



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 18, 2004

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

The Trust had total receipts of \$9,902,104 during the year ended June 30, 2003, which included \$9,844,469 of premiums from member school districts and retirees. The Trust had total receipts of \$9,282,342 during the year ended June 30, 2002, which included \$9,261,162 of premiums from member school districts and retirees. The increase in receipts is primarily due to an increase in the insurance premium rates charged to the individual school districts.

Disbursements totaled \$8,763,352 for the year ended June 30, 2003, and included \$7,895,154 for claims, \$456,762 for reinsurance premiums and \$315,588 for administrative fees. 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.

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

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

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**NORTHEAST IOWA SCHOOLS
INSURANCE TRUST**

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

JUNE 30, 2003 and 2002

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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 Administrator

Arne Beneke

American Express Financial Advisors, Inc.

Plan Administrator

Rock Tucheck, President
Loren Kiel, Director of Marketing
and Business Development
Brenda Kirkeby, Business Manager

Midwest Group Benefits, Inc.
Midwest Group Benefits, Inc.
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 statement of cash transactions of the Northeast Iowa Schools Insurance Trust (Trust) as of and for the years ended June 30, 2003 and 2002. This financial statement is the responsibility of the Trust Administrator. 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 was 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, 2003 and 2002 on the basis of accounting described in note 1.

As discussed in note 5, the Northeast Iowa Schools Insurance Trust intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, for the year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the Trust's financial statements and related notes in the year of implementation. The revised requirements include an analytical overview of the Trust's financial activities in the Management's Discussion and Analysis introduction to the financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2004 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 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 13, 2004

**Northeast Iowa Schools
Insurance Trust**

Financial Statement

Exhibit ANortheast Iowa Schools
Insurance Trust

Statement of Cash Transactions

Years ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Receipts:		
Premiums from schools and retirees	\$ 9,844,469	9,261,162
Refunds and reimbursements	32,259	11,538
Interest on investments	25,376	9,642
Total receipts	<u>9,902,104</u>	<u>9,282,342</u>
Disbursements:		
Claims	7,895,154	7,553,408
Reinsurance premiums	456,762	402,759
Administrative fees	315,588	304,796
Liaison fees	43,612	49,652
Preferred provider organization fees	46,199	45,711
Insurance broker fees	-	40,495
Audit and accounting fees	-	8,100
Actuarial and other fees	1,130	1,269
Liability insurance	4,326	2,151
Miscellaneous	581	1,833
Total disbursements	<u>8,763,352</u>	<u>8,410,174</u>
Excess of receipts over disbursements	1,138,752	872,168
Balance beginning of the year	<u>1,294,487</u>	<u>422,319</u>
Balance end of year	<u>\$ 2,433,239</u>	<u>1,294,487</u>

See notes to financial statement.

Northeast Iowa Schools
Insurance Trust

Notes to Financial Statement

June 30, 2003

(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 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 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, 2003. 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

The Trust's deposits in banks at June 30, 2003 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, 2003 are as follows:

Money market accounts	\$ 1,024,296
Checking accounts	1,306,245
Certificate of deposit	<u>102,698</u>
Total	<u>\$ 2,433,239</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, 2003, 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 \$9,445,786 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, reinsurance premiums and administrative fees. The accompanying financial statement does not reflect covered claims incurred during the plan year but not reported as of June 30, 2003. 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 \$1,184,273.

(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. 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, 2003, Midwest Group Benefits, Inc. was paid \$305,454 for these services.

(5) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the year ending June 30, 2004. The effects are expected to significantly impact the presentation of the Trust's financial statements in the year of implementation. The revised minimum reporting requirements include Management's Discussion and Analysis to introduce the financial statements and to provide an analytical overview of the Trust's financial activities.



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

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, 2003, and have issued our report thereon dated April 13, 2004. 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 certain 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, 2003 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).

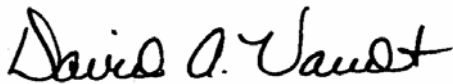
Internal Control Over Financial Reporting

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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Trust's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

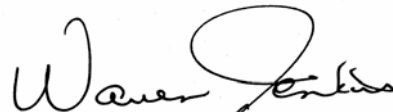
A material weakness is a condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur or not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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 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

April 13, 2004

Northeast Iowa Schools
Insurance Trust

Schedule of Findings

Year ended June 30, 2003

Findings Related to the Financial Statement:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

- (A) Monthly Bank to Book Reconciliations – Although bank accounts are reconciled at the end of each month by the third party administrator, the balances were not reconciled to the consultant's monthly reconciliation of Trust Fund balance. The resulting variances were investigated and resolved for financial statement presentation. In addition, listings of outstanding checks for the bank reconciliations were not retained.

Recommendation – To improve financial accountability and control, the Trust Fund balance should be reconciled monthly to the bank accounts. Any variances should be investigated and resolved in a timely manner. A listing of outstanding checks should be retained.

Response – To improve financial accountability, Midwest Group Benefits, Inc. will begin reconciling their report with the consultant's monthly financial statement for the Trust. Any variances will be investigated and resolved in a timely manner. Midwest Group Benefits Inc. will keep a detailed listing of outstanding checks instead of a Summary Report.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

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

The Trust had certain deposits in a depository outside the State of Iowa until September 2002.

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

Response – At the May 2004 Board meeting, the Board will approve a new, updated depository resolution with the maximum amounts listed for each depository and only depositories in Iowa will be on the list.

Conclusion – Response accepted.

Northeast Iowa Schools
Insurance Trust

Schedule of Findings

Year ended June 30, 2003

- (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 – Trust officials at the April 28, 2004 Board meeting adopted an updated Investment Policy that complies with the provisions of Chapter 12B of the Code of Iowa.

Conclusion – Response accepted.

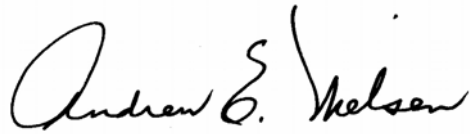
- (4) Actuarial Opinion – The Trust obtained an actuarial opinion which attests to the adequacy of reserves, rates and the financial condition of the plan as required by Chapter 509A of the Code of Iowa.

Northeast Iowa Schools
Insurance Trust

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Richard C. Brown, CGFM, Senior 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