits expected to be paid in the five years from 2018 to 2022 are $1,240,000. The expected benefits to be paid are based on the same assumptions used to measure the Association's benefit obligation at June 30, 2011 and include estimated employee service. The Association expects to make contributions of $102,444 during the upcoming year.

Amounts in unrestricted net assets expected to be recognized as components of net periodic benefit cost over the next fiscal year are as follows:

Interest cost:	
On $3,546,553 projected benefit obligation	**$ 150,729**
Adjustment for expected benefit distributions of $150,000	**(3,188)**
Interest cost	**$ 147,541**
Expected return on plan assets:	
On $2,504,501 market value of assets at measurement date	**$ (150,270)**
Adjustment for expected employer contributions of $177,162	**(6,617)**
Adjustment for expected benefit distributions of $150,000	**4,501**
Adjustment for estimated administrative expenses	**19,000**
Expected return on plan assets	**$ (133,386)**
Amortization of net (gain) loss:	
Prior year total net (gain) loss	**$ 334,951**
Amount recognized in net periodic benefit cost	**(1,022)**
Actuarial (gain) loss	**465,815**
Actual return on assets (gain) loss	**(146,159)**
Expected return on assets gain (loss)	**119,416**
Gain/(loss) recognized due to settlement	**(41,665)**
Total current year net (gain) loss	**$ 731,336**
10% of greater of asset value or benefit obligation (after changes, if applicable)	**354,655**
(Gain) loss to recognize	**$ 376,681**
Average future service	**9.00**
Amortization of net (gain) loss	**$ 41,583**

Effective August 31, 2006, all accrued benefits under the Plan have been frozen at their current amount. No future accrual service will be credited, and no future changes in compensation will be taken into account in the determination of a participant's accrued benefit. The Association amended the Plan to terminate effective August 1, 2008. During the year ended June 30, 2010, the Board voted to rescind the Plan termination and the Plan will remain frozen until further action is taken by the Board.

The value of the liabilities is calculated using a measurement date of June 30, 2012, and the Plan assets are valued at their fair value at June 30, 2012.

Note 7. Retirement Plans (*Continued)*

Pension Plan: *(Continued)*

401(k) Plan:

The Association 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 Association also made discretionary contributions ranging from 3% to 9% (based on the employee's allocation group) for the fiscal year ending June 30, 2012. Beginning September 1, 2011, the Association has suspended the employer-matching contributions. The contributions to the plan for the year ended June 30, 2012 were as follows:

IASB	**$ 12,828**
LGS	**6,339**
Total	**$ 19,167**

Note 8. Mortgage Payable

LGS has a single advance variable rate 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.

At June 30, 2012, the balance of the single advance term note was $1,079,940 with an interest rate of 2.24%. The single advance term note is collateralized by the building and rent. Net book value of the land and building as of June 30, 2012 was $3,026,759.

The bank has provided LGS a permanent waiver regarding the rental agreement with ISEBA, which is now an administrative services agreement. A waiver was received from the bank for the 2012 violation.

Mortgage payable maturities of the Association for the next four years are as follows:

Years	Amount
2013	**$ 29,660**
2014	**31,970**
2015	**34,460**
2016	**983,850**
	$1,079,940

LGS has pledged a money market account held by the bank as part of the collateral on the note. The pledged money market account balance as of June 30, 2012 was $92,935.

Note 9. 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. This transaction involves 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 financial statements as a derivative liability.

The Association is exposed to credit related losses in the event of nonperformance by the counter-party to this agreement; however, risk is mitigated by the fact that the counter-party is a creditor to the Association. The Association controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect the counter-party to fail its obligations. The Association deals only with one primary dealer.

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

Derivative Financial Instruments – Description:

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

Risk Management Policies – Hedging Instruments:

The Association has entered into an 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; receives, at least monthly, valuation statements of the swap agreement; records the fair value adjustments of the swap in the accounting records; and internally assesses the effectiveness of the swap agreement each month and, if any material changes become evident, informs the Board of Directors of those facts and circumstances.

Interest Rate Risk Management – Fair Value of Hedging Instruments:

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

To meet this objective, the Association utilizes an interest rate swap as an asset/liability management strategy to hedge the change in value of the debt due to changes in expected interest rate assumptions. The interest rate swap agreement is a contract to make a series of variable rate payments in exchange for receiving a series of fixed rate payments. The Association believes that the hedge remains effective at June 30, 2012.

Note 9. On-Balance Sheet Derivative Instruments and Hedging Activities *(Continued)*

At June 30, 2012, the information pertaining to the outstanding interest rate swap agreement used to hedge variable-rate debt is as follows:

Swap #21257A

Notional amount	**$ 1,357,740**
Weighted average pay rate	**0.24%**
Weighted average receive rate	**5.62%**
Weighted average maturity in years	**3.8**
Unrealized (loss) relating to interest rate swap	**$ (247,117)**

The above agreement provides for the Association to make payments at a variable rate of 0.24% in exchange for receiving payments at a fixed rate of 5.62%. At June 30, 2012, the unrealized (loss) related to use of interest rate swaps was recorded as a derivative liability in accordance with authoritative guidance issued by the FASB.

Note 10. Fair Value Measurements

Fair value of the assets and liabilities measured on a recurring basis at June 30, 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (held in an agency capacity):				
Certificates of deposit	**$ 1,225,000**	**$ -**	**$ 1,225,000**	**$ -**
U.S. government agency agency obligations	**314,197,322**	**-**	**314,197,322**	**-**
Repurchase agreements	**232,223,000**	**-**	**232,223,000**	**-**
Pension plan assets	**2,504,500**	**-**	**2,392,866**	**111,634**
Liabilities:				
Interest rate swap	**247,117**	**-**	**-**	**247,117**
Net fair value	**$550,396,939**	**$ -**	**$550,038,188**	**$ 358,751**

Authoritative guidance issued by the FASB establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of quoted prices of similar assets or liabilities in active markets or quoted prices for identical or similar assets in inactive markets, and Level 3 inputs have the lowest priority. When available, the Association measures fair value using Level 1 inputs because they generally provide the more reliable evidence of fair value.

Note 10. Fair Value Measurements *(Continued)*

Level 1 Fair Value Measurements

The fair value measurements are based on quoted market values. The Association holds no such investments at June 30, 2012.

Level 2 Fair Value Measurements

The fair value is based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from observable market data.

Level 3 Fair Value Measurements

The interest rate swap is not actively traded and significant other observable inputs are not available. The fair value of the interest rate swap is valued by the holder of the swap using a proprietary pricing/valuation model to compute the fair value.

The U.S. Property Separate Account is not actively traded and significant other observable inputs are not available. Thus, the fair value of the U.S. Property Separate account is determined using various valuation approaches which consist of: 1) annual appraisals by certified appraisers and then updated daily based on changes in factors such as occupancy levels, lease rates, overall market conditions and capital improvements; 2) based on the basis of estimated market interest rates for loans of comparable quality and maturity and giving consideration to the value of the underlying collateral; 3) quoted market prices of the fund or its underlying assets; 4) discounting the future contacts cash flows to the present value using interest rates and anticipated returns a market participant would incur with similar risk and terms.

The following table provides further details of the Level 3 fair value measurements.

Fair value measurements using significant unobservable inputs (level 3):

	Interest Rate Swap Liability	**Pension Plan Assets (U.S. Property Separate Account)**
June 30, 2012		
Beginning balance	**$ 236,536**	**$ 312,206**
Change in value	**10,581**	**(200,572)**
Ending balance	**$ 247,117**	**$ 111,634**

Changes in net assets for the year ended June 30, 2012 for the interest rate swap liability are reported as change in value of the interest rate swap on the statements of activities. Changes in net assets for the year ended June 30, 2012 for the pension plan assets (U.S. property) are included in the change in accrued pension liability on the statement of activities.

Note 11. Net Assets

Net assets consisted of the following as of June 30, 2012:

Unrestricted net assets:	
Undesignated	**$2,171,859**
Board designated:	
Loss Reserve-ISCAP	**781,718**
Insurance Division Stabilization Reserve	**72,980**
Reserve Savings	**153,536**
Iowa Council of School Board Attorneys	**43,831**
Legal Service Fund	**29,247**
Total	**$3,253,171**
Temporarily restricted net assets:	
Restricted due to purpose:	
IASB 2012 Convention	**$ 10,294**
Total	**$ 10,294**

Note 12. Related Entity Transactions

ISEBA:

LGS has an agreement with ISEBA to provide administrative services at a rate of .50% of medical premiums, with a new third party administering the ISEBA program. ISEBA is considered a related party through common board membership. During the year ended June 30, 2012, LGS received $301,022 for administrative services for the ISEBA program. LGS paid commissions to IASB and ISEA in the amount of $58,265 to each entity. The amounts paid to IASB have been eliminated in the financial statements.

Note 13. Contingencies

The Association created the Insurance Division under the Association to sponsor insurance plans for its members. Premium payments on the plans are made to the respective insurance carriers by the members participating in the program. The Association is reimbursed for various administrative and program services from this fund. Section 12.2 of Charter of the Insurance Division states "upon termination of the Insurance Division by the Association's Board, the Executive Committee, subject to the approval of the Association's Board, shall pay all obligations of the Division and distribute any remaining surplus to the Members as provided in Section 6.2, in such manner as they determine will carry out the purpose of the Division; or the Insurance Committee subject to the approval of the Association's Board may transfer the Insurance Programs and the remaining surplus, or any portion thereof, to the directors of any fund established for a substantially similar purpose, provided that the payment upon dissolution shall be to or for the benefits of the Members and not the Insurance Committee, other private persons, or the Association, except for the payment of expenses and compensation pursuant to Section 6.1 of this Charter." 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, any 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. Pursuant to Section 6.2, the Insurance Committee is authorized to allocate monies of the Insurance Division for the operation of the Association. A stabilization reserve amount has been classified as a designated, unrestricted net asset by the Association's Board of Directors; the amount at June 30, 2012 was $72,980. During the year ended June 30, 2012, the Association paid Safety Group dividends to both renewing and non-renewing schools.

Note 13. Contingencies *(Continued)*

The Association also established a Legal Service Fund (LSF) which is available to members of the Association who elect to pay membership dues to the LSF. The funds are used to provide financial assistance and legal service to members involved in cases determined by the LSF to be of significant statewide importance. Article XI of the LSF Rules and Regulations states that, upon termination of the LSF, any remaining funds shall be distributed on a pro-rata basis to the LSF members. The amount in the LSF is not recorded as a liability in the Association's financial statements as the Association's Board has reserved the right to amend the LSF Rules and Regulations which would also include the termination clause. In addition, the liability would be contingent upon the termination of the LSF in its current form; however, the Association does not expect to terminate the LSF in the near term. The balance in the LSF at June 30, 2012 was $29,247. The LSF amount has been classified under unrestricted net assets as designated by the Association's Board of Directors for the Legal Service Fund.

The Association also established the Iowa Council of School Board Attorneys (ICSBA) which 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 amount in the ICSBA is not recorded as a liability in the Association's financial statements as ICSBA is considered a special committee of the Association. The balance in ICSBA at June 30, 2012 was $43,831. The ICSBA amount has been classified under unrestricted net assets as designated by the Association's Board of Directors for the Iowa Council of School Board Attorneys.

ISCAP 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 year ended June 30, 2012 was $781,718. For the year ended June 30, 2012, $750,000 was used to provide collateral on the warrants issued to the school districts.

The Association has an unused letter of credit with a bank in the amount of $250,696 at June 30, 2012. This letter of credit was established to protect the defined benefit plan from deficiencies that might arise as a result of payment of a single lump sum retirement benefit to a past employee. The expiration date of the letter is September 30, 2012. The bank has required the Association to establish an account with the bank to be used as collateral in the amount of $125,348. Subsequent to year end, the letter of credit was reduced to $48,826 with an expiration date of September 30, 2013.

Note 14. Commitments

Effective August 1, 2009, the Association was obligated to pay the former Executive Director $181,199 under a 'Hold Harmless Agreement' in regard to the pension plan freeze which took place in 2006. The Association is making annual payments in the amount of $36,000 plus interest for each payment until September 2014. The remaining balance as of June 30, 2012 was $108,000.

Annually the Association holds a convention in November. In association with the convention, certain agreements are signed and agreed upon prior to the event. The Association has signed agreements for speakers and the convention location at June 30, 2012.

Note 15. Comparative Totals

The amounts shown for 2011 in the accompanying financial statements are included to provide a basis for comparison with 2012 and are not intended to present all information necessary for a fair presentation in conformity with U.S. generally accepted accounting principles.

Note 16. Reclassifications

Certain 2011 amounts on the financial statements have been reclassified to conform to the 2012 classifications. Such reclassifications have no effect on the reported change in total net assets.

