



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ June 27, 2003 _____ Contact: Andy Nielsen
515/281-5515

Auditor of State David A. Vaudt today released an audit report on the Northeast Iowa Schools Insurance Trust.

The Trust had total receipts of \$9,282,342 during the year ended June 30, 2002, which included \$9,261,162 for premiums from the participating member school districts and retirees. The Trust had total receipts of \$7,008,876 during the year ended June 30, 2001, which included \$6,995,575 for premiums from the participating member school districts and retirees. The significant increase in receipts is primarily due to an increase in the insurance premium rates charged to the individual school districts.

Disbursements totaled \$8,410,174 for the year ended June 30, 2002, and included \$7,553,408 for claims, \$402,759 for reinsurance premiums and \$304,796 for administrative fees. Disbursements totaled \$6,578,603 for the year ended June 30, 2001, which included \$5,655,091 for claims, \$584,395 for reinsurance premiums and \$220,479 for administrative fees.

The report contains recommendations to the Trust administrators and participating school districts. The Trust Administrators' responses are included in this report.

A copy of the audit report is available for review in the office of the Auditor of State.

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**NORTHEAST IOWA SCHOOLS
INSURANCE TRUST**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SCHEDULE OF FINDINGS**

JUNE 30, 2002 and 2001

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**Northeast Iowa Schools
Insurance Trust**

Officials

Name

Organization

Participating Schools

Omer Troyer, Superintendent
Steve Chambliss, Superintendent
Doug Sharp, Superintendent
Ron Sadler, Superintendent
Robert Longmuir, Superintendent
Ronald O'Kones, Superintendent
James Patera, Superintendent
Dave Strudthoff, Superintendent
Gary Stumberg, Superintendent

Allamakee Community School District
Decorah Community School District
Eastern Allamakee Community School District
Howard-Winneshiek Community School District
New Hampton Community School District
North Fayette Community School District
Oelwein Community School District
Postville Community School District
Starmont Community School District

Trust Administrators

Loren Kiel
Arne Beneke

Midwest Benefits, Inc.
American Express Financial Advisors, Inc.

Plan Administrators

Mike Fye, Chief Accountant
Pam Silverman, Director of Group
Operations

Corporate Diversified Services, Inc.
Corporate Diversified Services, Inc.

**Northeast Iowa Schools
Insurance Trust**



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Independent Auditor's Report

To the Trust Administrators and Superintendents of the
participating School Districts of the Northeast Iowa
Schools Insurance Trust:

We have audited the statement of cash transactions of the Northeast Iowa Schools Insurance Trust (Trust) as of and for the years ended June 30, 2002 and 2001. This financial statement is the responsibility of the Trust Administrators. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the aforementioned statement of cash transactions presents fairly, in all material respects, the results of the cash transactions of the Northeast Iowa Schools Insurance Trust as of and for the years ended June 30, 2002 and 2001, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 18, 2003 on our consideration of Northeast Iowa Schools Insurance Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 18, 2003

**Northeast Iowa Schools
Insurance Trust**

Financial Statement

Exhibit ANortheast Iowa Schools
Insurance Trust

Statement of Cash Transactions

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Receipts:		
Premiums from Schools and retirees	\$ 9,261,162	6,995,575
Refunds and reimbursements	11,538	1,755
Interest on investments	9,642	11,546
Total receipts	<u>9,282,342</u>	<u>7,008,876</u>
Disbursements:		
Claims	7,553,408	5,655,091
Reinsurance premiums	402,759	584,395
Administrative fees	304,796	220,479
Liaison fees	49,652	6,000
Preferred provider organization fees	45,711	41,485
Insurance broker fees	40,495	33,858
Precertification fees	-	29,040
Audit and accounting fees	8,100	-
Actuarial and other fees	1,269	950
Set up fees	-	2,400
Liability insurance	2,151	2,063
Miscellaneous	1,833	2,842
Total disbursements	<u>8,410,174</u>	<u>6,578,603</u>
Excess of receipts over disbursements	872,168	430,273
Balance beginning of the year	422,319	(7,954)
Balance end of year	<u>\$ 1,294,487</u>	<u>422,319</u>

See notes to financial statement.

Northeast Iowa Schools
Insurance Trust

Notes to Financial Statement

June 30, 2002

(1) Summary of Significant Accounting Policies

The Northeast Iowa Schools Insurance Trust (Trust) is a voluntary joint undertaking of the Allamakee, Decorah, Eastern Allamakee, Howard-Winneshiek, New Hampton, North Fayette, Oelwein, Postville and Starmont Community School Districts, as authorized by Chapter 28E of the Code of Iowa. The primary purpose of the Trust is to provide medical and dental benefits to the Schools' employees, retirees, and their dependents pursuant to a plan adopted by the Schools and administered by Corporate Diversified Services, Inc.

If terminated, five percent of the Trust would be distributed to the Trust Administrators as fees. The balance of the Trust would be divided and distributed to the member school districts on the basis of the current number of employees enrolled.

