

**IOWA SCHOOLS
EMPLOYEE BENEFITS ASSOCIATION**

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2015 AND 2014**

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IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Fiscal Year Ended June 30, 2015

This narrative overview and analysis of the financial activities of the Iowa Schools Employee Benefits Association (ISEBA) is presented by ISEBA's management and is for the fiscal year ended June 30, 2015. The reader is encouraged to consider the information presented herein in conjunction with ISEBA's financial statements, which follow this overview.

Financial Highlights

ISEBA's total net assets for fiscal year June 30, 2015 increased \$97,099 compared to June 30, 2014, primarily due to premium income exceeding expenses of the program for the year. Net assets at June 30, 2015 totaled \$4,817,289, while net assets at June 30, 2014 were \$4,720,190.

This discussion and analysis is intended to serve as an introduction to ISEBA's basic financial statements. ISEBA's basic financial statements consist of: the statements of net assets, the statements of revenues, expenses and changes in net assets, and the statements of cash flows. These basic financial statements also include the notes to the basic financial statements and explain some of the information in the statements and provide more detail.

Overview of the Financial Statements

Statements of net assets: The statements of net assets present the assets, liabilities, and net assets of ISEBA as of the end of the year for the past two years. The statements of net assets are a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of ISEBA. The statements of net assets include year-end information concerning current assets that can reasonably be expected to be collected or consumed within a year. Readers of the financial statements are able to determine ISEBA's financial position over time by analyzing the increases and decreases in net assets. This statement is a reliable source for readers to determine how much ISEBA owes to outside vendors and creditors. The statements also present the available assets that can be used to satisfy those liabilities.

All of ISEBA's net assets are unrestricted and can be used to meet ISEBA's obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2015

Overview of the Financial Statements (Continued)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 5,268,499	\$ 5,304,194	\$ 6,767,996
Non-current assets	<u>2,503,272</u>	<u>2,501,021</u>	-
Total assets	<u>\$ 7,771,771</u>	<u>\$ 7,805,215</u>	<u>\$ 6,767,996</u>
Current liabilities:			
Advanced premiums	\$ 2,937,591	\$ 3,068,985	\$ 2,110,462
Accounts payable	<u>16,891</u>	<u>16,040</u>	<u>14,244</u>
Total current liabilities	<u>\$ 2,954,482</u>	<u>\$ 3,085,025</u>	<u>\$ 2,124,706</u>
Net assets, unrestricted	<u>\$ 4,817,289</u>	<u>\$ 4,720,190</u>	<u>\$ 4,643,290</u>
Total liabilities and net assets	<u>\$ 7,771,771</u>	<u>\$ 7,805,215</u>	<u>\$ 6,767,996</u>

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

Operating revenues are received as premiums and commissions, and comprised \$68,739,869 of the \$69,099,887 in total revenues. Operating expenses were incurred for claims and administration, and comprised \$69,005,692 in total expenses. Non-operating revenues and non-operating expenses consisted of interest income on cash accounts.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 69,099,887	\$ 67,752,917	\$ 65,182,948
Non-operating revenues	<u>2,904</u>	<u>1,471</u>	<u>256</u>
Total revenues	<u>\$ 69,102,791</u>	<u>\$ 67,754,388</u>	<u>\$ 65,183,204</u>
Operating expenses	\$ 69,005,692	\$ 67,677,488	\$ 65,013,805
Total expenses	<u>\$ 69,005,692</u>	<u>\$ 67,677,488</u>	<u>\$ 65,013,805</u>
Change in net assets	<u>\$ 97,099</u>	<u>\$ 76,900</u>	<u>\$ 169,399</u>
Net assets, unrestricted, beginning	<u>\$ 4,720,190</u>	<u>\$ 4,643,290</u>	<u>\$ 4,473,891</u>
Net assets, unrestricted, ending	<u>\$ 4,817,289</u>	<u>\$ 4,720,190</u>	<u>\$ 4,643,290</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2015

Overview of the Financial Statements (Continued)

Statement of cash flows: The statement of cash flows is an important tool in helping the reader to assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement of cash flows presents information related to cash inflows and outflows, summarized by operating and investment activities.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash provided by (used in):			
Operating activities	\$ (24,436)	\$ 1,058,461	\$ (352,305)
Investing activities	653	(2,499,550)	256
Net (decrease) in cash	\$ (23,783)	\$ (1,441,089)	\$ (352,049)
Cash, beginning of year	<u>5,239,820</u>	<u>6,680,909</u>	<u>7,032,958</u>
Cash, end of year	<u>\$ 5,216,037</u>	<u>\$ 5,239,820</u>	<u>\$ 6,680,909</u>

Economic Factors

ISEBA continues its contractual relationships with Reynolds & Reynolds, Inc. for its Third Party Administration. ISEBA has a contractual relationship with IASB for accounting services, these services were previously provided by LGS. The program continues to bring value and delivered another excellent renewal to its participants with a renewal rate of 2.26% for FY 2016.