Note 17. Subsequent Events

Subsequent to year end, LGS sold the PaySchools program for an initial payment of $500,000 and an earn-out over the next five years, with a minimum earn-out of $700,000 and a maximum of $1,200,000. LGS incurred costs of approximately $249,000 in association with the sale. Based on the amounts reported for PaySchools activity for the year ended June 30, 2012, the sale of PaySchools will result in a decrease in revenue of approximately $2,480,000 and a decrease in expenses of $1,940,000 for a net decrease in income of $540,000 annually before proceeds from the earn-out.

Management has evaluated subsequent events through January 29, 2013, the date the audit report was available to be issued.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2012
With Comparative Totals for 2011

ASSETS	**Iowa Association of School Boards & Subsidiary**	**Iowa Association of School Boards Foundation**	**Iowa Schools Joint Investment Trust**
Cash and cash equivalents	$ 2,172,791	$ 21,428	$ 12,241
Assets held on behalf of others in an agency capacity:			
Cash - Iowa Schools Joint Investment Trust	-	-	1,607,455
Accrued interest receivable	-	-	1,169,633
Certificates of deposit	-	-	1,225,000
Repurchase agreements	-	-	232,223,000
U.S. government agency obligations	-	-	314,197,322
Accounts receivable, net of allowance 2012: $82,611; 2011: $131,508	329,637	-	8,135
Accounts receivable - related entities	58,950	-	-
Office property and equipment, net	3,054,121	-	-
Other assets	136,241	-	-
Total assets	$ 5,751,740	$ 21,428	$ 550,442,786
LIABILITIES			
Accounts payable	$ 473,831	$ 578	$ -
Due to IASB	-	15,329	32,715
Due to LGS	-	5,351	-
Deferred revenue	388,387	-	-
Interest rate swap	247,117	-	-
Accrued wages	130,766	-	-
Accrued vacation	26,128	-	-
Accrued interest	1,410	-	-
Accrued property taxes	69,293	-	-
	$ 1,336,932	$ 21,258	$ 32,715
Agency fund - held in trust for participants in ISJIT	$ -	$ -	$ 550,422,410
Accrued pension benefit liability	$ 1,042,052	$ -	$ -
Mortgage payable	$ 1,079,940	$ -	$ -
Total liabilities	$ 3,458,924	$ 21,258	$ 550,455,125
NET ASSETS AND ACCUMULATED (DEFICIT)			
Unrestricted	$ 6,478,189	$ (10,124)	$ (12,339)
Accumulated (deficit)	(4,185,373)	-	-
Temporarily restricted	-	10,294	-
Total net assets and accumulated (deficit)	$ 2,292,816	$ 170	$ (12,339)
Total liabilities, net assets, and accumulated (deficit)	$ 5,751,740	$ 21,428	$ 550,442,786

See Accompanying Independent Auditor's Report.

Schedule 1

Iowa Schools Cash Anticipation Program	Eliminations	2012 Consolidating Totals	2011 Comparative Totals
$ 988,373	$ (988,373)	$ 2,206,460	$ 1,432,724
-	-	1,607,455	1,523,545
-	-	1,169,633	655,069
-	-	1,225,000	980,000
-	-	232,223,000	222,258,000
-	-	314,197,322	456,874,289
-	-	337,772	541,413
-	(58,950)	-	-
-	-	3,054,121	3,180,687
-	-	136,241	5,000
$ 988,373	$ (1,047,323)	$ 556,157,004	$ 687,450,727
$ -	$ -	$ 474,409	$ 228,513
5,555	(53,599)	-	-
-	(5,351)	-	-
-	-	388,387	386,816
-	-	247,117	236,536
-	-	130,766	185,847
-	-	26,128	64,177
-	-	1,410	1,329
-	-	69,293	103,332
$ 5,555	$ (58,950)	$ 1,337,510	$ 1,206,550
$ -	$ (988,373)	$ 549,434,037	$ 681,465,829
$ -	$ -	$ 1,042,052	$ 693,410
$ -	$ -	$ 1,079,940	$ 1,107,990
$ 5,555	$ (1,047,323)	$ 552,893,539	$ 684,473,779
$ 982,818	$ -	$ 7,438,544	$ 7,309,070
-	-	(4,185,373)	(4,342,416)
-	-	10,294	10,294
$ 982,818	$ -	$ 3,263,465	$ 2,976,948
$ 988,373	$ (1,047,323)	$ 556,157,004	$ 687,450,727

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
With Comparative Totals for 2011

	Unrestricted				
	Iowa Association of School Boards & Subsidiary	**Iowa Association of School Boards Foundation**	**Iowa Schools Joint Investment Trust**	**Iowa Schools Cash Anticipation Program**	**Totals**
REVENUES					
Memberships	$ 1,166,335	$ -	$ -	$ -	$ 1,166,335
Publications, forms and materials	186,541	-	-	-	186,541
Convention and conferences	530,481	-	-	-	530,481
Consulting services	21,400	-	-	-	21,400
Professional services	179,223	-	-	-	179,223
Contributions	-	50	-	-	50
Administrative services	1,093,647	-	-	12,500	1,106,147
Online payment services	2,482,705	-	-	-	2,482,705
Sponsorships	268,312	-	-	-	268,312
Risk management and insurance program	421,336	-	-	-	421,336
Grants	88,368	50,000	-	-	138,368
Rental income	118,251	-	-	-	118,251
Total revenues	$ 6,556,599	$ 50,050	$ -	$ 12,500	$ 6,619,149
EXPENSES					
Salaries	$ 1,840,403	$ -	$ -	$ -	$ 1,840,403
Payroll taxes	147,095	-	-	-	147,095
Retirement benefits	19,167	-	-	-	19,167
Staff insurance	207,748	-	-	-	207,748
Program management	-	5,168	326,868	-	332,036
Staff development	872	-	-	-	872
Marketing	7,402	-	162,844	-	170,246
Travel	119,061	-	-	233	119,294
Building operations	202,110	-	-	-	202,110
Equipment and computers	83,061	-	-	-	83,061
Depreciation and amortization	126,566	-	-	-	126,566
Office supplies	31,901	971	-	101	32,973
Cartage and postage	18,130	20	-	339	18,489
Telephone	30,498	72	-	172	30,742
Investment advisory fees	-	-	178,928	-	178,928
Professional fees	1,095,451	-	50,585	21,422	1,167,458
Skills Iowa expenses	37,628	-	-	-	37,628
Rating service	-	-	9,000	-	9,000
Sponsorship fees	345,753	-	139,156	-	484,909
Printing	39,878	-	-	60	39,938
Reference materials	2,292	-	-	-	2,292
Dues	90,497	-	-	-	90,497
Conventions and conferences	243,404	-	-	-	243,404
Interest	100,275	-	-	-	100,275
Web hosting, registration and internet	52,910	-	-	-	52,910
Contributions	-	44,832	-	-	44,832
Assistance to members	300	-	-	-	300
Miscellaneous	31,785	44	16,496	2,304	50,629
Program banking fees	1,087,841	-	-	-	1,087,841
Total expenses	$ 5,962,028	$ 51,107	$ 883,877	$ 24,631	$ 6,921,643
OTHER REVENUE (EXPENSE)					
Interest income	$ 8,050	$ 66	$ -	$ 172	$ 8,288
Other income	6,216	-	71,986	199,475	277,677
Investment income	-	-	909,488	-	909,488
Dividends issued to participants in ISJIT	-	-	(101,687)	-	(101,687)
Change in value of interest rate swap	(10,581)	-	-	-	(10,581)
Change in accrued pension liability	(494,164)	-	-	-	(494,164)
Gain on the sale of assets	-	-	-	-	-
(Loss) gain on cost of issuance	-	-	-	(10)	(10)
Total other revenue	$ (490,479)	$ 66	$ 879,787	$ 199,637	$ 589,011
Change in net assets	$ 104,092	$ (991)	$ (4,090)	$ 187,506	$ 286,517
Net assets (deficit) at beginning of year	2,188,724	(9,133)	(8,249)	795,312	2,966,654
Net assets (deficit) at end of year	$ 2,292,816	$ (10,124)	$ (12,339)	$ 982,818	$ 3,253,171

See Accompanying Independent Auditor's Report.

Temporarily Restricted: Iowa Association of School Boards Foundation	Temporarily Restricted: Totals	Eliminations	2012 Consolidating Totals	2011 Comparative Totals
$ -	-	$ -	$ 1,166,335	$ 1,208,584
-	-	-	186,541	190,155
-	-	-	530,481	507,481
-	-	-	21,400	10,771
-	-	(5,168)	174,055	272,033
-	-	-	50	1,700
-	-	(53,277)	1,052,870	1,291,461
-	-	-	2,482,705	2,133,077
-	-	(139,156)	129,156	261,423
-	-	-	421,336	526,446
-	-	-	138,368	3,395,246
-	-	-	118,251	127,658
$ -	-	$ (197,601)	$ 6,421,548	$ 9,926,035
$ -	-	$ -	$ 1,840,403	$ 2,341,316
-	-	-	147,095	180,716
-	-	-	19,167	151,975
-	-	-	207,748	225,058
-	-	(5,168)	326,868	323,035
-	-	-	872	4,010
-	-	(53,277)	116,969	156,053
-	-	-	119,294	204,770
-	-	-	202,110	244,155
-	-	-	83,061	82,071
-	-	-	126,566	194,591
-	-	-	32,973	51,665
-	-	-	18,489	24,520
-	-	-	30,742	36,927
-	-	-	178,928	206,768
-	-	-	1,167,458	1,425,711
-	-	-	37,628	2,905,491
-	-	-	9,000	14,910
-	-	(139,156)	345,753	292,418
-	-	-	39,938	24,476
-	-	-	2,292	6,925
-	-	-	90,497	89,941
-	-	-	243,404	233,806
-	-	-	100,275	98,625
-	-	-	52,910	49,040
-	-	-	44,832	44,115
-	-	-	300	5,040
-	-	-	50,629	134,498
-	-	-	1,087,841	864,445
$ -	-	$ (197,601)	$ 6,724,042	$ 10,617,071
$ -	-	$ -	$ 8,288	$ 6,183
-	-	-	277,677	30,113
-	-	-	909,488	1,304,545
-	-	-	(101,687)	(572,274)
-	-	-	(10,581)	22,048
-	-	-	(494,164)	102,274
-	-	-	-	1,289
-	-	-	(10)	4,951
$ -	-	$ -	$ 589,011	$ 899,129
$ -	-	$ -	$ 286,517	$ 208,093
10,294	10,294	-	2,976,948	2,768,855
$ 10,294	10,294	$ -	$ 3,263,465	$ 2,976,948

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
With Comparative Totals for 2011

	Iowa Association of School Boards & Subsidiary	Iowa Association of School Boards Foundation	Iowa Schools Joint Investment Trust
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	$ 104,092	$ (991)	$ (4,090)
Adjustments to reconcile the change in net assets			
to net cash provided by (used in) operating activities:			
Depreciation and amortization	126,566	-	-
Swap liability	10,581	-	-
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	220,201	-	861
Pledges receivable	-	-	-
Accrued interest receivable	(8,798)	-	-
Other assets	(131,241)	-	-
Increase (decrease) in liabilities:			
Agency funds	-	-	163,299
Due to IASB	-	(486)	11,199
Accounts payable	241,391	578	-
Accrued property taxes	(34,039)	-	-
Accrued interest	8,879	-	-
Accrued wages	(55,081)	-	-
Accrued vacation	(38,049)	-	-
Accrued pension liability	348,642	-	-
Deferred revenue	51,571	(50,000)	-
Net cash provided by (used in) operating activities	$ 844,715	$ (50,899)	$ 171,269
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	$ -	$ -	$ -
Net cash (used in) investing activities	$ -	$ -	$ -
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of units to ISCAP	$ -	$ -	$ (163,299)
Principal payments on notes payable	(28,050)	-	-
Net cash (used in) provided by financing activities	$ (28,050)	$ -	$ (163,299)
Net increase (decrease) in cash and cash equivalents	$ 816,665	$ (50,899)	$ 7,970
Cash and cash equivalents at beginning of year	1,356,126	72,327	4,271
Cash and cash equivalents at end of year	$ 2,172,791	$ 21,428	$ 12,241
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for interest	$ 100,184	$ -	$ -

See Accompanying Independent Auditor's Report.