A. Reporting Entity

For financial reporting purposes, the Trust has included all funds. The Trust has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Trust are such that exclusion would cause the Trust's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Trust to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Trust. The Trust has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

The Trust maintains its financial records on the basis of cash receipts and disbursements, and the financial statement of the Trust is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items, including claims incurred but not reported as of June 30, 2002. Accordingly, the financial statement does not present the financial position and results of operations of the Trust in accordance with U.S. generally accepted accounting principles.

(2) Deposits and Investments

Except for certain deposits held in a depository outside the State of Iowa, the Trust's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Trust is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Superintendents of the participating school districts; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Trust's deposits at June 30, 2002 are as follows:

Money market accounts	\$ 1,011,146
Checking accounts	183,742
Certificate of deposit	<u>99,599</u>
 Total	 <u>\$ 1,294,487</u>

(3) Reinsurance Coverage and Limits of Liability

Each participating school district purchases reinsurance, or stop-loss insurance, which limits the total participants' liability in each plan year. During the fiscal year ended June 30, 2002, the stop-loss insurance purchased by each of the schools covered claims in excess of \$80,000 per individual (stop loss level per individual) and \$7,568,102 in the aggregate (stop loss level in aggregate). The individual stop-loss insurance provides protection from major or catastrophic claims on each individual. The aggregate stop-loss insurance provides a limit, or cap, on the total cost to the group (Trust). The stop-loss level in the aggregate, determined annually through an actuarial analysis, is determined by past claims history for each individual group and includes future actuarial projections of expected claims and a reserve factor. The maximum cost or liability of each participant of the Trust in any plan year is the sum of the stop-loss level in the aggregate, the stop-loss premiums and administrative costs.

The accompanying financial statement reflects receipts from the participating school districts and retirees for premiums to the Trust and disbursements by the Trust for claims, stop-loss insurance premiums and administrative costs. The accompanying financial statement does not reflect covered claims incurred during the plan year but not reported as of June 30, 2002. The contract which the school districts participate under allows for the payment of claims incurred but not reported as of the end of the contract period to be paid under that contract if reported within ninety days after the contract period or plan year ends. The amount of claims incurred during the plan year but not reported and reported but not paid was \$1,133,011.

(4) Third Party Administrative Fees

The Trust had an agreement with Corporate Diversified Services, Inc. for services as claims processor for the plan through June 30, 2002. The agreement provided for the payment of administrative fees. During the year ended June 30, 2002, Corporate Diversified Services, Inc. was paid \$289,296 for these services. On July 1, 2002, the Trust entered into an agreement with Midwest Benefits, Inc. for services as claims processor for the plan.



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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Trust Administrators and Superintendents of the
participating School Districts of the Northeast Iowa
Schools Insurance Trust:

We have audited the financial statement of the Northeast Iowa Schools Insurance Trust as of and for the year ended June 30, 2002, and have issued our report thereon dated April 18, 2003. Our report expressed an unqualified opinion on the financial statement, which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Northeast Iowa Schools Insurance Trust's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Trust's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Trust. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year comments have not been resolved and are restated as items (1) and (3).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northeast Iowa Schools Insurance Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur or not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information of the members and customers of the Northeast Iowa Schools Insurance Trust and other parties to whom the Trust may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Northeast Iowa Schools Insurance Trust during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 18, 2003

Northeast Iowa Schools
Insurance Trust

Schedule of Findings

Year ended June 30, 2002

Findings Related to the Financial Statement:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were identified.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories – A resolution naming the official depositories has been approved by the Trust. However, maximum deposit amounts for each bank were not included on the depository resolution as required by Chapter 12C.2 of the Code of Iowa.

In addition, Chapters 12C.4 and 12C.5 of the Code of Iowa state in part the “deposits must be held in the County or adjoining County in which the entity is located unless deposits are refused, then the deposits must be held in depositories within the State of Iowa.” Trust officials allowed certain deposits to be held in a depository outside the State of Iowa.

Recommendation – Trust officials should adopt a new depository resolution which establishes maximum amounts for each bank. Also, Trust officials should deposit funds at institutions located within the State of Iowa.

Response – The depository resolution will be redone with the maximums listed for each depository. As of June 30, 2003, the Trust Plan Administrator has changed its third party claims processor to Midwest Benefits which is an Iowa company. All Trust assets will be held in Iowa from now on.

Conclusion – Response accepted.

- (2) Minutes – No transactions were noted that we believe should have been approved in the minutes but were not.

- (3) Deposits and Investments – The Trust has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa, but the policy allows investments outside the State of Iowa which does not comply with Chapter 12B of the Code of Iowa.

Recommendation – Trust officials should adopt a written investment policy that complies with the provisions of Chapter 12B of the Code of Iowa.

Response – As of June 30, 2003, the Third Party Administrator has changed their third party claims processor to Midwest Benefits which is an Iowa company. All Trust assets will be held in Iowa from now on.

Conclusion – Response acknowledged. The Trust should also modify its investment policy to comply with the Code of Iowa.

Northeast Iowa Schools
Insurance Trust

Schedule of Findings

Year ended June 30, 2002

- (4) Actuarial Opinion – The Trust obtained an actuarial opinion which attests to the adequacy of reserves, rates and the financial condition of the plan as required by Chapter 509A of the Code of Iowa.

Northeast Iowa Schools
Insurance Trust

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Shawn P. Limback, CPA, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State