



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

June 27, 2012

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Northeast Iowa Schools Insurance Trust for the year ended June 30, 2011.

The Trust had total receipts of \$11,617,785 during the year ended June 30, 2011, a 3% decrease from the prior year. The receipts included \$11,492,349 of premiums from member school districts and retirees.

Disbursements for the year totaled \$10,880,618, a 16.7% decrease from the prior year, and included \$2,103,163 for claims, \$8,472,383 for premiums and \$166,981 for administrative fees.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1114-2342-B00F.pdf>.

# # #



**NORTHEAST IOWA SCHOOLS  
INSURANCE TRUST**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENT AND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2011**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5
Management's Discussion and Analysis	6-8
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A      10
Notes to Financial Statement	11-12
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>	15-16
Schedule of Findings	17
Staff	18

**Northeast Iowa Schools  
Insurance Trust**

**Officials**

Name

Organization

**Participating School Districts**

Dave Herold, Superintendent	Allamakee Community School District
Michael Haluska, Superintendent	Decorah Community School District
Dianne Anderson, Superintendent	Howard-Winneshiek Community School District
Stephen Nicholson, Superintendent	New Hampton Community School District
Duane Willhite, Superintendent	North Fayette Community School District
Timothy Dugger, Superintendent	North Winneshiek Community School District
Steve Westerberg, Superintendent	Oelwein Community School District
Herman Maxey, Superintendent	Postville Community School District
Chris Hoover, Superintendent	South Winneshiek Community School District
Matt O'Loughlin, Superintendent	Starmont Community School District

**Trust Administrator**

(Through July 31, 2011)

Arne Beneke	Beneke and Associates
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**Claims Administrator**

Sara Hotvedt, Chief Operating Officer	Midwest Group Benefits, Inc.
Rachel Narum, Benefits Administrator	Midwest Group Benefits, Inc.

**Northeast Iowa Schools  
Insurance Trust**



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Independent Auditor's Report

To the Trust Administrator 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, 2011. This financial statement is the responsibility of the Trust Administrator. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 our audit provides a reasonable basis for our opinion.

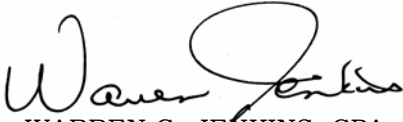
As described in Note 1, this financial statement is prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Northeast Iowa Schools Insurance Trust as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2012 on our consideration of the Northeast Iowa Schools Insurance Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 6 through 8 is not a required part of the financial statement, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 20, 2012

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Northeast Iowa Schools Insurance Trust provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities of the Northeast Iowa Schools Insurance Trust is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the Trust's financial statement, which follows.

### **2011 FINANCIAL HIGHLIGHTS**

- The Trust's operating receipts decreased 3.3%, or \$390,204, from fiscal year 2010 to fiscal year 2011.
- The Trust's operating disbursements decreased 16.7%, or \$2,183,559, from fiscal year 2010 to fiscal year 2011.
- The Trust's net assets increased 36.4%, or \$737,167, from June 30, 2010 to June 30, 2011.

### **USING THIS ANNUAL REPORT**

The Northeast Iowa Schools Insurance Trust has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Trust's cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Northeast Iowa Schools Insurance Trust's financial statement and other information, as follows:

- Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Trust's financial activities.
- The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Trust's operating receipts and disbursements, non-operating receipts and whether the Trust's cash basis financial position has improved or deteriorated as a result of the year's activities.
- The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.



## FINANCIAL ANALYSIS OF THE TRUST

### Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets

The purpose of the statement is to present the receipts received by the Trust and the disbursements paid by the Trust, both operating and non-operating. The statement also presents a fiscal snapshot of the Trust's cash basis balance at year end. Over time, readers of the financial statement are able to determine the Trust's cash basis financial position by analyzing the increase and decrease in cash basis net assets.