Iowa Schools Cash Anticipation Program	Eliminations	2012 Consolidating Totals	2011 Comparative Totals
$ 187,506	$ -	$ 286,517	$ 208,093
-	-	126,566	194,591
-	-	10,581	(22,048)
709	(14,203)	207,568	146,364
-	-	-	5,030
-	-	(8,798)	(8,628)
-	-	(131,241)	1,828
-	(163,299)	-	-
(24,916)	14,203	-	-
-	-	241,969	(1,079,865)
-	-	(34,039)	132
-	-	8,879	4,258
-	-	(55,081)	(154,194)
-	-	(38,049)	22,115
-	-	348,642	(102,274)
-	-	1,571	69,076
$ 163,299	$ (163,299)	$ 965,085	$ (715,522)
$ -	$ -	$ -	$ (10,190)
$ -	$ -	$ -	$ (10,190)
$ -	$ -	$ (163,299)	$ 1,059,381
-	-	(28,050)	(25,530)
$ -	$ -	$ (191,349)	$ 1,033,851
$ 163,299	$ (163,299)	$ 773,736	$ 308,139
825,074	(825,074)	1,432,724	1,124,585
$ 988,373	$ (988,373)	$ 2,206,460	$ 1,432,724
$ -	$ -	$ 100,184	$ 102,995

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 4

CONSOLIDATING STATEMENT OF FINANCIAL POSITION FOR
IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY
June 30, 2012
With Comparative Totals for 2011

ASSETS	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations	2012 Consolidating Totals	2011 Comparative Totals
Cash and cash equivalents	$ 1,326,334	$ 846,457	$ -	$ 2,172,791	$ 1,356,126
Accounts receivable, net of allowance 2012: $82,611; 2011: $131,508	97,241	232,396	-	329,637	531,708
Accounts receivable - related entities	53,599	5,351	-	58,950	77,080
Loan to LGS	5,505,524	-	(5,505,524)	-	-
Accrued interest receivable	78,827	-	(78,827)	-	-
Note receivable	769,172	-	(769,172)	-	-
Office property and equipment, net	-	3,054,121	-	3,054,121	3,180,687
Other assets	128,741	7,500	-	136,241	5,000
Total assets	$ 7,959,438	$ 4,145,825	$ (6,353,523)	$ 5,751,740	$ 5,150,601
LIABILITIES					
Accounts payable	$ 209,660	$ 264,171	$ -	$ 473,831	$ 232,440
Loan from IASB	-	5,505,524	(5,505,524)	-	-
Deferred revenue	387,552	835	-	388,387	336,816
Interest rate swap	-	247,117	-	247,117	236,536
Accrued wages	108,618	22,148	-	130,766	185,847
Accrued vacation	14,377	11,751	-	26,128	64,177
Accrued interest	-	80,237	(78,827)	1,410	1,329
Accrued property taxes	-	69,293	-	69,293	103,332
	$ 720,207	$ 6,201,076	$ (5,584,351)	$ 1,336,932	$ 1,160,477
Accrued pension benefit liability	$ 1,042,052	$ -	$ -	$ 1,042,052	$ 693,410
Mortgage payable:					
Mortgage payable - U.S. Bank	$ -	$ 1,079,940	$ -	$ 1,079,940	$ 1,107,990
Mortgage payable - IASB	-	769,172	(769,172)	-	-
	$ -	$ 1,849,112	$ (769,172)	$ 1,079,940	$ 1,107,990
Total liabilities	$ 1,762,259	$ 8,050,188	$ (6,353,523)	$ 3,458,924	$ 2,961,877
NET ASSETS AND ACCUMULATED (DEFICIT)					
Unrestricted	$ 6,197,179	$ -	$ 281,010	$ 6,478,189	$ 6,531,140
Common stock	-	281,010	(281,010)	-	-
Accumulated (deficit)	-	(4,185,373)	-	(4,185,373)	(4,342,416)
Total net assets and accumulated (deficit)	$ 6,197,179	$ (3,904,363)	$ -	$ 2,292,816	$ 2,188,724
Total liabilities and net assets and accumulated (deficit)	$ 7,959,438	$ 4,145,825	$ (6,353,523)	$ 5,751,740	$ 5,150,601

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 5

CONSOLIDATING STATEMENT OF ACTIVITIES FOR
IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY
Year Ended June 30, 2012
With Comparative Totals for 2011

	Unrestricted				
	Iowa Association of School Boards	**Local Government Services, Inc.**	**Eliminations**	**2012 Consolidated Totals**	**2011 Comparative Totals**
REVENUES					
Memberships	$ 1,166,335	$ -	$ -	$ 1,166,335	$ 1,208,584
Publications, forms and materials	186,541	-	-	186,541	190,155
Convention and conferences	530,481	-	-	530,481	507,481
Consulting services	21,400	-	-	21,400	12,771
Professional services	179,223	-	-	179,223	272,033
Administrative services	-	1,301,647	(208,000)	1,093,647	1,402,713
Online payment services	-	2,482,705	-	2,482,705	2,133,077
Sponsorships	510,134	-	(241,822)	268,312	319,843
Risk management and insurance program	421,336	-	-	421,336	526,446
Grants	88,368	-	-	88,368	3,345,246
Rental income	-	368,251	(250,000)	118,251	127,658
Total revenues	$ 3,103,818	$ 4,152,603	$ (699,822)	$ 6,556,599	$ 10,046,007
EXPENSES					
Salaries	$ 919,061	$ 921,342	$ -	$ 1,840,403	$ 2,341,316
Payroll taxes	83,461	63,634	-	147,095	180,716
Retirement benefits	12,828	6,339	-	19,167	151,975
Staff insurance	116,446	91,302	-	207,748	221,638
Staff development	574	298	-	872	4,010
Marketing	-	7,402	-	7,402	12,017
Travel	113,074	5,987	-	119,061	204,508
Building operations	263,070	189,040	(250,000)	202,110	244,155
Equipment and computers	-	83,061	-	83,061	82,071
Depreciation and amortization	-	126,566	-	126,566	194,591
Office supplies	22,409	9,492	-	31,901	50,077
Cartage and postage	15,245	2,885	-	18,130	24,378
Telephone	4,868	25,630	-	30,498	36,890
Professional fees	713,330	590,121	(208,000)	1,095,451	1,483,036
Skills Iowa expenses	37,628	-	-	37,628	2,905,491
Sponsorship fees	-	587,575	(241,822)	345,753	292,418
Printing	32,284	7,594	-	39,878	24,264
Reference materials	2,292	-	-	2,292	6,925
Dues	90,497	-	-	90,497	89,931
Conventions and conferences	243,404	-	-	243,404	233,806
Interest	-	135,602	(35,327)	100,275	98,625
Web hosting, registration and internet	2,988	49,922	-	52,910	49,040
Assistance to members	300	-	-	300	5,040
Miscellaneous	30,481	1,304	-	31,785	123,935
Program banking fees	-	1,087,841	-	1,087,841	864,445
Total expenses	$ 2,704,240	$ 3,992,937	$ (735,149)	$ 5,962,028	$ 9,925,298
OTHER REVENUE (EXPENSE)					
Interest income	$ 40,770	$ 2,607	$ (35,327)	$ 8,050	$ 5,188
Other income	865	5,351	-	6,216	-
Change in value of interest rate swap	-	(10,581)	-	(10,581)	22,048
Change in accrued pension liability	(494,164)	-	-	(494,164)	102,274
Gain on the sale of assets	-	-	-	-	1,289
Total other revenue	$ (452,529)	$ (2,623)	$ (35,327)	$ (490,479)	$ 130,799
Change in net assets and net income	$ (52,951)	$ 157,043	$ -	$ 104,092	$ 251,508
Net assets (loss) at beginning of year	6,250,130	(4,342,416)	281,010	2,188,724	1,937,216
Net assets (loss) at end of year	$ 6,197,179	$ (4,185,373)	$ 281,010	$ 2,292,816	$ 2,188,724

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

Schedule 6

CONSOLIDATING STATEMENT OF CASH FLOWS FOR
IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY
Year Ended June 30, 2012
With Comparative Totals for 2011

	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations	2012 Consolidating Totals	2011 Comparative Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets and net income	$ (52,951)	$ 157,043	$ -	$ 104,092	$ 251,508
Adjustments to reconcile the change in net assets and net income to net cash provided by operating activities:					
Depreciation and amortization	-	126,566	-	126,566	194,591
Swap liability	-	10,581	-	10,581	(22,048)
Change in assets and liabilities:					
(Increase) decrease in assets:					
Accounts receivable	280,719	(60,518)	-	220,201	764,195
Accrued interest receivable	(4,399)	-	(4,399)	(8,798)	(8,628)
Other assets	(123,741)	(7,500)	-	(131,241)	1,828
Increase (decrease) in liabilities:					
Accounts payable	161,201	80,190	-	241,391	(594,863)
Accrued property taxes	-	(34,039)	-	(34,039)	132
Accrued interest	-	4,480	4,399	8,879	4,258
Accrued wages	(35,382)	(19,699)	-	(55,081)	(154,194)
Accrued vacation	(28,046)	(10,003)	-	(38,049)	22,115
Accrued pension liability	348,642	-	-	348,642	(102,274)
Deferred revenue	50,736	835	-	51,571	19,076
Net cash provided by operating activities	$ 596,779	$ 247,936	$ -	$ 844,715	$ 375,696
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds received from borrowings to LGS	$ 310,795	$ -	$ (310,795)	$ -	$ -
Loans to LGS	(60,000)	-	60,000	-	-
Purchase of property and equipment	-	-	-	-	(10,190)
Net cash provided by (used in) investing activities	$ 250,795	$ -	$ (250,795)	$ -	$ (10,190)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings from IASB	$ -	$ 60,000	$ (60,000)	$ -	$ -
Payments on borrowings from IASB	-	(310,795)	310,795	-	-
Principal payments on notes payable	-	(28,050)	-	(28,050)	(25,530)
Net cash (used in) financing activities	$ -	$ (278,845)	$ 250,795	$ (28,050)	$ (25,530)
Net increase (decrease) in cash and cash equivalents	$ 847,574	$ (30,909)	$ -	$ 816,665	$ 339,976
Cash and cash equivalents at beginning of year	478,760	877,366	-	1,356,126	1,016,150
Cash and cash equivalents at end of year	$ 1,326,334	$ 846,457	$ -	$ 2,172,791	$ 1,356,126
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Cash payments for interest	$ -	$ 131,112	$ (30,928)	$ 100,184	$ 102,995

See Accompanying Independent Auditor's Report.

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF EXPENSES BY PROGRAM

Year Ended June 30, 2012

	Advocacy	Governance and Leadership Services	Convention and Conferences	ISJIT Investment Services
Salaries	$ 54,506	$ 313,711	$ 80,259	$ -
Payroll taxes	4,170	23,999	6,140	-
Retirement expense	-	-	-	-
Staff insurance	-	-	-	-
Program management	-	-	-	326,868
Staff development	-	305	-	-
Marketing	-	-	-	162,844
Travel	2,730	6,778	14,169	-
Building operations	-	-	-	-
Equipment and computers	-	-	-	-
Depreciation and amortization	-	-	-	-
Office supplies	51	5,574	208	-
Cartage and postage	103	6,388	5,276	-
Telephone	866	44	-	-
Investment advisory fees	-	-	-	178,928
Professional fees	57,300	138,565	43,276	50,585
Skills Iowa	-	-	-	-
Rating service	-	-	-	9,000
Sponsorship fees	-	-	-	139,156
Printing	1,183	12,626	12,117	-
Reference materials	870	-	-	-
Dues	-	-	-	-
Conventions and conferences	243	6,846	232,373	-
Interest	-	-	-	-
Web hosting, registration and internet	-	2,988	-	-
Contributions	-	-	-	-
Assistance to members	-	-	-	-
Miscellaneous	-	-	-	16,496
Program banking fees	-	-	-	-
Total expenses	$ 122,022	$ 517,824	$ 393,818	$ 883,877

Program Services: ISCAP Administrative Services	Program Services: PaySchools	Program Services: Other Programs	Program Services: Total Program Services	Management and General	Eliminations	2012 Consolidating Totals
$ -	$ 307,188	$ 75,804	$ 831,468	$ 1,008,935	$ -	$ 1,840,403
-	23,500	5,799	63,607	83,488	-	147,095
-	-	-	-	19,167	-	19,167
-	-	-	-	207,748	-	207,748
-	-	5,168	332,036	-	(5,168)	326,868
-	-	-	305	567	-	872
-	6,602	-	169,446	800	(53,277)	116,969
233	5,041	43,618	72,569	46,725	-	119,294
-	-	-	-	452,110	(250,000)	202,110
-	-	-	-	83,061	-	83,061
-	26,368	-	26,368	100,198	-	126,566
101	464	6,085	12,483	20,490	-	32,973
339	1,056	250	13,412	5,077	-	18,489
172	213	2,119	3,414	27,328	-	30,742
-	-	-	178,928	-	-	178,928
21,422	26,306	560,737	898,191	477,267	(208,000)	1,167,458
-	-	37,628	37,628	-	-	37,628
-	-	-	9,000	-	-	9,000
-	471,044	-	610,200	116,530	(380,977)	345,753
60	-	931	26,917	13,021	-	39,938
-	-	-	870	1,422	-	2,292
-	-	12,039	12,039	78,458	-	90,497
-	-	3,942	243,404	-	-	243,404
-	-	-	-	135,602	(35,327)	100,275
-	4,115	-	7,103	45,807	-	52,910
-	-	44,832	44,832	-	-	44,832
-	-	300	300	-	-	300
2,304	-	51	18,851	31,778	-	50,629
-	1,087,841	-	1,087,841	-	-	1,087,841
$ 24,631	$ 1,959,738	$ 799,303	$ 4,701,212	$ 2,955,579	$ (932,749)	$ 6,724,042

