

IOWA STAR SCHOOLS
28E RETENTION POOL TRUST

FINANCIAL REPORT

JUNE 30, 2004

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IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

OFFICIALS
 JUNE 30, 2004

Officials	Title	Representing
Randall C. Nichols	Chairperson	Clarksville Community School District
John Sauer	Vice Chairperson	Wilton Community School District
Warren Davison	Trustee	Allison-Bristow Community School District
Robert Cue	Trustee	Dunkerton Community School District
James D. Wagner	Trustee	Durant Community School District
Rick Pederson	Trustee	Fredericksburg Community School District
Stan Slessor	Trustee	Janesville Community School District
Terry Christie	Trustee	Jesup Community School District
Bob Shaw	Trustee	Keystone AEA #1
Fred Whipple	Trustee	Mediapolis Community School District
Ron Blakley	Trustee	Riceville Community School District
Gary Schwartz	Trustee	RRMR Community School District
Art Pixler	Trustee	Sentral Community School District
Jeff Zwagerman	Trustee	Sibley-Ocheyedan Community School District
Karlos McClure	Trustee	Turkey Valley Community School District
Marv Hrubes	Trustee	West Central Community School District

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Trustees of the
Iowa Star Schools 28E Retention Pool Trust
Decorah, Iowa

We have audited the accompanying financial statements of the business-type activities of Iowa Star Schools 28E Retention Pool Trust as of and for the year ended June 30, 2004, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Iowa Star Schools 28E Retention Pool Trust's management. Our responsibility is to express opinions on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Iowa Star Schools 28E Retention Pool Trust, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 7, the Trust has implemented a new financial reporting model, as required by the provisions of 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 as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2005, on our consideration of the Iowa Star Schools 28E Retention Pool Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4a through 4d and the supplementary claims development information on page 13 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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. However, we did not audit the information and express no opinion on it.

Hacker, Nelson + Co., A.C.

Decorah, Iowa
March 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Iowa Star Schools 28E Retention Pool Trust provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Trust's financial statements, which follow.

The Management's Discussion and Analysis (MD&A) is a new element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued in June 1999. Because Iowa Star Schools 28E Retention Pool Trust is implementing new reporting standards for the fiscal year ending June 30, 2004 much of the information contained within this report is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Trust's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The Trust's operating revenues decreased 15%, or \$2,037,534, from fiscal 2003 to fiscal 2004. Premiums decreased and assessments increased.
- The Trust's operating expenses decreased 31%, or \$4,270,283, from fiscal 2003 to fiscal 2004.
- The Trust's net assets increased \$1,587,575, from June 30, 2003 to June 30, 2004.
- The significant changes in operating revenues and expenses from the prior year are mainly the result of the change in the number of Trust members. The Trust has gone from having 24 member school districts at June 30, 2003, to having 16 member school districts at June 30, 2004.
- As of January 1, 2004, the Trust went from operating as a partially self-insured plan to a fully insured plan.

USING THIS ANNUAL REPORT

The Iowa Star Schools 28E Retention Pool Trust is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Iowa Star Schools 28E Retention Pool Trust's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Trust's financial activities.

The Statement of Net Assets presents information on the Trust's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Nets Assets is the basic statement of activities for proprietary funds. This statement presents information on the Trust's operating revenues and expenses, non-operating revenues and expenses and whether the Trust's financial position has improved or deteriorated as a result of the year's activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Statement of Cash Flows presents the change in the Trust's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Trust financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE TRUST

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Trust's financial position. The Trust's net assets as of June 30, 2004 totaled approximately \$268,000. This compares to an accumulated deficit of approximately \$1,319,000 as of June 30, 2003. A summary of the Trust's net assets as of June 30, 2004 is presented below:

NET ASSETS

	<u>2004</u>
Current assets	<u>\$1,941,478</u>
Current liabilities	<u>\$1,673,377</u>
Net assets	
Unrestricted	<u>268,101</u>
Total liabilities and net assets	<u>\$1,941,478</u>

All of the Trust's net assets are unrestricted.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues consists of insurance premiums and assessments billed to the members of the trust. Operating expenses are expenses paid for claims, reinsurance, fully-funded insurance, administration fees, legal, accounting, and other miscellaneous expenses to operate the trust. Nonoperating revenues are interest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

OPERATING REVENUE	
Premiums	\$9,332,296
Assessments	<u>1,877,016</u>
Total operating revenue	<u>11,209,312</u>
OPERATING EXPENSES	
Claims	4,158,982
Premiums	4,950,862
Services	471,648
Miscellaneous	<u>42,948</u>
Total operating expenses	<u>9,624,440</u>
Operating income	<u>1,584,872</u>
NONOPERATING INCOME	
Interest income	<u>2,703</u>
CHANGE IN NET ASSETS	1,587,575
ACCUMULATED DEFICIT, beginning	<u>(1,319,474)</u>
NET ASSETS, ending	<u>\$ 268,101</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets at the end of the fiscal year.