Contacting ISEBA's Financial Management

This financial report is designed to provide a general overview of ISEBA's finances, and to demonstrate ISEBA's accountability for the resources it receives. If you have questions about this report or need additional financial information, please contact the Iowa Schools Employee Benefits Association, 300 Walnut St., Suite 200, Des Moines, Iowa 50309.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Iowa Schools Employee Benefits Association

Report on the Financial Statements

We have audited the accompanying financial statements of Iowa Schools Employee Benefits Association (ISEBA) which comprise the statements of net assets as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISEBA as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-iii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015, on our consideration of ISEBA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ISEBA's internal control over financial reporting and compliance.

Brosnan Fisher, P.C.

West Des Moines, Iowa
November 17, 2015

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF NET ASSETS

June 30, 2015 and 2014

ASSETS	2015	2014
Cash and cash equivalents	\$ 5,216,037	\$ 5,239,820
Premiums receivable	40,709	37,491
Other receivables	11,753	26,883
Total current assets	<u>\$ 5,268,499</u>	<u>\$ 5,304,194</u>
Certificates of deposit	<u>\$ 2,503,272</u>	<u>\$ 2,501,021</u>
Total assets	<u><u>\$ 7,771,771</u></u>	<u><u>\$ 7,805,215</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advanced premiums	\$ 2,937,591	\$ 3,068,985
Accounts payable	16,891	16,040
Total current liabilities	<u>\$ 2,954,482</u>	<u>\$ 3,085,025</u>
NET ASSETS	<u>\$ 4,817,289</u>	<u>\$ 4,720,190</u>
Total liabilities and net assets	<u><u>\$ 7,771,771</u></u>	<u><u>\$ 7,805,215</u></u>

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Premiums earned	\$ 68,739,869	\$ 67,380,225
Commission income	<u>360,018</u>	<u>372,692</u>
Net operating revenues	<u>\$ 69,099,887</u>	<u>\$ 67,752,917</u>
OPERATING EXPENSES		
Premiums paid to insurance companies	\$ 67,222,855	\$ 65,919,499
Program administration - Reynolds & Reynolds	1,249,410	1,212,247
Program administration - 2015: IASB; 2014: LGS	60,000	60,000
Sponsorship - IASB	189,918	182,503
Sponsorship - ISEA	62,480	60,626
Commissions - Reynolds & Reynolds	173,504	180,174
Accounting	9,450	11,150
Professional fees	20,002	32,828
Office supplies	100	106
Board expense	1,569	1,707
Insurance	12,484	12,785
Wellness program	3,920	3,800
Miscellaneous expense	<u>-</u>	<u>63</u>
Total operating expenses	<u>\$ 69,005,692</u>	<u>\$ 67,677,488</u>
Operating income	<u>\$ 94,195</u>	<u>\$ 75,429</u>
NON-OPERATING REVENUES		
Interest income	<u>\$ 2,904</u>	<u>\$ 1,471</u>
Total non-operating revenues	<u>\$ 2,904</u>	<u>\$ 1,471</u>
Change in net assets	<u>\$ 97,099</u>	<u>\$ 76,900</u>
Net assets, beginning of year	<u>\$ 4,720,190</u>	<u>\$ 4,643,290</u>
Net assets, end of year	<u><u>\$ 4,817,289</u></u>	<u><u>\$ 4,720,190</u></u>

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from premiums	\$ 68,605,257	\$ 68,369,809
Cash received from commissions	375,148	364,344
Cash payments to insurance companies	(67,222,855)	(65,919,499)
Cash payments for program and administration services	(1,563,510)	(1,512,361)
Cash payments for general and administrative expenses	(218,476)	(243,832)
	\$ (24,436)	\$ 1,058,461
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	\$ (2,251)	\$ (2,501,021)
Interest income	2,904	1,471
	\$ 653	\$ (2,499,550)
Net cash provided by (used in) investing activities	\$ 653	\$ (2,499,550)
Net (decrease) in cash and cash equivalents	\$ (23,783)	\$ (1,441,089)
Cash and cash equivalents at beginning of year	5,239,820	6,680,909
Cash and cash equivalents at end of year	\$ 5,216,037	\$ 5,239,820
 Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating income	\$ 94,195	\$ 75,429
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Decrease in receivables	11,912	22,713
(Decrease) increase in advanced premiums	(131,394)	958,523
Increase in accounts payable	851	1,796
	\$ (24,436)	\$ 1,058,461
Net cash (used in) provided by operating activities	\$ (24,436)	\$ 1,058,461

See Notes to Financial Statements.