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF FINANCIAL POSITION FOR IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY AND IOWA ASSOCIATION OF SCHOOL BOARDS FOUNDATION

June 30, 2012

ASSETS	**Iowa Association of School Boards**	**Local Government Services, Inc.**	**Eliminations**
Cash and cash equivalents	$ 1,326,334	$ 846,457	$ -
Accounts receivable, net of allowance 2012: $82,611; 2011: $131,508	97,241	232,396	-
Accounts receivable - related entities	53,599	5,351	-
Loan to LGS	5,505,524	-	(5,505,524)
Accrued interest receivable	78,827	-	(78,827)
Note receivable	769,172	-	(769,172)
Office property and equipment, net	-	3,054,121	-
Other assets	128,741	7,500	-
Total assets	$ 7,959,438	$ 4,145,825	$ (6,353,523)
LIABILITIES			
Accounts payable	$ 209,660	$ 264,171	$ -
Due to IASB	-	5,505,524	(5,505,524)
Due to LGS	-	-	-
Deferred revenue	387,552	835	-
Interest rate swap	-	247,117	-
Accrued wages	108,618	22,148	-
Accrued vacation	14,377	11,751	-
Accrued interest	-	80,237	(78,827)
Accrued property taxes	-	69,293	-
	$ 720,207	$ 6,201,076	$ (5,584,351)
Accrued pension benefit liability	$ 1,042,052	$ -	$ -
Mortgage payable:			
Mortgage payable - U.S. Bank	$ -	$ 1,079,940	$ -
Mortgage payable - IASB	-	769,172	(769,172)
	$ -	$ 1,849,112	$ (769,172)
Total liabilities	$ 1,762,259	$ 8,050,188	$ (6,353,523)
NET ASSETS AND ACCUMULATED (DEFICIT)			
Unrestricted	$ 6,197,179	$ -	$ 281,010
Common stock	-	281,010	(281,010)
Accumulated (deficit)	-	(4,185,373)	-
Temporarily restricted	-	-	-
Total net assets and accumulated (deficit)	$ 6,197,179	$ (3,904,363)	$ -
Total liabilities and net assets and accumulated (deficit)	$ 7,959,438	$ 4,145,825	$ (6,353,523)

See Accompanying Independent Auditor's Report.

Schedule 8

Iowa Association of School Boards & Subsidiary	Iowa Association of School Boards Foundation	Eliminations	Consolidating Totals
$ 2,172,791	$ 21,428	$ -	$ 2,194,219
329,637	-	-	329,637
58,950	-	(20,680)	38,270
-	-	-	-
-	-	-	-
-	-	-	-
3,054,121	-	-	3,054,121
136,241	-	-	136,241
$ 5,751,740	$ 21,428	$ (20,680)	$ 5,752,488
$ 473,831	$ 578	$ -	$ 474,409
-	15,329	(15,329)	-
-	5,351	(5,351)	-
388,387	-	-	388,387
247,117	-	-	247,117
130,766	-	-	130,766
26,128	-	-	26,128
1,410	-	-	1,410
69,293	-	-	69,293
$ 1,336,932	$ 21,258	$ (20,680)	$ 1,337,510
$ 1,042,052	$ -	$ -	$ 1,042,052
$ 1,079,940	$ -	$ -	$ 1,079,940
-	-	-	-
$ 1,079,940	$ -	$ -	$ 1,079,940
$ 3,458,924	$ 21,258	$ (20,680)	$ 3,459,502
$ 6,478,189	$ (10,124)	$ -	$ 6,468,065
-	-	-	-
(4,185,373)	-	-	(4,185,373)
-	10,294	-	10,294
$ 2,292,816	$ 170	$ -	$ 2,292,986
$ 5,751,740	$ 21,428	$ (20,680)	$ 5,752,488

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF ACTIVITIES FOR
IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY AND
IOWA ASSOCIATION OF SCHOOL BOARDS FOUNDATION
Year Ended June 30, 2012

	Unrestricted				
	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations	Iowa Association of School Boards & Subsidiary	Iowa Association of School Boards Foundation
REVENUES					
Memberships	$ 1,166,335	$ -	$ -	$ 1,166,335	$ -
Publications, forms and materials	186,541	-	-	186,541	-
Convention and conferences	530,481	-	-	530,481	-
Consulting services	21,400	-	-	21,400	-
Professional services	179,223	-	-	179,223	-
Contributions	-	-	-	-	50
Administrative services	-	1,301,647	(208,000)	1,093,647	-
Online payment services	-	2,482,705	-	2,482,705	-
Sponsorships	510,134	-	(241,822)	268,312	-
Risk management and insurance program	421,336	-	-	421,336	-
Grants	88,368	-	-	88,368	50,000
Rental income	-	368,251	(250,000)	118,251	-
Total revenues	$ 3,103,818	$ 4,152,603	$ (699,822)	$ 6,556,599	$ 50,050
EXPENSES					
Salaries	$ 919,061	$ 921,342	$ -	$ 1,840,403	$ -
Payroll taxes	83,461	63,634	-	147,095	-
Retirement benefits	12,828	6,339	-	19,167	-
Staff insurance	116,446	91,302	-	207,748	-
Program management	-	-	-	-	5,168
Staff development	574	298	-	872	-
Marketing	-	7,402	-	7,402	-
Travel	113,074	5,987	-	119,061	-
Building operations	263,070	189,040	(250,000)	202,110	-
Equipment and computers	-	83,061	-	83,061	-
Depreciation and amortization	-	126,566	-	126,566	-
Office supplies	22,409	9,492	-	31,901	971
Cartage and postage	15,245	2,885	-	18,130	20
Telephone	4,868	25,630	-	30,498	72
Professional fees	713,330	590,121	(208,000)	1,095,451	-
Skills Iowa expenses	37,628	-	-	37,628	-
Sponsorship fees	-	587,575	(241,822)	345,753	-
Printing	32,284	7,594	-	39,878	-
Reference materials	2,292	-	-	2,292	-
Dues	90,497	-	-	90,497	-
Conventions and conferences	243,404	-	-	243,404	-
Interest	-	135,602	(35,327)	100,275	-
Web hosting, registration and internet	2,988	49,922	-	52,910	-
Contributions	-	-	-	-	44,832
Assistance to members	300	-	-	300	-
Miscellaneous	30,481	1,304	-	31,785	44
Program banking fees	-	1,087,841	-	1,087,841	-
Total expenses	$ 2,704,240	$ 3,992,937	$ (735,149)	$ 5,962,028	$ 51,107
OTHER REVENUE					
Interest income	$ 40,770	$ 2,607	$ (35,327)	$ 8,050	$ 66
Other income	865	5,351	-	6,216	-
Change in value of interest rate swap	-	(10,581)	-	(10,581)	-
Change in accrued pension liability	(494,164)	-	-	(494,164)	-
Total other revenue	$ (452,529)	$ (2,623)	$ (35,327)	$ (490,479)	$ 66
Change in net assets and net income	$ (52,951)	$ 157,043	$ -	$ 104,092	$ (991)
Net assets (deficit) at beginning of year	6,250,130	(4,342,416)	281,010	2,188,724	(9,133)
Net assets (deficit) at end of year	$ 6,197,179	$ (4,185,373)	$ 281,010	$ 2,292,816	$ (10,124)

See Accompanying Independent Auditor's Report.

		Temporarily Restricted	
Eliminations	Consolidating Totals	Iowa Association of School Boards Foundation	Consolidating Totals
$ -	$ 1,166,335	$ -	$ -
-	186,541	-	-
-	530,481	-	-
-	21,400	-	-
(5,168)	174,055	-	-
-	50	-	-
-	1,093,647	-	-
-	2,482,705	-	-
-	268,312	-	-
-	421,336	-	-
-	138,368	-	-
-	118,251	-	-
$ (5,168)	$ 6,601,481	$ -	$ -
$ -	$ 1,840,403	$ -	$ -
-	147,095	-	-
-	19,167	-	-
-	207,748	-	-
(5,168)	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
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-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	44,832	-	-
-	300	-	-
-	31,829	-	-
-	1,087,841	-	-
$ (5,168)	$ 3,379,215	$ -	$ -
$ -	$ 8,116	$ -	$ -
-	6,216	-	-
-	(10,581)	-	-
-	(494,164)	-	-
$ -	$ (490,413)	$ -	$ -
$ -	$ 103,101	$ -	$ -
-	2,179,591	10,294	10,294
$ -	$ 2,282,692	$ 10,294	$ 10,294

IOWA ASSOCIATION OF SCHOOL BOARDS

CONSOLIDATING STATEMENT OF CASH FLOWS FOR
IOWA ASSOCIATION OF SCHOOL BOARDS & SUBSIDIARY AND
IOWA ASSOCIATION OF SCHOOL BOARDS FOUNDATION
Year Ended June 30, 2012

	Iowa Association of School Boards	Local Government Services, Inc.	Eliminations
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets and net income	$ (52,951)	$ 157,043	$ -
Adjustments to reconcile the change in net assets and net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	-	126,566	-
Swap liability	-	10,581	-
Change in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	280,719	(60,518)	-
Accrued interest receivable	(4,399)	-	(4,399)
Other assets	(123,741)	(7,500)	-
Increase (decrease) in liabilities:			
Due to IASB	-	-	-
Accounts payable	161,201	80,190	-
Accrued property taxes	-	(34,039)	-
Accrued interest	-	4,480	4,399
Accrued wages	(35,382)	(19,699)	-
Accrued vacation	(28,046)	(10,003)	-
Accrued pension liability	348,642	-	-
Deferred revenue	50,736	835	-
Net cash provided by (used in) operating activities	$ 596,779	$ 247,936	$ -
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds received from borrowings to LGS	$ 310,795	$ -	$ (310,795)
Loans to LGS	(60,000)	-	60,000
Net cash provided by investing activities	$ 250,795	$ -	$ (250,795)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings from IASB	$ -	$ 60,000	$ (60,000)
Payments on borrowings from IASB	-	(310,795)	310,795
Principal payments on notes payable	-	(28,050)	-
Net cash (used in) financing activities	$ -	$ (278,845)	$ 250,795
Net increase (decrease) in cash and cash equivalents	$ 847,574	$ (30,909)	$ -
Cash and cash equivalents at beginning of year	478,760	877,366	-
Cash and cash equivalents at end of year	$ 1,326,334	$ 846,457	$ -
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for interest	$ -	$ 131,112	$ (30,928)

See Accompanying Independent Auditor's Report.

Iowa Association of School Boards & Subsidiary	Iowa Association of School Boards Foundation	Eliminations	Consolidating Totals
$ 104,092	$ (991)	$ -	$ 103,101
126,566	-	-	126,566
10,581	-	-	10,581
220,201	-	-	220,201
(8,798)	-	-	(8,798)
(131,241)	-	-	(131,241)
-	(486)	-	(486)
241,391	578	-	241,969
(34,039)	-	-	(34,039)
8,879	-	-	8,879
(55,081)	-	-	(55,081)
(38,049)	-	-	(38,049)
348,642	-	-	348,642
51,571	(50,000)	-	1,571
$ 844,715	$ (50,899)	$ -	$ 793,816
$ -	$ -	$ -	$ -
-	-	-	-
$ -	$ -	$ -	$ -
$ -	$ -	$ -	$ -
-	-	-	-
(28,050)	-	-	(28,050)
$ (28,050)	$ -	$ -	$ (28,050)
$ 816,665	$ (50,899)	$ -	$ 765,766
			-
1,356,126	72,327	-	1,428,453
$ 2,172,791	$ 21,428	$ -	$ 2,194,219
$ 100,184	$ -	$ -	$ 100,184

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James R. Pistillo, CPA, Shareholder

To the Management and the Audit Committee
of the Iowa Association of Schools Boards

In planning and performing our audit of the consolidated financial statements (financial statements) of the Iowa Association of School Boards (the Association) for the year ended June 30, 2012, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

However, during our audit, we became aware of areas that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Association's internal control in our report dated January 29, 2013. This letter does not affect our report dated January 29, 2013, on the consolidated financial statements of the Association.

We will be pleased to discuss these comments in further detail at your convenience. Our comments are summarized as follows:

Separate Management & Issuance of Stock

IASB is a non-profit organization; however, it also has a wholly-owned for-profit subsidiary. Currently, IASB continues to provide financial support to LGS. Cash flow loans are provided either directly or through the payment of invoices. The January 12, 2011 LGS board minutes discuss the issue of a receivable from LGS payable to IASB and determines there needs to be discussion regarding LGS's equity position. The minutes also indicate staff should work with legal counsel to establish a process regarding this situation. Since the two entities are essentially operating as one entity, the tax-exempt status of IASB could be called into question as to whether the organization is fulfilling its mission or providing the services of a for-profit entity. We recommend IASB and LGS operate as separate entities, using their own resources, and consider issuing additional stock in regards to the advances made to LGS by IASB.