In fiscal 2004, operating revenues decreased by \$2,037,534, or 15%, primarily a result of the number of Trust members exiting at July 1, 2003. Assessments increased by approximately \$565,000 due to the need to eliminate the Trust's deficit. Operating expenses decreased by approximately \$4,270,000, or 31%. The decrease was primarily a result of a decrease of claims paid and the number of Trust members exiting at July 1, 2003.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating and investing activities. Cash provided by operating activities includes premiums and assessments reduced by payments for insurance and reinsurance, claims, and for services performed. Cash provided by investing activities includes interest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS

Iowa Star Schools 28E Retention Pool Trust has gone from having 24 member school districts at June 30, 2003, to having 16 member school districts at June 30, 2004.

Iowa Star Schools 28E Retention Pool Trust improved its financial position during the current fiscal year mainly through the assessments billed to Trust members. As of January 1, 2004 the Plan went from being a partially self-insured plan to a fully insured plan. Some of the realities that may potentially become challenges for the Trust to meet are:

- Rising health care costs.
- The retention of current Trust members.

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors 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 Employee Benefit Systems, 214 N. Main Street, Burlington, IA 52601.

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

STATEMENT OF NET ASSETS

June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 110,166
Accounts receivable	71,581
Accounts receivable premiums	1,114,569
Reinsurance receivable	144,026
Current member assessment receivable	27,311
Withdrawing member assessment receivable	426,624
Interest receivable	47,201

Total current assets	<u>1,941,478</u>
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Total assets	<u>\$ 1,941,478</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 234,778
Due to Wellmark	1,114,569
Unpaid claims liabilities	230,011
Deferred revenue	94,019

Total current liabilities	<u>1,673,377</u>
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Total liabilities	<u>1,673,377</u>
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NET ASSETS

Unrestricted net assets	<u>268,101</u>
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Total liabilities and net assets	<u>\$ 1,941,478</u>
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See Notes to Financial Statements.

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year Ended June 30, 2004

OPERATING REVENUE	
Premiums	\$ 9,332,296
Current member assessment	1,450,392
Withdrawing member assessment	426,624
	<hr/>
Total operating revenue	11,209,312
	<hr/>
OPERATING EXPENSES	
Claims	4,158,982
Reinsurance premiums	232,467
Insurance premiums	4,677,890
Administrative fees	308,627
Preferred provider organization fees	35,903
Precertification fees	15,884
Risk pool fees	23,693
Actuarial fees and other fees	400
Group AD&D insurance premiums	40,505
Audit and accounting	40,000
Legal fees	70,834
Reimbursements	15,540
Miscellaneous	3,715
	<hr/>
Total operating expenses	9,624,440
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Operating income	1,584,872
	<hr/>
NONOPERATING INCOME	
Interest income	2,703
	<hr/>
CHANGE IN NET ASSETS	1,587,575
ACCUMULATED DEFICIT, beginning	(1,319,474)
	<hr/>
NET ASSETS, ending	<u>\$ 268,101</u>

See Notes to Financial Statements.

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

STATEMENT OF CASH FLOWS
Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from premiums	\$ 8,078,749
Cash received from assessments	2,683,511
Cash payments for insurance and reinsurance	(3,836,293)
Cash payments for claims paid	(6,469,330)
Cash payments for services and miscellaneous	(619,000)

Net cash used in operating activities	(162,363)
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CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest	1,325
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Net decrease in cash	(161,038)
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CASH AND CASH EQUIVALENTS

Beginning	271,204
Ending	\$ 110,166

CASH FLOWS FROM OPERATING ACTIVITIES

Operating income	\$ 1,584,872
Adjustments to reconcile operating income to net cash used in operating activities	
Change in assets and liabilities:	
Increase in accounts receivable	(1,135,190)
Decrease in reinsurance receivable	1,576,362
Decrease in special assessment receivable	860,289
Increase in withdrawal fee receivable	(53,794)
Decrease in accounts payable	(104,404)
Increase in due to Wellmark	1,114,569
Decrease in deferred revenue	(138,978)
Decrease in unpaid claims liabilities	(3,866,089)

Net cash used in operating activities	\$ (162,363)
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See Notes to Financial Statements.