Operating receipts primarily include insurance premiums received from member school districts and retirees. Operating disbursements are disbursements paid primarily for medical and dental claims for covered school employees, retirees and their dependents and premiums. Non-operating receipts are from interest on investments.

In fiscal year 2011, operating receipts decreased \$390,204, or 3.3%. The decrease was primarily due to less rebates and premiums being received during fiscal year 2011. In fiscal year 2010, operating disbursements decreased \$2,183,559, or 16.7%, from fiscal year 2010, primarily due to a decrease in the amount of claims paid, net of premiums paid.

A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2011 and June 30, 2010 is presented below:

	2011	2010
Operating receipts:		
Premiums from schools and retirees	\$ 11,492,349	\$ 11,674,510
Refunds and reimbursements	72,419	303,162
Miscellaneous	25,135	2,435
Total operating receipts	<u>11,589,903</u>	<u>11,980,107</u>
Operating disbursements:		
Claims	2,103,163	4,966,870
Premiums	8,472,383	7,664,218
Administrative fees	166,981	264,138
Liaison fees	45,819	52,411
Preferred provider organization fees	76,328	93,175
Actuarial, audit and other fees	3,064	12,623
Miscellaneous	12,880	10,742
Total operating disbursements	<u>10,880,618</u>	<u>13,064,177</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	709,285	(1,084,070)
Non-operating receipts:		
Interest on investments	<u>27,882</u>	<u>34,460</u>
Change in cash basis net assets	737,167	(1,049,610)
Cash basis net assets beginning of year	<u>2,024,093</u>	<u>3,073,703</u>
Cash basis net assets end of year	<u>\$ 2,761,260</u>	<u>\$ 2,024,093</u>

## **DEBT ADMINISTRATION**

At June 30, 2011, the Trust had no long-term debt outstanding.

## **ECONOMIC FACTORS**

The current condition of the economy continues to be a concern for Trust officials. The Trust has raised the medical insurance premium rates for all plans approximately 1% for the next year to provide for anticipated increased medical costs. The cost of claims with medical inflation is projected to increase 5.75% next year. With the cash basis net asset balance of the Trust at June 30, 2011, it was decided the Trust would not raise premium rates as much as the projected medical inflation increase.

## **CONTACTING THE TRUST'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our members and customers with a general overview of the Trust's finances and to show the Trust's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Midwest Group Benefits, Inc., Trust and Claims Administrator, P.O. Box 408, Decorah, Iowa 52101.

## **Financial Statement**

**Exhibit A**

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Northeast Iowa Schools  
Insurance TrustStatement of Cash Receipts, Disbursements and  
Changes in Cash Basis Net Assets

As of and for the year ended June 30, 2011

Operating receipts:	
Premiums from schools and retirees	\$ 11,492,349
Refunds and reimbursements	72,419
Miscellaneous	25,135
Total operating receipts	<u>11,589,903</u>
Operating disbursements:	
Claims	2,103,163
Premiums	8,472,383
Administrative fees	166,981
Liaison fees	45,819
Preferred provider organization fees	76,328
Actuarial, audit and other fees	3,064
Miscellaneous	12,880
Total operating disbursements	<u>10,880,618</u>
Excess of operating receipts over operating disbursements	709,285
Non-operating receipts:	
Interest on investments	<u>27,882</u>
Change in cash basis net assets	737,167
Cash basis net assets beginning of year	<u>2,024,093</u>
Cash basis net assets end of year	<u>\$ 2,761,260</u>
<b>Cash Basis Net Assets</b>	
Unrestricted	<u>\$ 2,761,260</u>

See notes to financial statement.

Northeast Iowa Schools  
Insurance Trust

Notes to Financial Statement

June 30, 2011

**(1) Summary of Significant Accounting Policies**

The Northeast Iowa Schools Insurance Trust (Trust) is a voluntary joint undertaking of the Allamakee, Decorah, Howard-Winneshiek, New Hampton, North Fayette, North Winneshiek, Oelwein, Postville, South Winneshiek 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 Midwest Group Benefits, Inc.