Accounting Department and Financial Statements

Financial activities of the Association have been placed under additional scrutiny over the last couple of years. Management of the Association needs to evaluate the necessary skill sets and staffing requirements to ensure the Accounting Department is functioning effectively and efficiently. We recommend management, in conjunction with the Accounting Department, develop a series of checklists. These checklists should include monthly reporting checklists, yearly reporting checklists, standard monthly journal entry template, as well as a monthly financial statement review binder indicating the individual who prepared the financials as well as the reviewer. The monthly financial review binder should include the financial statements, trial balance, and all supporting schedules and reconciliations (ie, bank reconciliations, subsidiary ledgers, accrual calculations, etc.) noting agreement to the trial balance. These procedures will facilitate more accurate, complete, and timely financial statements are presented to the Board.

This report is intended solely for the information and use of the audit committee, board of directors, management, and others within the 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
January 29, 2013

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

We have audited the consolidated financial statements of the Iowa Association of School Boards (the Association) for the year ended June 30, 2012, and have issued our report thereon dated January 29, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting 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 March 12, 2012. 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 the Iowa Association of School Boards 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 the year ended June 30, 2012. We noted no transactions entered into by the Association 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. The most sensitive estimates affecting the financial statements were management's estimate of the interest rate swap liability (based on market rates), the pension plan liability (based upon certain actuarial assumptions pertaining to interest rates, inflation rates and employee demographics), and the deferred tax asset (based upon the expected use of the asset to offset taxable income in the future) all of which are subject to change.

The financial statement disclosures are neutral, consistent, and clear.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has posted all such adjusting entries. In addition to adjusting entries, certain reclassification entries were posted for proper presentation.

The following adjusting entries were posted for the year ended June 30, 2012:

- To adjust the pension liability to agree at 6/30/2012 to the Principal funded status at year end
- To record AP items to agree trial balance to the AP workpaper
- To record Safety Group dividends payable to non-renewing schools
- To allocate insurance expense to LGS, ISCAP, and ISJIT
- To record prepaid for 2012 convention speaker
- To adjust PaySchools sponsorship revenue (April-June royalties)

Corrected and Uncorrected Misstatements (Continued)

- To apply accounting invoices for May and June 2012 to retainer
- To adjust interest income and balance in cash account for transfer between cash accounts
- To adjust interest income and LGS cash flow receivable for improper revenue calculation
- To remove entry from outstanding check listing and agree membership dues for 2011-2012
- To agree ISBF receivable to ISBF trial balance
- To adjust accrued accounts receivable to actual for IJUMP and DMACC sponsorship revenue
- To record ICAT revenue on LGS
- To record additional payable items from the search for unrecorded
- To write off expenses not allowed by USDE for the Skills Iowa grant
- To remove the Skills Iowa receivable from the allowance for doubtful accounts

Disagreements with Management

For purposes of this letter, a disagreement with management is 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. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 29, 2013.

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 the Association'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 the Association'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 Matters

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 U.S. generally accepted accounting principles, 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 Association of School Boards 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
January 29, 2013

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

In planning and performing our audit of the consolidated financial statements of Iowa Association of School Boards (the Association) and its controlled entities as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be to be significant deficiencies as well as material weaknesses.

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 *significant deficiency* is a deficiency, or a 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. A *material weakness* is a deficiency, or a 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 following deficiencies in the Association's internal control to be significant deficiencies as well as material weaknesses:

Financial Accounting and Reporting:

An Organization's internal control over financial reporting contemplates that management and accounting staff has the skills and competencies to prevent, detect, and correct misstatements in financial statements, including applicable disclosures, prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). During the audit, multiple adjusting and reclassifying entries were needed in order for the financial statements to properly reflect the activity of the Organization and be in conformity with GAAP. Financial statements have been provided to the Board during the year; however, in order to provide financial statements, all adjusting entries and reconciliations were not performed and/or adequately reviewed to ensure accurate and complete financial statements were presented. The accounting staff and management's lack of expertise and familiarity with GAAP, including disclosures, is considered a material weakness in the Organization's internal controls over financial reporting. An auditor can prepare the Organization's financial statements and related disclosures, but cannot be considered part of the internal control in place to ensure the statements are presented in accordance with GAAP, including disclosures.

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Recommendation: Management of the organization needs to review the responsibilities and skill sets of the individuals within the accounting department to ensure the organization is able to prepare accurate financial information for the Board.

Recommendation: The Board should ensure formal policies are incorporated to require management to timely reconcile accounts at month end and at year end, establish proper review procedures, and provide complete and accurate financial statements on a monthly basis to the Board for review.

Response: Management will be presenting a re-structuring plan of the accounting staff to the Audit and Finance Committee that will include on-going monitoring, assistance, and coaching of staff to ensure that compliance with GAAP is at the necessary performance level.

Supervision & Review- Financial Statements:

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. During the audit, it became apparent that a thorough review of accounting documentation and financial statements had not been performed by the Organization. Multiple adjusting and reclassifying entries were needed in order for the financial statements to properly reflect the activity of the Organization and be in conformity with GAAP.

Recommendation: The Board should require management to review and document current internal controls regarding accounting functions and establish a process for an ongoing review of these controls. This review should be performed monthly and documented on all financial accounting records by formally noting the individual who prepared the accounting documentation and the individual who performed the review of the accounting documentation and financial statements.

Response: Management will be presenting a re-structuring plan of the accounting staff to the Audit and Finance Committee that will include on-going monitoring, assistance, and coaching of staff to ensure that compliance with GAAP is at the necessary performance level.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, 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
January 29, 2013

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

The following pages are presented to provide the Board of Directors of the Iowa Association of School Boards with information regarding the findings presented in audits released during the current fiscal year. A summary of the current status of the prior year audit findings for the audit of the Iowa Association of School Boards as of June 30, 2012 is presented on pages 1 through 3. In addition, a summary of the current status of the findings from the Auditor of State's reaudit, which was dated April 5, 2012, for the period July 1, 2008 through June 30, 2009 is presented on pages 4 through 20.

Brooks Lodden, P.C.

West Des Moines, Iowa
January 29, 2013

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

II-A-2011: Financial Accounting and Reporting:

An Organization's internal control over financial reporting contemplates that management and accounting staff has the skills and competencies to prevent, detect, and correct misstatements in financial statements, including applicable disclosures, prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). During the audit, multiple adjusting and reclassifying entries were needed in order for the financial statements to properly reflect the activity of the Organization and be in conformity with GAAP. The accounting staff and management's lack of expertise and familiarity with GAAP, including disclosures, is considered a material weakness in the Organization's internal controls over financial reporting. An auditor can prepare the Organization's financial statements and related disclosures, but cannot be considered part of the internal control in place to ensure the statements are presented in accordance with GAAP, including disclosures.

Recommendation: Management of the organization needs to review the responsibilities and skill sets of the individuals within the accounting department to ensure the organization is able to prepare accurate financial information for the Board.

Current Status: Similar internal control deficiency in current year.

II-B-2011: Critical Accounting Routines & Financial Statements:

Critical accounting routines are tasks which are to be completed on a regular basis to ensure the timeliness and accuracy of the flow of information to management and to provide the Board sufficient timely and accurate information in order to fulfill their oversight responsibilities. During the audit, it became apparent that certain accounts were not being reconciled on a timely basis; subsidiary accounts (i.e. accounts receivable and accounts payable) did not reconcile or agree to the trial balance, outstanding check listings were not being generated and included with bank reconciliations, and certain other account reconciliations had not been performed. Financial statements have been provided to the Board during the year; however, in order to provide financial statements; all adjusting entries and reconciliations were not performed to ensure accurate and complete financial statements were presented.

Recommendation: The Board should ensure formal policies are incorporated to require management to timely reconcile accounts, establish proper review procedures, and provide complete and accurate financial statements on a monthly basis to the Board for review.

Current Status: Similar internal control deficiency in current year, included in Supervision and Review.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS *(Continued*)
For the Year Ended June 30, 2012

II-C-2011: Critical Accounting Routines – PaySchools:

Critical accounting routines are tasks which are to be completed on a regular basis to ensure the timeliness and accuracy of the flow of information to management and to provide the Board sufficient timely and accurate information in order to fulfill their oversight responsibilities. Effective July 1, 2010, the organization began using PayPal as the credit card processing agent. During the audit, it became apparent that the PaySchools accounts were not being fully reconciled. Cash balances in the bank were reconciled to record transfers, interest, and fees; however, the general ledger account indicating amounts due to LGS or amounts owed to participating schools was not reconciled to agree with actual month-end activity. Transactions owed to schools were processed and submitted to participating schools; however, amounts submitted to PaySchools via PayPal were not reconciled to agree to amounts transferred to the LGS bank account. The PaySchools accounts were not reconciled to ensure all amounts transferred to participating schools by LGS had in fact been received by LGS from PayPal.

Recommendation: The Board should ensure formal policies are incorporated to require management to timely reconcile PaySchools accounts and ensure proper amounts have been received by LGS. In the event LGS does not receive the proper funds, procedures should be implemented to request funds be returned to LGS from the participating schools. The proper reconciliation of PaySchools will also facilitate accurate financial statements for the Board to review.

Current Status: The Organization implemented reconciliation procedures for PaySchools. Subsequent to the year ended June 30, 2012, PaySchools has been sold.

II-D-2011: Segregation of Duties and Supervision & Review- Financial Statements:

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 Accounting Manager had access to all accounting software and calculated and posted the majority of transactions of the Organization. During the year ended June 30, 2011, until the end of October 2011, the duties performed (i.e., accounts reconciliations, journal entries, bank reconciliations, and subsidiary ledgers) by the accounting personnel had not been reviewed by an independent individual.

In addition, payroll records were being initialed as reviewed and approved for the majority of the year; however a proper review had not taken place. In September 2010, the Compensation Committee was notified by the 401(k) Plan Administrator that the top-tier allocation group for the Association's plan would need to have the discretionary match adjusted to be in compliance with the plan. This should have resulted in a 2% decrease in the employer discretionary contributions for the top-tier; however, the change was not made in the payroll system resulting in the top-tier individuals receiving an increased discretionary contribution until the 401(k) employer contributions were suspended on September 1, 2011. These excess contributions will be forfeited by these individuals and returned to IASB's 401(k) Plan. Also, there was one individual in the top-tier who received an employer discretionary contribution at the lowest tier level. The organization will be correcting this individual's employer contributions, including a lost earnings calculation for a total contribution of $3,080.58.

II-D-2011: Segregation of Duties and Supervision & Review – Financial Statements: *(Continued)*

Recommendation: The Board should require management to review and document current internal controls, 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 by formally noting the individual who performed the review.

Recommendation: Management should implement procedures to adequately review the payroll reports and ensure proper amounts are calculated and submitted to the 401(k) Plan. Management should ensure proper amounts are calculated and provided to the 401(k) Plan Administrator in order to reclassify the contributions to forfeitures by the top-tier allocation group. Management should ensure proper contributions are deposited into the 401(k) Plan for the individual which received the incorrect employer discretionary contribution.

Current Status: Similar internal control deficiency in current year.

II-E-2011: Supervision & Review- Federal Grants:

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. Management is responsible for the proper oversight and accounting for federal grant draws and reimbursements. During the audit, it was noted that timely follow up and accounting reconciliation procedures regarding the Skills Iowa grant were not functioning effectively. The organization setup a spreadsheet to track the period covered by the draw, the month submitted, amount requested, amount received by USDE and the date received. The accounting department did not adjust the accounts receivable and revenue accounts to reflect the amounts denied by USDE for reimbursement. USDE also declined cell phone reimbursements for the Skills Iowa trainers and communicated this to the organization during the early draws; however, the organization continued to submit the amounts for reimbursement in subsequent draws, as well as the indirect rate on these expenses. As these amounts were denied by USDE, the organization did not adjust the accounts receivable and revenue to properly reflect the activity. An audit adjustment was posted to properly reflect the activity of the Skills Iowa grant reimbursements.

Recommendation: Management should implement procedures to adequately review grant draw requests and reimbursements received to ensure proper amounts are reflected in the financial statements of the organization. Management should ensure procedures are in place to follow up with USDE regarding outstanding grant reimbursements and the reason for denials in a timely fashion.

Current Status: The Skills Iowa grant has ended. Subsequent to June 30, 2012, the Organization received the outstanding funds due to them from the US Department of Education.

SUMMARY SCHEDULE OF AUDITOR OF STATE'S REAUDIT FINDINGS FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009

For the Year Ended June 30, 2012

(A) <u>Governance: Board Oversight and Internal Control:</u> Governance typically focuses primarily on the fiduciary responsibility a governing body has in regard to exercising authority over its funds and the public trust the organization owes those it serves that the organization will efficiently and effectively achieve its mission. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

Internal control is defined as a process, implemented by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting and
- Compliance with applicable laws and regulations.

Based on our observations and procedures performed, including the following findings and those of IASB's independent auditors, the Boards of IASB, its subsidiary LGS and its related organizations failed to exercise proper fiduciary oversight and implement adequate internal control systems.