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Iowa Star Schools 28E Retention Pool Trust is a voluntary joint undertaking of Allison-Bristow, Clarksville, Dunkerton, Durant, Fredericksburg, Janesville, Jesup, Keystone AEA #1, Mediapolis, RRMR, Riceville, Sentral, Sibley-Ocheyedan, Turkey Valley, Van Buren (through December 31, 2003), West Central and Wilton Community School Districts as authorized by Chapter 28E of the Code of Iowa. The primary purpose of this Trust is to provide medical benefits to the Schools' employees, retirees, and their dependents pursuant to a plan adopted by the Schools and administered by Great River Insurance Company, Inc. d/b/a Employee Benefit Systems. Several school districts also participated in dental, accidental death and dismemberment and vision programs.

As of January 1, 2004 the Plan went from being a partially self-insured plan to a fully insured plan.

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 statements 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 Iowa Star Schools 28E Retention Pool Trust are organized as an enterprise fund. Enterprise funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

c. Measurement Focus

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

Enterprise funds are accounted for on the economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their statements of net assets. In reporting the financial activity, the Trust applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the Trust has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

d. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Trust maintains its financial records on the accrual basis of accounting and the financial statements of the Trust are prepared on the accrual basis in conformity with U.S. generally accepted accounting principles.

e. Cash and Cash Equivalents

The Trust includes cash and repurchase agreement in cash and cash equivalents. This definition is made for purposes of Statement of Net Assets presentation and reporting the Statement of Cash Flows on a basis consistent with the Trust's cash management policy.

f. Revenue Recognition and Recognition of Bad Debts

Revenue from school insurance premiums are recognized as earned on a monthly basis over the plan year. The Trust considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Revenue from special assessments are recognized when assessed to trust members.

g. Unpaid Claim Liabilities

The Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated.

h. Deferred Revenue

Deferred revenue consists of premiums received from participating schools in the current plan year for coverage in the following plan year.

i. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

2. Deposits and Investments

Trust deposits in the bank are covered by federal depository insurance with a limit of up to \$100,000. Chapter 12C of the Code of Iowa provides for additional assessments against depositories to insure there will be no loss of public funds. The Trust is currently obtaining a public funds deposit agreement as required by Chapter 12B.10C of the Code of Iowa.

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.

3. Reinsurance Coverage and Limits of Liability

The Trust purchases reinsurance, or stop-loss insurance, which limits the total participants' liability in each plan year. For the period from July 1, 2003 to December 31, 2003, the stop-loss insurance purchased by the Trust covered claims in excess of \$100,000 per individual (stop loss level per individual). The aggregate (stop loss level in aggregate) insurance coverage was cancelled as a result of the Trust exiting the contract as of December 31, 2003. 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 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 the Trust in any plan year is the sum of the stop-loss level in aggregate, the stop-loss premiums, administrative costs, and excludible claims.

The Trust does not take into consideration estimated investment income when determining if premium deficiencies exist.

The Trust has insurance premiums ceded including accidental death and dismemberment premiums in the amount of \$272,973 for the period from July 1, 2003 to December 31, 2003.

The Trust has insurance premiums ceded including accidental death and dismemberment premiums in the amount of \$4,677,890 for the period from January 1, 2004 to June 30, 2004.