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Iowa Schools Employee Benefits Association (ISEBA) was formed July 1, 1999 under Chapter 28E of the Code of Iowa and provides insurance for medical, vision, life, dental, accidental death coverage, and other voluntary benefit products to Iowa school districts and area education agencies.

Significant accounting policies:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as they apply to governmental entities pursuant to the Governmental Accounting Standards Board (GASB) Codification Standards.

Measurement focus and basis of accounting: The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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: For purposes of the statements of cash flows, ISEBA considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments: Investments consist of certificates of deposits and are stated at their current value.

Premiums paid to insurance companies: Premiums paid to insurance companies consist of premiums for medical, vision, life, dental, accidental death coverage, and other voluntary benefit product premiums paid by ISEBA on behalf of the participants.

Operating revenues and expenses: Operating revenues result from exchange transactions associated with the principle activity of ISEBA, the providing of insurance coverage. Operating expenses are defined as expenses directly related to, or incurred in support of, the providing of insurance coverage to participating members. Interest income is classified as a non-operating revenue.

Income taxes: ISEBA was formed under Chapter 28E of the Iowa Code and is tax-exempt as it is an instrumentality of the state of Iowa.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents, and Certificates of Deposit

ISEBA's cash and cash equivalent deposits as of June 30, 2015 and 2014 were invested in the Iowa Schools Joint Investment Trust in accordance with Chapters 12B and 12C, Code of Iowa. These Chapters provide for additional assessments against the depositories to ensure there will be no loss of public funds. As of June 30, 2015 and 2014, the carrying amounts of ISEBA's cash deposits were \$5,216,037 and \$5,239,820, respectively.

ISEBA's certificates of deposit as of June 30, 2015 and 2014 were invested with financial institutions approved by the treasurer of the State of Iowa's program to protect public funds. These financial institutions must abide by Chapter 12C and 13 of the Code of Iowa. As of June 30, 2015 and 2014, the carrying amount of ISEBA's certificates of deposit was \$2,503,272 and \$2,501,021, respectively.

Note 3. Related Party Transactions

ISEBA is a related party to the IASB through common board members. For the year ended June 30, 2014, ISEBA had an accounting services agreement with LGS for \$60,000 annually, paid in monthly installments of \$5,000 per month. For the year ended June 30, 2015, the accounting services agreement was transferred to IASB under the same terms as the original agreement. ISEBA has a sponsorship agreement with the Iowa State Education Association (ISEA) to pay 10 basis points of overall premiums billed. For the years ended June 30, 2015 and 2014, ISEA was paid \$62,480 and \$60,626, respectively, for sponsorship. ISEBA has a sponsorship agreement with IASB to pay one-half percent of overall premiums billed, less \$5,000 per month, and less 10 basis points of overall premiums billed monthly which is paid to ISEA for joint sponsorship. For the years ended June 30, 2015 and 2014, IASB was paid \$189,918 and \$182,503 for sponsorship, respectively.

ISEBA has entered into an agreement with Reynolds & Reynolds, Inc. to provide certain administrative services to ISEBA. The administrative service fee is calculated as 2% of monthly billed medical premiums. For the years ended June 30, 2015 and 2014, \$1,249,410 and \$1,212,247 was paid to Reynolds & Reynolds, Inc. for administrative services. In addition, the agreement calls for 50/50 sharing of commissions between ISEBA and Reynolds & Reynolds for non-medical products. For any commissions earned on any other services, the sharing is 25/75 for ISEBA and Reynolds & Reynolds, and commissions earned on any new non-medical business acquired after the effective date of the agreement, the sharing is 20/80 ISEBA and Reynolds & Reynolds. For the years ended June 30, 2015 and 2014, \$173,504 and \$180,174, respectively, were paid to Reynolds & Reynolds, Inc. for commissions. Total amount due to Reynolds & Reynolds, Inc. at June 30, 2015 and 2014 was \$6,556 and \$8,258, respectively.

Note 4. Subsequent Events

Management has evaluated subsequent events through November 17, 2015, the date the audit report was available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Iowa Schools Employee Benefits Association

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Iowa Schools Employee Benefits Association (ISEBA) which comprise the statement of net assets as of June 30, 2015, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ISEBA's internal control over financial reporting (internal control) to determine the 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 ISEBA's internal control. Accordingly, we do not express an opinion on the effectiveness of ISEBA's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ISEBA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brooks Jolich, P.C.

West Des Moines, Iowa
November 17, 2015

IOWA SCHOOLS EMPLOYEE BENEFITS ASSOCIATION

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

Financial Statement Section:

Type of auditor's report issued:	<u>Unmodified Opinion</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(s) identified not considered to be material weaknesses?	_____ Yes	<u> X </u> No
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Part II: Findings Related to the Financial Statement Audit

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

None noted

Part III: Instances of Non-Compliance:

None noted