According to the job description, IASB's Executive Director had authority to hire and/or terminate employees without Board approval. There was not always evidence of Board approval in the appropriate Board minutes for wages and/ or other compensation and employment agreements or for transfers and loans between IASB, its wholly owned subsidiary and related organizations.

The lack of appropriate Board fiduciary oversight and failure to ensure implementation of adequate internal controls permitted employees to exercise too much power over the operation of IASB, its subsidiary LGS and its related organizations, including the use of IASB resources, in some cases to the detriment of IASB. As noted in the following findings, the Board frequently relied on management representations without adequate supporting documentation or information.

<u>Recommendation:</u> Board fiduciary oversight and proper internal control is essential and should be an ongoing effort by all members of any governing body.

In the future, the Boards of IASB, its subsidiary LGS and its related organizations should exercise prudent person due care. Boards should require and review pertinent information and documentation prior to making decisions affecting the organization. The Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment. In addition, the Board should evaluate and establish procedures pertaining to authorization and approval for hiring and the termination of employees.

Appropriate operating and internal control policies should be adopted by the Boards of IASB, its subsidiary LGS and its related organizations. IASB, its subsidiary LGS and its related organizations should implement procedures to ensure compliance with established Board policies and the Board should monitor compliance.

(A) Governance: Board Oversight and Internal Control: ***(Continued)***

Response: Since the spring of 2010, the association has implemented a number of policy and governance practices. The Board established three committees: Audit; Compensation and Benefits; and Governance/By-Laws. These three committees meet regularly to review, monitor and verify information relevant to their respective areas of responsibility. Each committee annually reviews existing operating and internal control policies to determine what modifications or additions should be made.

Current Status: IASB's committees are meeting regularly to review information relevant to their respective areas of responsibility.

(B) Deposits and Investments: Prior CFOs of IASB, its wholly owned subsidiary LGS and its related organizations invested in or had transactions involving hedging, derivatives and futures. We did not confirm whether the applicable governing Boards authorized or approved all investments and transactions. The following investment transactions have resulted in losses, as subsequently described to IASB, its wholly owned subsidiary LGS and/or its related organizations. In addition, Note 4 in the fiscal year 2010 audited financial statements regarding "Concentrations" states, in part, "The Association routinely has cash balances at financial institutions in excess of FDIC insured limits. The Association has not experienced any losses as a result of this."

IASB operated the Iowa Joint Utility Management Program (IJUMP) prior to its dissolution effective June 30, 2009 and, within that program, another component known as the IJUMP Fleet Service program. Prior to IASB's dissolution of IJUMP, the IJUMP Fleet Service program was reviewed by the Iowa Attorney General at the request of the Iowa Department of Education and the Iowa Auditor of State. The Iowa Attorney General issued a letter of advice dated October 6, 2004 responding to the propriety of using the school district management levy to fund all or part of a school district's participation in the IJUMP Fleet Service program. In addition, the letter of advice included the following caution concerning investments and Chapter 12B of the Code of Iowa. The letter of advice states, in part:

"Finally, I must note that IJUMP's proposed use of funds received from school districts through the Fleet Service program risk management fee to purchase financial instruments on the Chicago Mercantile Exchange raises additional concerns. To the extent that IJUMP is holding and investing school district management fees on behalf of schools, consideration must be given to the limitation upon investment of public funds that are contained in Iowa Code chapter 12B. The provisions of this chapter include a variety of limitations upon the investments of public funds by political subdivision(s), including explicit prohibitions upon "the trading of securities in which any public funds are invested for the purpose of speculation and the realization of short-term trading profit" and investments in "futures or options contracts." Iowa code 12B.10(3) (last paragraph; 12B.10(4) (paragraph following (g)(2003). This office has frequently observed that, "public funds do not necessarily lose their public character merely because a private entity happens to possess them." 2000 Op. Att'yGen. (#00-8-2(L)), (2000 WL 1576488); citing 1994 Op. Att'yGen. 71 and 1998 Att'yGen.(#98-1-3)."

(B) Deposits and Investments: ***(Continued)***

A document titled "Various Issues Related to the Iowa Joint Utilities Management Program (IJUMP) Notes" by Jen Albers (former IASB Accounting Manager) - April 4, 2010, states, in part, "IJUMP's gain or losses on derivatives had absolutely no affect (effect) on IJUMP's income or loss for the fiscal year, but the gain or loss is required to be booked as a gain or loss on the financials and disclosed in a note to the audited financial reports. These derivatives were not investments. They were risk management tools."

According to Note 13 of IASB's fiscal year 2008 audited consolidated financial statements, "IJUMP entered into commodity derivatives to manage its exposure to natural gas price fluctuations caused by commodity-price volatility. As of June 30, 2008, the derivative instruments that had been settled resulted in a net realized loss of $1,003,275 in the statement of activities. At June 30, 2008, IJUMP did not have any outstanding commitments to purchase commodity derivatives."

Note 10 of IASB's fiscal year 2010 audited consolidated financial statements pertaining to "On-Balance Sheet Derivative Instruments and Hedging Activities" states, in part:

> "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. This transaction involves 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."

As a result, IASB had an unrealized loss relating to interest rate swap of $258,584, as of June 30, 2010.

In spite of the Iowa Attorney General's 2004 letter of advice and caution regarding investments, IASB participated in speculative investments and transactions. These investments and transactions not only put public funds at risk of loss, but also resulted in losses as previously noted. IASB's independent auditors reported on and disclosed the investment losses in IASB's financial statements. According to current IASB staff, written guidance from legal counsel was not located in regard to these statutory requirements.

Consistent with the Iowa Attorney General's 2004 letter of advice, if any of IASB's funds are subject to Chapter 12B of the Code of Iowa pertaining to investments, it would also appear to be subject to Chapter 12C of the Code of Iowa pertaining to deposits. As such, IASB's deposits in excess of FDIC insured limits are potentially at risk of loss.

(B) Deposits and Investments: ***(Continued)***

Recommendation: IASB should discuss the provisions of Chapter 12B and 12C of the Code of Iowa with its legal counsel and with the Office of Treasurer of State, State of Iowa to determine to what extent these statutes apply to IASB. If these statutes do apply, IASB should liquidate any remaining noncompliant speculative investments as soon as financially feasible and should refrain from entering into speculative investments and transactions in the future.

IASB should implement internal control policies and procedures to ensure public funds are not invested in a speculative instrument. Internal control procedures should be implemented, including periodic monitoring of deposits and investment transactions for compliance with IASB's investment policy and Chapters 12B and 12C of the Code of Iowa, if applicable. IASB should also implement monitoring procedures to ensure compliance with established requirements and Chapters 12B and 12C of the Code of Iowa, if applicable. IASB policies and procedures pertaining to deposits and investments should be reviewed with IASB personnel responsible for deposits, investments and related compliance.

Response: IASB has requested legal counsel to request a formal opinion from the Iowa Attorney General's Office as to the applicability of Iowa Code Chapters 12B and 12C to IASB investments made by the Association. Once that opinion has been issued, management will develop an investment policy consistent with the opinion. In the meantime, the Association has ceased entering into any speculative investments and transactions.

Current Status: Communication with the State Treasurer's Office has occurred. IASB has directed their legal counsel to further review all association monies for source ownership. The review is still underway. IASB is no longer operating the IJUMP program. IJUMP services are provided to schools by a separate, independent party. The interest rate swap is still in effect until April 2016, at which time the building mortgage payable will be paid in full or refinanced.

(C) Skills Iowa Grant: The fiscal year 2009 and 2010 audited financial statements of IASB included several findings and recommendations pertaining to the Skills Iowa Grant, including repayment of Federal awards. The United States Department of Education (USDE) reviewed the independent auditor's findings and recommendations and responded in a letter to IASB dated August 29, 2011, which is included as **Exhibit 3** (included in the original Auditor of State's report). In all matters reviewed by USDE, the independent auditor's findings were sustained and USDE concurred with the independent auditor's recommendations. In addition, in all matters reviewed by USDE, IASB's response and corrective actions to prevent recurrence of the findings were accepted by USDE. As noted in the USDE letter, IASB repaid a duplicate drawdown of $493,932 on April 14, 2010. In addition, an additional repayment of $10,444 resulting from questioned costs was made on April 29, 2011.

Recommendation: IASB should implement internal control and monitoring procedures to ensure compliance with established requirements and review and monitor compliance with all state and federal grant requirements in a timely manner and to avoid possible duplicate drawdowns. IASB policies and procedures and grant compliance requirements should be reviewed with IASB personnel responsible for grant compliance.

As noted in the USDE letter, IASB's independent auditors "will perform audit follow-up procedures in subsequent OMB Circular A-133 audits to determine that actions have been taken to correct the finding(s)."

SUMMARY SCHEDULE OF AUDITOR OF STATE'S REAUDIT FINDINGS FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009 *(Continued)*

For the Year Ended June 30, 2012

(C) <u>Skills Iowa Grant:</u> *(Continued)*

<u>Response:</u> The duplicate draw down error occurred on January 22, 2010 and the error was discovered shortly thereafter. Repayment was made on April 14, 2010. At the present time, all grants including Skills Iowa have ended with only the final reporting and draws to be completed.

<u>Current Status:</u> The Skills Iowa grant has ended. IASB is working with USDE to bring closure to the final report. Subsequent to June 30, 2012, the Organization received the outstanding funds due to them from the US Department of Education.

(D) <u>IASB Loan to LGS and Incompatible Positions:</u> Local Government Services, Inc. (LGS) is a for-profit, wholly owned subsidiary of IASB established in the fall of 2005 to separate the core for profit activity and transactions from non-profit activity and transactions for tax purposes. Since the time LGS was established, IASB has loaned LGS over $5,000,000 for cash flow purposes, purchase of the current IASB building and various related operating and capital outlay expenditures. IASB's Board was involved in establishing LGS in 2005 and in the purchase of the current IASB building in 2006. According to IASB Board meeting minutes dated July 13-14, 2006, action was taken "to approve the recommendation that IASB finance the build-out project by loaning the money to LGS, Inc. at the current market rate." The amount of the loan approved, if any, was not documented in these minutes and, as noted, loans/transfers were not always approved by the appropriate Boards.

Additional background on LGS and the loans between IASB and LGS, including capital contributions from IASB to LGS, are summarized in a document presented to the Legislative Government Oversight Committee on April 29, 2010, which is included as **Exhibit 4** (included in the original Auditor of State's report).

IASB has continued to periodically loan IASB funds to LGS for cash flow and other purposes, a portion of which has been periodically repaid by LGS. According to IASB, the outstanding loan balance due IASB from LGS totaled $5,861,924 as of December 31, 2010.

Various opinions of the Iowa Attorney General address the doctrine of incompatibility of offices. According to the opinions and the Iowa Supreme Court, the common law principle of incompatibility of offices was identified as:

> "The test of incompatibility is whether there is an inconsistency in the functions of the two, as where one is subordinate to the other and subject in some degree to revisory power, or where the duties of the two offices are inherently inconsistent and repugnant."

Loans were made by former chief financial officers (CFOs Muller and Schick) without Board approval or evidence of terms for repayment, including the period of the loan and interest rate. Former IASB CFO Jon Muller also served as President of LGS until April 2009, Assistant Secretary for ISJIT, Treasurer for ISCAP, Secretary and Treasurer for IJUMP and Treasurer for ISEBA. During his tenure, Mr. Muller authorized loans and other transfers, as evidenced by his initials on supporting documents, between IASB and its subsidiary LGS and other related organizations without Board approval and while holding various offices with LGS and other IASB related organizations.

(D) IASB Loan to LGS and Incompatible Positions: ***(Continued)***

In addition, certain IASB staff represented consideration has been given to forgiving all or a portion of the IASB loans to LGS. However, the IASB Board has not considered or taken any action concerning forgiving all or a portion of the loans. Certain IASB staff also represented the financial status of LGS indicated LGS would eventually be able to repay the loans. However, the current IASB CFO represented repayment is not feasible and repayment would not be an option. We did not attempt to determine the propriety or effect on IASB's financial condition and legal status should the IASB Board forgive the substantial outstanding loans.

IASB staff represented all other interfund loans and transfers have been repaid.

Recommendation: Future loans, if any, should be authorized and approved by the IASB Board and the terms for repayment, including the period of the loan and interest rate, should be determined and documented as a condition of the loan. Employees and officers should not be allowed to serve in multiple positions which permit the employee or officer to perform incompatible duties, including the ability to execute loans and transfers between IASB and its subsidiary or related organizations.

IASB should review and determine the current status of the outstanding loan balance with LGS and the likelihood and feasibility of repayment and should consult legal counsel before the IASB Board takes action regarding this substantial outstanding loan. If IASB determines repayment is feasible and appropriate, the Board should determine and document the terms for repayment, including the remaining period of the loan and the interest rate.

Response: The employees in question are no longer with IASB. Although it is necessary for employees and officers to sometimes serve in multiple capacities it will no longer be allowed if the multiple positions result in the performance of incompatible duties. In addition, future loans, if any, will only be authorized and approved by the IASB Board. The amount of loan; terms for repayment; period of the loan; and interest rate will be included in the written loan documents submitted to the Board for approval. The current status of the loan balance of LGS has been forwarded.