4. Reinsurance Receivable

The details of the reinsurance receivable at June 30, 2004 are as follows:

Plan year ended June 30, 2003 (Allianz)	\$ 115,425
Plan year ended June 30, 2004 (Allianz)	<u>28,601</u>
	<u>\$ 144,026</u>

NOTES TO FINANCIAL STATEMENTS

5. Unpaid Claim Liabilities

The following represents changes in the aggregate liabilities for the Trust during the past year:

Unpaid claims and claim adjustment expenses at beginning of year	\$4,096,100
Incurred claims and claim adjustment expenses	
Provision for insured events of current year	4,374,590
Increases in provision for insured events of prior years	<u>None</u>
Total incurred claims and claim adjustment expenses	<u>8,470,690</u>
Payments:	
Claims and claim adjustment expenses attributable to insured events of current year	4,144,579
Claims and claim adjustment expenses attributable to insured events of prior years	<u>4,096,100</u>
Total payments	<u>8,240,679</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 230,011</u>

6. Third Party Administrative Fees

The Trust had agreements with The Benefits Group, Inc. and Administrative Solutions, Inc., to administer the plan and process claims from July 1, 2003 to December 31, 2003. The Trust agreement provides for the payment of administrative fees. Administrative fees incurred with The Benefits Group, Inc. and Administrative Solutions, Inc. for the period from July 1, 2003 to December 31, 2003 totaled \$232,241 and \$117,615, respectively.

The Trust has agreements with Great River Insurance Company, Inc. d/b/a Employee Benefit Systems, to administer the plan commencing March 1, 2004. The Trust agreement provides for the payment of administrative fees. Administrative fees incurred with Great River Insurance Company, Inc. d/b/a Employee Benefit Systems for the period from March 1, 2004 to June 30, 2004 totaled \$10,558. Other administrative costs for this period are included in insurance premium costs and have not been segregated.

7. 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 current year beginning balances of the Trust.

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

To the Trustees of the
Iowa Star Schools 28E Retention Pool Trust
Decorah, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Iowa Star Schools 28E Retention Pool Trust, basic financial statements. The supplementary information on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 18, 2005

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

CLAIMS DEVELOPMENT INFORMATION

Fiscal and Policy Year Ended	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04
1. Required contribution and investment revenue:						
Earned	\$ 703,841	\$ 1,851,582	\$ 4,957,290	\$ 9,234,645	\$ 13,123,176	\$ 6,513,099
Ceded	142,924	160,973	371,705	782,481	1,138,816	272,972
Net earned	560,917	1,690,609	4,585,585	8,452,164	11,984,360	6,240,127
2. Unallocated expenses	96,715	147,387	446,286	670,852	949,616	475,399
3. Estimated claims and expenses, end of policy year:						
Incurred	994,852	1,507,121	4,925,814	9,550,282	12,807,526	4,237,081
Ceded	469,173	18,591	672,255	1,137,531	1,124,905	78,100
Net incurred	525,679	1,488,530	4,253,559	8,412,751	11,682,621	4,158,981
4. Net paid (cumulative) as of:						
End of policy year	607,387	1,271,350	3,936,927	7,051,162	9,357,870	4,144,579
One year later	525,679	1,488,530	4,892,089	8,412,751	11,682,621	
Two years later	525,679	1,488,530	4,892,089	8,412,751		
Three years later	525,679	1,488,530	4,892,089			
Four years later	525,679	1,488,530				
Five years later	525,679					
5. Re-estimated ceded claims and expenses	469,173	18,591	672,255	1,137,531	1,124,905	78,100
6. Re-estimated net incurred claims and expenses:						
End of policy year	525,679	1,488,530	4,253,559	8,412,751	11,682,621	4,158,981
One year later	525,679	1,488,530	4,892,089	8,412,751	11,682,621	
Two years later	525,679	1,488,530	4,892,089	8,412,751		
Three years later	525,679	1,488,530	4,253,559			
Four years later	525,679	1,488,530				
Five years later	525,679					
7. Increase in estimated net incurred claims and expenses from end of policy year	-	-	-	-	-	-

See Independent Auditor's Report.

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION
Year Ended June 30, 2004

	Self-Funded (With Reinsurance)	Fully-Funded	Total
OPERATING REVENUE			
Premiums	\$ 4,636,083	\$ 4,696,213	\$ 9,332,296
Current member assessment	1,450,392		1,450,392
Withdrawing member assessment	426,624		426,624
Total operating revenue	6,513,099	4,696,213	11,209,312
OPERATING EXPENSES			
Claims	4,158,982		4,158,982
Reinsurance premiums	232,467		232,467
Insurance premiums		4,677,890	4,677,890
Administrative fees	298,069	10,558	308,627
Preferred provider organization fees	35,903		35,903
Precertification fees	15,884		15,884
Risk pool fees	23,693		23,693
Actuarial fees and other fees	400		400
Group AD&D insurance premiums	40,505		40,505
Audit and accounting	31,000	9,000	40,000
Legal fees	66,834	4,000	70,834
Reimbursements	15,540		15,540
Miscellaneous	3,616	99	3,715
Total operating expenses	4,922,893	4,701,547	9,624,440
Operating income (loss)	1,590,206	(5,334)	1,584,872
NONOPERATING INCOME			
Interest income	2,703		2,703
Net income (loss)	1,592,909	(5,334)	1,587,575
ACCUMULATED DEFICIT, beginning	(1,319,474)		(1,319,474)
NET ASSETS, ending	\$ 273,435	\$ (5,334)	\$ 268,101

