



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE June 20, 2005

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 for the year ended June 30, 2004.

The Trust had total receipts of \$10,581,925 during the year ended June 30, 2004, a 6.9 percent increase over the prior year. The receipts included \$10,529,634 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 participating school districts.

Disbursements for the year totaled \$9,562,925, a 9.1 percent increase over the prior year, and included \$8,593,267 for claims, \$519,972 for reinsurance premiums and \$338,257 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 STATEMENT AND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5
Management's Discussion and Analysis	7-9
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A 11
Notes to Financial Statement	12-14
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	17-18
Schedule of Findings	19
Staff	20

**Northeast Iowa Schools
Insurance Trust**

Officials

Name

Organization

Participating Schools

John Speer, Superintendent
Steve Chambliss, Superintendent
Wayne Burk Superintendent
Ron Sadler, Superintendent
Terry Christie, 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.

Claims Administrator

Rock Tuchek, President
Brenda Kirkeby, Business Manager

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 financial statement of the Northeast Iowa Schools Insurance Trust (Trust) as of and for the year ended June 30, 2004. 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, 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 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, 2004 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 5, during the year ended June 30, 2004, the Northeast Iowa Schools Insurance Trust adopted 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2005 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.

Management's Discussion and Analysis on pages 7 through 9 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 thereon.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 14, 2005

**Northeast Iowa Schools
Insurance Trust**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2004. We encourage readers to consider this information in conjunction with the Trust's financial statement, which follows.

2004 FINANCIAL HIGHLIGHTS

- The Trust's operating receipts increased 6.9%, or \$681,257, from fiscal 2003 to fiscal 2004.
- The Trust's operating disbursements increased \$799,573, or 9.1%, from fiscal 2003 to fiscal 2004.
- The Trust's net assets increased 41.9%, or \$1,019,000, from June 30, 2003 to June 30, 2004.

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 Northeast Iowa Schools Insurance Trust's 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 this 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, the reader 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 disbursements 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. Non-operating receipts are from interest on investments. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2004 and June 30, 2003 is presented below:

	2004	2003
Operating receipts:		
Premiums from schools and retirees	\$ 10,529,634	9,844,469
Refunds and reimbursements	28,351	32,259
Total operating receipts	<u>10,557,985</u>	<u>9,876,728</u>
Operating disbursements:		
Claims	8,593,267	7,895,154
Reinsurance premiums	519,972	456,762
Administrative fees	338,257	315,588
Liaison fees	45,000	43,612
Preferred provider organization fees	59,462	46,199
Actuarial, audit and other fees	4,512	1,130
Liability insurance	-	4,326
Miscellaneous	2,455	581
Total operating disbursements	<u>9,562,925</u>	<u>8,763,352</u>
Excess of operating receipts over operating disbursements	995,060	1,113,376
Non-operating receipts:		
Interest on investments	<u>23,940</u>	<u>25,376</u>
Change in cash basis net assets	1,019,000	1,138,752
Cash basis net assets beginning of year	<u>2,433,239</u>	<u>1,294,487</u>
Cash basis net assets end of year	<u>\$ 3,452,239</u>	<u>2,433,239</u>

In fiscal 2004, operating receipts increased by \$681,257, or 6.9%. The increase was primarily a result of an increase in the premium rates for all plans for fiscal year 2004. In fiscal 2004, operating disbursements increased by \$799,573, or 9.1%, from fiscal 2003, primarily due to increases in the cost of claims paid of \$698,113 and the cost of reinsurance premiums of \$63,210.

DEBT ADMINISTRATION

At June 30, 2004, the Trust had no long-term debt outstanding.

ECONOMIC FACTORS

Northeast Iowa Schools Insurance Trust continued to improve its financial position during the current fiscal year. However, the current condition of the economy continues to be a concern for the Trust officials. The Trust has raised the medical insurance premiums for the participating schools for the next year approximately 10% to provide for anticipated increased medical costs. The cost of claims with medical inflation is projected to increase 14% this next year. With the current cash basis net asset balance of the Trust at June 30, 2004, it was decided the Trust would not raise premiums as high as medical inflation.