Current Status: A loan balance still exists between IASB and LGS. The Board has not determined a loan forgiveness amount, if any, at this time.

(E) Transfers: In addition to the loan transactions with LGS, other transfers were made to and from IASB and its related organizations, including ISJIT, ISEBA and IJUMP by former CFOs (Muller and Schick) without Board approval. The purpose of the transfers with the related organizations included payment of fees and expenses, loans and loan repayments.

Certain unauthorized transfers were addressed in IASB's fiscal year 2009 and 2010 audited financial statements. However, transfers without Board authorization or approval appear to have been a long-standing practice of IASB based on our review of transfers for prior periods.

The unauthorized transfers noted in the fiscal year 2009 and 2010 audited financial statements have been or are being repaid. According to IASB's fiscal year 2010 audited financial statements, $184,211 of the $500,000 unauthorized transfer from ISEBA to IASB and LGS remained unpaid and was owed to ISEBA as of June 1, 2010. This $500,000 was initially transferred on December 1, 2009 without ISEBA Board approval. In lieu of correcting the unauthorized transfer immediately and in total, IASB subsequently transferred back only $300,000 of the $500,000 with a documented date of December 1, 2009 and is repaying the remaining balance by reducing the monthly LGS fees and quarterly IASB sponsorship fees owed to LGS and IASB from ISEBA.

(E) Transfers:

Although, IASB staff provided a copy of a resolution and a copy of ISEBA Board minutes dated April 15, 2010, we were unable to determine whether the resolution was the final resolution and which Boards, if any, approved the resolution. Based on our review and inquiry and due to lack of documentation, the appropriate Boards did not appear to have authorized or approved this method of repayment and according to IASB staff, the balance of this transfer was made without developing a payment plan.

Pursuant to an agreement approved by the IASB Board, IASB provided administrative services, which included cash management services, to and received reimbursement from the IJUMP program. In return for the cash management services, IJUMP paid an annual fee to IASB. The annual fee was determined based on the amount borrowed by IJUMP at a rate equal to the pooled investment rate earned by IASB accounts plus one quarter of one percent to reflect the increased risk IJUMP brought to the investment pool.

Although all loans were repaid prior to the sale of IJUMP, it appears IASB exposed IASB assets to potential loss in providing the cash management services for IJUMP. We requested and received agreements between IASB and IJUMP. However, since the agreements were not signed, we were unable to determine the propriety of the agreements or whether final valid agreements existed.

A memo dated September 7, 2001 from former CFO Jon Muller to the IASB Board, states, in part:

> "IASB will need to pay IJUMP bills on a timely basis, but will receive reimbursement from school districts on a schedule that lags the liabilities 7 to 30 days. Assuming an unusually cold winter, and unusually high prices, IASB would need no more than $3.5 million for no more than 2 months to make timely payments on behalf of IJUMP, Inc. A typical winter with typical prices might require something closer to $1.0 million for as little as one month. The IASB board needs to approve IASB's use of Safety Group reserves, for which IASB will be reimbursed at a market rate at least as high as the current level."

The memo also discusses efforts to improve the cash flow of the IJUMP program. It appears safety group program funds were used as seed (start-up and reserve) money for IJUMP necessary to cover the time lag between payment of liabilities and participating school district reimbursements. Loans frequently exceeded two months and, in one instance, safety group program funds totaling over $2.8 million were held approximately six months before partial repayment was made.

Except as otherwise noted, IASB staff represented all other interfund loans and transfers have been repaid.

Recommendation: Transfers should be authorized and approved by the appropriate Board(s). As previously noted, for transfers representing loans, the terms for repayment, including the period of the loan and the interest rate, should be determined and documented as a condition of the loan.

IASB should have made a corrective transfer in the amount of the unauthorized transfer at the time the unauthorized transfer was discovered. The balance of the remaining transfer is, in substance, a loan from ISEBA, which should have been authorized and approved by the ISEBA Board. The appropriate Boards should review and determine the proper disposition of this outstanding loan. Once the appropriate Boards determine the proper method of repayment, the Boards should determine and document the terms for repayment, including the remaining period of the loan and the interest rate.

(E) Transfers: *(Continued)*

Response: Transfers will be authorized and approved by the appropriate Board(s). In addition, future loans, if any, will only be authorized and approved by the Boards of the lending and borrowing entity. The amount of loan; terms for repayment; period of the loan; and interest rate will be included in the written loan documents submitted to the Board for approval. At this time, all funds have been repaid to ISEBA and IASB.

Current Status: IASB is no longer operating the IJUMP program. IJUMP services are provided to schools by a separate, independent party. Amounts have been repaid regarding the above transactions. No amounts are due at June 30, 2012

(F) Retention of IASB Property by Former Employees: Former IASB employees Ron Rice, Jon Muller and Lawrence (Larry) Sigel were allowed to keep computer and/or office equipment (property) upon their departure from IASB.

The May 14, 2009 IASB Board minutes included item #5 "Approve Agreement Between Iowa Association of School Boards and ISFIS (Larry Sigel)." Those minutes stated, in part, "Ron shared that Larry Sigel will be leaving IASB effective June 30, 2009 and starting his own school finance consulting firm, Iowa School Finance Information Service (ISFIS). Ron said the staff recommends contracting with his new firm to provide various financial services to our member(s). There was discussion regarding who will pay his fees (IASB, ISCAP, ISJIT) and it was determined the fee would be paid by IASB." The Board unanimously approved the agreement with IASB funding the entire fee. Based on our review of the agreement between ISFIS and IASB, ISFIS (Larry Sigel) would have provided services similar to those Mr. Sigel provided when he was employed by IASB.

The agreement with ISFIS, effective June 1, 2009, provided for an annual fee of $100,000 to be paid by IASB to ISFIS and provided limited, required computer support to ISFIS. We did not determine why the minutes stated June 30, 2009 when, according to IASB staff, Mr. Sigel actually departed on May 31, 2009. Pursuant to the agreement, the first installment of $62,500 was due and paid by IASB June 1, 2009 before any services were provided by ISFIS. In addition, IASB agreed to transfer ownership of two laptop computers, including preloaded hardware and software, along with all required computer accessories and peripherals in possession of ISFIS (Larry Sigel) to ISFIS as of June 1, 2009.

According to information provided by IASB staff, IASB sent letters dated August 24, 2010 from Veronica Stalker, Interim Executive Director, to the former employees informing them the estimated fair market value for the IASB property they were allowed to retain.

- The letter to former Executive Director Ron Rice included an estimated fair market value of $1,150 for a laptop and printer retained by Mr. Rice. Other equipment, including a docking station and monitor, may have been retained by Mr. Rice, but IASB staff were unable to confirm this.

- The letter to former CFO Jon Muller included an estimated fair market value of $1,000 for a laptop retained by Mr. Muller.

- The letter to former employee Larry Sigel included an estimated fair market value of $2,250 for two laptops, printer, monitor, docking station and accessories (network cables, webcam, USB cables and headset) retained by Mr. Sigel.

(F) Retention of IASB Property by Former Employees: ***(Continued)***

However, the letters provided were not on IASB letterhead or signed by Ms. Stalker. According to the letters, the amounts were not reported as income in the former employees' 2009 W-2. IASB did not amend the W-2's but, instead, recommended these former employees consult with their personal tax advisors regarding potential implications.

Except as noted, we did not find evidence the Board authorized or approved the contribution of IASB property to the former employees upon their departure from IASB. In addition, it is unclear why IASB Board or staff permitted departing employees to retain IASB property (computers and/ or other office equipment) upon their departure.

According to the information provided by IASB staff, fair market value was estimated by IASB staff in September 2009 based on eBay or similar web site prices. It is unclear why fair market value was not reported on the former employees' 2009 W -2 since fair market value was considered and determined by IASB staff in September 2009. Due to lack of documentation regarding the specific property, including age and original cost, we were unable to evaluate IASB's determination of estimated fair market value for the property retained by the three former employees. However, fair market value of $2,250 for two laptop computers, including the preloaded hardware and software, along with all required computer accessories and peripherals previously described appears to be significantly understated.

We question why any former employees would have been allowed to retain possession of IASB property. We were unable to determine whether the computers and accessories had proprietary, sensitive and/or other IASB business information stored on them.

Article III, Section 31 of the Constitution of the State of Iowa provides public funds and public property may only be used to benefit the public. Chapter 721.2(5) of the Code of Iowa states, in part, "Any public officer or employee, or any person acting under color of such office, or employment, who knowingly does any of the following, commits a serious misdemeanor: Uses or permits any other person to use the property owned by the state or any subdivision or agency of the state for any private purpose and for personal gain, to the detriment of the state or any subdivision thereof."

Recommendation: Since IASB is funded primarily through public funds, the Board should consider the provisions and ramifications of Article III, Section 31 of the Constitution of the State of Iowa and Chapter 721.5(2) of the Code of Iowa.

In the future, the Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment, as well as arrangements, if any, for retention of IASB property permitted upon departure. In addition, the Board should evaluate and establish procedures pertaining to authorization and approval for hiring, as well as the termination of employees, if any. If determined to be appropriate and approved by the Board, IASB should report the estimated fair market value of the property not paid for by the former employee as income on the employee's IRS Form W-2.

(F) Retention of IASB Property by Former Employees: ***(Continued)***

If IASB property (particularly computer equipment) is gifted and/or otherwise given to active or departing employees, the employees should not be allowed to retain proprietary, sensitive or other IASB business information.

Response: The current IASB staff is aware that Iowa law prohibits the use of public property for private purposes and agrees that this prohibition is also appropriate for IASB property. Therefore, the retention of IASB property by employees after their employment terminates will no longer be permitted. As stated in paragraphs A and E above, the Board has established procedures pertaining to authorization and approval of the terms and conditions of employment.

Current Status: Response has been implemented, no known instances of retained property in the current year.

(G) Employees Paid as Independent Contractors: IASB paid and reported wages for employees on IRS Form W-2, but certain employees also received an IRS Form 1099 for services provided as independent contractors. IASB did not have documentation of an IRS Form SS-8, "Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding" for these employees.

In 1997, the Iowa Schools Cash Anticipation Program (ISCAP) and the Iowa Schools Joint Investment Trust (ISJIT), in partnership with the Institute for Educational Leadership (IEL) at the University of Northern Iowa, formed the Iowa School Financial and Leadership Consortium (ISFLC). Former employees Jon Muller, Margaret Buckton and Lawrence Sigel received payment from IASB as independent contractors for presenting at the ISFLC conference. Although time sheets could not be located for these individuals, the ISFLC conferences occurred during normal IASB working hours while the individuals also received payment as employees of IASB.

Internal Revenue Code (IRC) 3121 (c) pertaining to "included and excluded service" states, in part:

> "For purposes of this chapter, if the services performed during one-half or more of any pay period by an employee for the person employing him constitute employment, all the services of such employee for such period shall be deemed to be employment; but if the services performed during more than one-half of any such pay period by an employee for the person employing him do not constitute employment, then none of the services of such employee for such period shall be deemed to be employment. As used in this subsection, the term 'pay period' means a period (of not more than 31 consecutive days) for which a payment of remuneration is ordinarily made to the employee by the person employing him. This subsection shall not be applicable with respect to services performed in a pay period by an employee for the person employing him, where any of such service is excepted by subsection (b)(9)."

Recommendation: Employees should not receive pay as an independent contractor for the same hours they are being compensated for as an employee. If employees are eligible to be compensated for services performed as employees of IASB, that compensation should be paid to IASB. In addition, consistent with IRC 3121(c), extra payments to IASB employees who provide additional services to IASB, if any, should be processed through IASB's regular payroll process and should be reported as wages on the employee's IRS Form W-2.

(G) Employees Paid as Independent Contractors:

Response: The practices set out in paragraph G of the re-audit will no longer be permitted under current management. IASB employees will not receive any additional compensation for work performed during their regular hours of employment. In addition, all compensation will be included in employees' IRS Form W-2.

Current Status: Response appears to be implemented, no known instances in the current year.

(H) Compensation: The fiscal year 2009 and 2010 audited financial statements of IASB included several findings and recommendations pertaining to compensation. In addition to those findings and recommendations, we noted the following: Executive Director: An agreement (consulting agreement) with Ron Rice, former IASB Executive Director, provided for payment at "$800 per day for 52 days within the 2009-10 fiscal year for such services and shall provide suitable office space and equipment(computer, phone, etc.), technology support, travel expenses and minimal secretarial and legal assistance" to be provided by Mr. Rice beyond July 30, 2009, the last day of employment as IASB's Executive Director. According to the IASB Board minutes dated June 18, 2009, the Board unanimously approved the agreement. However, the copy of the agreement provided was not signed or dated.