If terminated, the balance of the Trust remaining after payment of all claims and expenses 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 Presentation

The accounts of the Trust are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

### C. 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, 2011. 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) Cash and Investments**

The Trust's deposits in banks at June 30, 2011 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 the 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

#### **(3) Third Party Administrative Fees**

On July 1, 2002, the Trust entered into an agreement with Midwest Group Benefits, Inc. for services as claims processor for the plan. The agreement provides for the payment of administrative fees. During the year ended June 30, 2011, Midwest Group Benefits, Inc. was paid \$166,981 for these services.

#### **(4) Other Postemployment Benefits (OPEB)**

The Trust obtained an actuarial valuation with a valuation date of July 1, 2010. However, the valuations were performed on an individual basis for the ten member schools and those OPEB disclosures are included in the financial statements of the individual member schools.

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of a Financial Statement Performed in Accordance with  
Government Auditing Standards**

**Northeast Iowa Schools  
Insurance Trust**





# OFFICE OF AUDITOR OF STATE

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Auditor of State

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of a Financial Statement Performed in Accordance with  
Government Auditing Standards

To the Trust Administrator and Superintendents of the  
Participating School Districts of the Northeast Iowa  
Schools Insurance Trust:

We have audited the accompanying financial statement of the Northeast Iowa Schools Insurance Trust as of and for the year ended June 30, 2011, and have issued our report thereon dated June 20, 2012. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Trust is responsible for establishing and maintaining effective 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northeast Iowa Schools Insurance Trust's internal control over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Trust's financial statement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting we consider to be a significant deficiency in internal control over financial reporting. 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. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a significant deficiency.

## Compliance and Other Matters

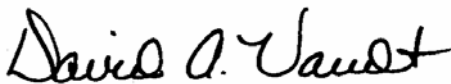
As part of obtaining reasonable assurance about whether the Northeast Iowa Schools Insurance Trust's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance or other matters which is 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, 2011 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.

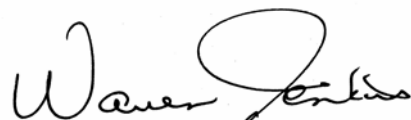
The Northeast Iowa Schools Insurance Trust's written responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Trust's responses, we did not audit the Trust's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use 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 the 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

June 20, 2012

Northeast Iowa Schools  
Insurance Trust

Schedule of Findings

Year ended June 30, 2011

**Findings Related to the Financial Statement:**

**SIGNIFICANT DEFICIENCY:**

- (A) Consultant Contract/Fees - Per the consultant's contract, the consultant is to earn \$3.00 per month for each employee enrolled in the program. The consultant is to receive these fees monthly within 10 days following receipt of an invoice. For four months during the year ended June 30, 2011, the consultant fees were not paid during the month after the fees were earned.

Recommendation - The consultant fees should be paid monthly for the amount earned in the prior month. This would eliminate the possibility of missing a monthly payment.

Response - Effective August 1, 2011, Arne Beneke is no longer the consultant. MGB has taken over this role and will be paid in accordance with the contract.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

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

The minutes of Board proceedings were not published within twenty days and did not contain a schedule of bills allowed as required by Chapter 28E.6 of the Code of Iowa.

Recommendation - The Trust should consult legal counsel to ensure compliance with Chapter 28E.6 of the Code of Iowa.

Response - The Trust will research, review and seek legal counsel in regard to the necessity of publishing proceedings and a schedule of bills.

Conclusion - Response accepted.

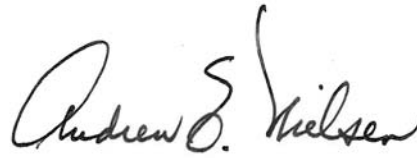
- (2) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Trust's investment policy were noted.

Northeast Iowa Schools  
Insurance Trust

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager  
Michael R. Field, Senior Auditor  
Michael T. Bunkers, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State