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 Arne Beneke, Trust Administrator, 117 West Main, Caledonia, MN 55921 or Midwest Group Benefits, Northeast Iowa Schools Insurance Trust Claims Administrator, P.O. Box 408, Decorah, Iowa 52101.

Financial Statement

Northeast Iowa Schools
Insurance Trust

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

As of and for the year ended June 30, 2004

Operating receipts:	
Premiums from schools and retirees	\$ 10,529,634
Refunds and reimbursements	28,351
Total operating receipts	<u>10,557,985</u>
Operating disbursements:	
Claims	8,593,267
Reinsurance premiums	519,972
Administrative fees	338,257
Liaison fees	45,000
Preferred provider organization fees	59,462
Actuarial, audit and other fees	4,512
Miscellaneous	2,455
Total operating disbursements	<u>9,562,925</u>
Excess of operating receipts over operating disbursements	995,060
Non-operating receipts:	
Interest on investments	<u>23,940</u>
Change in cash basis net assets	1,019,000
Cash basis net assets beginning of year	<u>2,433,239</u>
Cash basis net assets end of year	<u>\$ 3,452,239</u>
Cash Basis Net Assets:	
Unrestricted	<u>\$ 3,452,239</u>

See notes to financial statement.

Northeast Iowa Schools
Insurance Trust

Notes to Financial Statement

June 30, 2004

(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 Starport Community School Districts, as authorized by Chapter 28E of the Code of Iowa. As of July 1, 2004 the participating member schools expanded to eleven with the additional memberships of North and South Winneshiek Community School Districts. 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, 2004. 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, 2004 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 had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

The Trust's deposits at June 30, 2004 are as follows:

Money market accounts	\$ 1,040,851
Checking accounts	1,301,327
Certificate of deposit	<u>1,110,061</u>
Total	<u>\$ 3,452,239</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, 2004, 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 \$11,152,829 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, 2004. 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 \$1,288,990.

(4) 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, 2004, Midwest Group Benefits, Inc. was paid \$338,257 for these services.

(5) Accounting Change

For the year ended June 30, 2004, the Trust implemented 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.

Implementation of these statements had no effect on the beginning balance of the Trust.

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

**Northeast Iowa Schools
Insurance Trust**



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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, 2004, and have issued our report thereon dated April 14, 2005. 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, 2004 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 statutory comments have been resolved except for item (1).

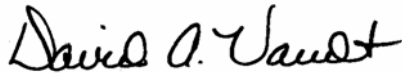
Internal Control Over Financial Reporting

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 statement 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 statement. The reportable condition is described in the accompanying Schedule of Findings.

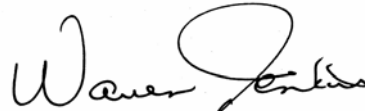
A material weakness is a condition in which the design or operation of one or more of the internal components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur or not be detected within 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. The prior year reportable condition has not been resolved and is restated as item (A).

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 14, 2005

Northeast Iowa Schools
Insurance Trust

Schedule of Findings

Year ended June 30, 2004

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 for each month by the third-party claims administrator, the balances were not reconciled with the Trust Administrator's monthly reconciliation of the Trust's cash basis balance. The resulting variances were investigated and resolved for financial statement presentation.

Recommendation – To improve financial accountability and control, the Trust's cash basis balance should be reconciled monthly to the bank accounts. Any variances should be investigated and resolved in a timely manner.

Response – Will follow recommendation.

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, Community First National Bank was omitted from the resolution. The maximum deposit amount stated in the resolution for the New Albin Savings Bank was exceeded.

Recommendation – Trust officials should approve a new depository resolution which includes the financial institution indicated above and in amounts sufficient to cover anticipated balances for each depository.

Response – Will follow recommendation.

Conclusion – Response accepted.

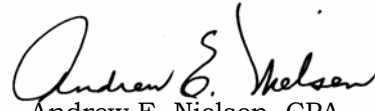
- (2) Minutes – No transactions were noted that we believe should have been approved in the minutes but were not.
- (3) Deposits and Investments – Except as noted in item (1), no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Trust's investment policy were noted.
- (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



Andrew E. Nielsen, CPA
Deputy Auditor of State