Current IASB staff represented no payments were made pursuant to the $800 per day consulting agreement. However, pursuant to an IASB Board resolution unanimously approved by the IASB Board at the June 18, 2009 meeting, Mr. Rice would remain an employee of the Association through July 31, 2009. According to documentation provided by IASB staff, Mr. Rice received $16,225 regular monthly salary plus an additional $100 telephone allowance during the period July 1, 2009 through July 31, 2009. However, according to current IASB staff, Mr. Rice did not provide any services to or for IASB during July 2009 in exchange for this payment, no time sheets were completed and he was not scheduled for any activities or meetings during July 2009.

CFO: On March 30, 2009, LGS provided written "Notice of Termination of Agreement" to Jonathon A. Muller, former CFO. Article III, Section 11 of the LGS, Inc. Bylaws states, in part, the LGS Executive Committee " ... shall have and may exercise, when the Board of Directors is not in session, the powers of the Board of Directors in the management of the business and affairs of the corporation .... "The termination notice stated, in part, "upon authority of its Board of Directors" was signed by Ronald M. Rice, Executive Director, IASB, and was dated March 30, 2009. While the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of this action. Pursuant to the notice, Mr. Muller was immediately relieved of his duties and was to be paid all amounts owing related to his base salary and benefits and the severance benefit pursuant to his employment agreement.

H) Compensation: ***(Continued)***

On April 30, 2009, the termination notice was rescinded. The document evidencing the rescission stated, in part, "upon authority of its Board of Directors" and included the electronic signature of Vice Chair Scott Hansen. While the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of this action. In addition, Mr. Muller's employment agreement was amended on April 30, 2009 by adding certain provisions to section 10 of the agreement pertaining to "Termination by Muller." The document evidencing the amended employment agreement did not include language referring to "upon authority of its Board of Directors." The amended employment agreement included the electronic signature of Vice Chair Scott Hansen and, while the LGS Executive Committee approved the agreement, there was no evidence of LGS Board approval of the amended employment agreement. According to minutes of the LGS Board of Directors meeting on May 13, 2009, "The Board received an update on the resignation of Jon Muller .... ", but no LGS Board action was taken or documented.

Under the amended employment agreement, Mr. Muller received his regular salary of $95,666 through June 30, 2009 plus a vacation payout of $15,454, telephone allowance of $300 and severance pay of $143,499, for total payments of $254,919 for calendar 2009. In addition, the amended employment agreement provided for a $1,000 payment to Mr. Muller upon execution of the agreement, but no explanation of the reason or purpose for the additional $1,000 payment was included in the amended agreement. According to the LGS Executive Committee meeting minutes dated April 29, 2009, "Jon requested $1,000 to use toward legal fees. This was not required in the original employment agreement but it is not a bad thing as it helps LGS legally." The payment of $1,000 to Mr. Muller was not reported on Mr. Muller's 2009 IRS Form W-2. Since the payment was made directly to Mr. Muller, it should have been reported on Mr. Muller's 2009 IRS Form W-2.

Recommendation: Even though the Executive Committee acted pursuant to the Bylaws, the Board should evaluate and establish procedures pertaining to authorization and approval of the terms and conditions of employment, including salaries and benefits for employees during the term of their employment. In addition, particularly in matters pertaining to Board officers, the Board should evaluate and establish procedures pertaining to authorization and approval for the hiring and the termination of Board officers and/or employees. All income should be properly reported on IRS Form W-2.

Response: As noted in Paragraph A, the Compensation Committee reviews in detail proposed employment agreements as well as proposed salary levels and benefits. In addition, salary level comparisons are provided, reviewed and documented for each employee hired. All employment agreements as well as salary levels are now reviewed and approved by the IASB or LGS board.

Current Status: Response implemented, salary information is presented to the Compensation Committee. Upon approval of the Committee, salary matters are brought before the Board for approval.

SUMMARY SCHEDULE OF AUDITOR OF STATE'S REAUDIT FINDINGS
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009 *(Continued)*
For the Year Ended June 30, 2012

(I) **IGrowth Assessment Services Valuation:** As described in Exhibit 2, IGrowth Assessment Services is a suite of tools which analyze student achievement growth. It was initially developed under and held by the Iowa School Board Foundation (ISBF).

According to a spreadsheet prepared by former CFO Jon Muller pertaining to IGrowth Tool Valuation Analysis (Analysis):

- Net revenues ranged from approximately $26,000 in fiscal year 2008 to a projected amount of approximately $253,000 in fiscal year 2017.
- The asset was valued at $130,156 in fiscal year 2008, with a projected value of $1,264,906 in fiscal year 2017.
- Net present value (NPV) in five years was estimated at $332,757. NPV in seven years was estimated at $557,239 and NPV in ten years was estimated at $871,823.

The ISBF minutes dated January 21, 2008 documented ISBF Board approval of an agreement between IASB and ISBF for the transfer of IGrowth to IASB. These minutes stated, in part, "Jon Muller discussed the transfer of IGrowth. A document was distributed outlining the value of IGrowth, projecting the possible number of schools involved and projected revenue. He noted that the auditors agreed that the value of $557,000 for the tool is accurate. This transfer will not be a cash exchange but will take place only in the accounting system. This transfer agreement is on the January IASB agenda for approval, as well."

The IASB Board approved the agreement at its January 22-23, 2008 meeting, the minutes for which stated, in part, "Jon Muller noted this agreement explains the transfer of the software and intellectual property from ISBF to IASB. He noted IASB staff worked with our auditors, Brooks Lodden, to determine the true value of the transfer. The board members discussed the process used to determine the fair market value."

According to representations by the independent auditors, "Brooks Lodden staff discussed various valuation techniques; however, Brooks Lodden was not involved in the final value or method. Brooks Lodden did not see the final valuation until the time of the audit and after approval of both boards. Brooks Lodden's notes indicate that the valuation would be reviewed during the audit and evaluate the revenue on this tool in the future to determine if impairment exists; however for reporting purposes, this transaction will be eliminated in the consolidation of IASB and ISBF."

The transfer of the IGrowth asset from ISBF to IASB resulted, in part, in the ISBF fund balance increasing from a deficit balance of $426,018 at June 30, 2007 to a balance of $76,972 at June 30, 2008. IASB experienced an opposite and adverse effect as a result of this transfer. The independent auditors also indicated, "In lieu of exchanging the IGrowth tool, the other option would have been for IASB to record a contribution to ISBF to eliminate the payable due to IASB from ISBF (which would have been eliminated in the consolidation of IASB and ISBF). The end effect would have been the same."

Due to the lack of documentation, we were unable to review, evaluate and/or determine the reasonableness of the assumptions, criteria and rationale used to arrive at the initial estimated value of $557,000. Revised projections subsequently prepared by IASB staff in February 2010 based on actual experience with eight schools resulted in a net present value of negative $1,897 compared to Mr. Muller's projection of a positive value of approximately $557,000. Independent consultants hired to assist IASB with cash flow concerns recommended 100% impairment of the IGrowth asset in April 2010.

SUMMARY SCHEDULE OF AUDITOR OF STATE'S REAUDIT FINDINGS
FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009 *(Continued)*
For the Year Ended June 30, 2012

(I) IGrowth Assessment Services Valuation: *(Continued)*

According to Mary Delagardelle, former ISBF Director, the IGrowth tool is still available to school districts but is priced to cover costs rather than resulting in a profit to IASB.

Recommendation: IASB should review the IGrowth tool transaction and determine whether partial reimbursement from ISBF to IASB is required due to the significantly overstated estimated valuation. If transfers occur in the future, the asset value should be determined based on costs incurred and not on potential future earnings.

The IASB Board and the Boards of its related organizations should exercise caution and ensure complete and appropriate supporting documentation is provided and reviewed prior to Board authorization and approval.

Response: IASB has consulted with its independent auditor to determine whether partial reimbursement from ISBF to IASB is required at this time and has been advised that reimbursement is not required since IASB was financing the operations of ISBF. The alternative treatment for the transaction would have been for IASB to give ISBF a contribution in order to eliminate the amounts due from ISBF to IASB. The transaction was eliminated in the consolidated financial statements for 2008. During the 2009 audit, the asset was evaluated for impairment by the Board and the asset was written off. Therefore, there is no current value. If future transfers occur, IASB value will be determined based on costs incurred and not on potential future earnings.

Current Status: During the 2009 audit, the asset was evaluated for impairment by the Board and the asset was written off. Therefore, there is no current value and no reimbursement due to IASB.

(J) 2008 IRS Form 990: Schedule J of IRS Form 990 is used to report key employees with reportable compensation over $150,000 and also lists the five highest compensated employees with reportable compensation of at least $100,000 who are not officers, directors, trustees or key employees of the organization. We noted the following in our review of the 2008 IRS Form 990, Schedule J (Schedule J) compared to the schedule provided to the Legislative Government Oversight Committee on November 10, 2010 reportedly prepared from IRS Form W-2 (W-2 Schedule). The W-2 Schedule stated, in part, "Employee wages may include any of the following: regular wages, bonus/commission, vacation payout, severance arrangement, auto, insurance, or cell phone allowances."

The following employees were reported as the five highest compensated IASB employees in IRS Form 990, Part II of Schedule J with a comparison to their compensation reported to the Legislative Government Oversight (LGO) Committee from the W-2 Schedule:

Name	Schedule J Total Compensation	Compensation Reported to LGO Committee
Ron Rice	$ 254,919	$ 218,963.80
Jon Muller	207,915	187,183.19
Lawrence Sigel	157,113	122,502.94
Margaret Buckton	152,496	128,855.80
Mary Delagardelle	152,391	120,557.16

(J) <u>2008 IRS Form 990:</u> ***(Continued)***

According to IASB's independent auditors, "The amounts recorded on Schedule J are higher than the amounts reported to the Legislative Oversight Committee as W-2 wages since the wages on Schedule J Column E also include insurance benefits and 401 (k) benefits for each of the respective individuals."

The compensation reported on Schedule J for Lawrence Sigel was overstated. The $157,113 reported in Part II of Schedule J consisted of $143,309 of base compensation plus $13,804 of other compensation for a total of $157,113. However, $143,309 was the base compensation for LeGrande Smith. Mr. Sigel's salary should have been reported as $136,151, consisting of $123,316 of base compensation plus $12,935 of benefits.

The compensation of $143,309 reported for LeGrande Smith in Part VII of Schedule J did not include benefits totaling $13,804, which was inconsistent with the total for compensation and benefits reported for all other employees.

<u>Recommendation:</u> IASB should consult with its independent auditors to determine whether the 2008 IRS Form 990 should be amended.

<u>Response:</u> The auditors have informed IASB that an amended 2008 IRS Form 990 has already been filed.

<u>Current Status:</u> The 2008 IRS From 990 was amended in May 2011.

(K) <u>PaySchools Program:</u> PaySchools is an online payment processing system which allows schools to receive payments by e-check or credit card, giving parents flexibility and control over paying their school-related fees. While initially created to serve Iowa schools, the PaySchools program has expanded to serve schools on a nationwide basis. During fiscal year 2009, the PaySchools program processed transactions exceeding $36,000,000 with significant growth in users and related transactions in subsequent periods. LGS charged and retained a specified percentage fee to schools based on the previous month's gross activity for this program. Bank and/ or merchant fees were charged to PaySchools on a monthly basis and were periodically and randomly reimbursed by LGS.

We requested PaySchools reconciliations to document the program fees received and retained by LGS compared to the banks and/or merchants fees reimbursed by LGS since inception of the program, which should net to the administrative fees allowed to be retained by LGS. The information provided to us consisted of a summary of monthly sales, the program fees owed by schools and the date fees were received or invoiced, but did not include information to reconcile these transactions to bank and/or merchant fees charged to PaySchools and reimbursed by LGS.

IASB's independent auditors provided an excel spreadsheet summarizing PaySchools activity for fiscal year ended June 30, 2009, including receivables and payables. However, the summary did not demonstrate a definitive reconciliation and as such, we were unable to determine whether LGS reimbursed PaySchools for all bank and/or merchant fees. Therefore, we were unable to determine whether LGS retained more than it was entitled to and the effect, if any, on PaySchools Program financial performance and profitability. IASB's independent auditors represented they have been working with IASB to refine the reconciliation.

(K) PaySchools Program: ***(Continued)***

Recommendation: IASB and LGS should review and determine the financial performance status of the PaySchools Program, including requiring separate financial reporting and completion of accurate reconciliations in a timely manner. IASB and LGS should perform an analysis of financial performance and review administrative fees retained by LGS compared to the actual bank and/or merchant fees paid to determine the amount LGS owes the PaySchools Program, if any. IASB should continue to work with the independent auditors to develop a comprehensive reconciliation of PaySchools activity.

Response: IASB has conferred with its independent auditors regarding the financial reporting and reconciliations of the PaySchools Program. LGS staff have developed a template in consultation with the independent auditors to assist in tracking the amount owed to LGS and the amount owed to schools. In addition, LGS will utilize financial software that will allow it to develop program-based financials.

Current Status: No amounts are owed to PaySchools by LGS as PaySchools is a program provided by LGS and therefore all administrative fees generated from the program are funds of LGS. Subsequent to June 30, 2012, LGS has sold the PaySchools program.