See Independent Auditor's Report on the Supplementary Information.

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

To the Trustees of the
Iowa Star Schools 28E Retention Pool Trust
Decorah, Iowa

We have audited the financial statements of the business-type activities of Iowa Star Schools 28E Retention Pool Trust as of and for the year ended June 30, 2004, which collectively comprise Iowa Star Schools 28E Retention Pool Trust's basic financial statements and have issued our report thereon dated March 18, 2005. 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

In planning and performing our audit, we considered Iowa Star Schools 28E Retention Pool 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Iowa Star Schools 28E Retention Pool 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 below.

Segregation of Duties

The Trust's concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we recognize that the Trust is not large enough to permit automatic internal checks, we believe that it is important that the Trustees are aware of this condition.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and 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 believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Iowa Star Schools 28E Retention Pool Trust in a separate letter dated March 18, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iowa Star Schools 28E Retention Pool Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain additional matters that we have reported to management of Iowa Star Schools 28E Retention Pool Trust in a separate letter dated March 18, 2005.

This report is intended solely for the information and use of the members and constituents of Iowa Star Schools 28E Retention Pool 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.

Haskew, Nelson + Co., P.C.

Decorah, Iowa
March 18, 2005

MANAGEMENT LETTER

To the Trustees of the
Iowa Star Schools 28E Retention Pool Trust
Decorah, Iowa

In planning and performing our audit of the financial statements of Iowa Star Schools 28E Retention Pool Trust for the year ended June 30, 2004, we considered the Trust's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the Trust's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1-7 below are compliance comments required by the Iowa Auditor of State. Items 6 and 8 are repeat comments. A separate report dated March 18, 2005 contains our report on reportable conditions in the Trust's internal control. This letter does not affect our report dated March 18, 2005, on the financial statements of the Iowa Star Schools 28E Retention Pool Trust. These comments are not intended to and do not constitute a legal opinion.

COMPLIANCE COMMENTS

1. Depository Resolutions

The Trust has adopted a written resolution approving its depository and the maximum amount which may be kept on deposit, as required by Chapter 12C.2 of the Code of Iowa.

2. Deposits and Investments

The Trust has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. The Trust is currently obtaining a public funds deposit agreement as required by Chapter 12B.10C of the Code of Iowa.

3. Questionable Expenditures

For the disbursements tested it appeared that the requirements of public purpose were met as defined in an Attorney General's opinion dated April 25, 1979.

4. Travel Expense

For the disbursements tested no travel expenses of spouses of Trust officials and/or employees were noted.

5. Business Transactions

For the disbursements tested no business transactions between the Trust and Trust officials for the year ended June 30, 2004 were noted.

6. Board Minutes

We noted no transactions requiring Board approval, which had not been approved by the Board. All minutes should be signed by the Trust Secretary and Chairperson.

7. Public Notice

The Trust has represented that public notice has been posted as required by Chapter 21.4 of the Code of Iowa.

8. Check Signing Procedures

The Trustees currently grants check signing authority to persons other than Trust officials. The Trustees have established procedures to document and monitor this delegated function. We recommend the Trustees authorization be approved in the minutes.

9. New Depository Account

The Trust opened a new depository account during the year ended June 30, 2004. There was no authorization noted in the Board of Trustee's meeting minutes.

RECOMMENDATION RELATING TO COMPLIANCE COMMENTS

Recommendation

The Trustees have established or are currently working on establishing procedures to insure documentation of compliance with all matters addressed above.

Response

We have addressed many of the above recommendations. We continue to work with legal counsel and our trust consultant to insure compliance with all legal requirements, as well as developing procedures insuring sound business practices.

Conclusion

Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Iowa Star Schools 28E Retention Pool Trust during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
March 18, 2005