

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT ON COMPLIANCE  
COMMENTS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2005

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SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN

BOARD MEMBERS

Sandy Elmore, Chairperson	Ft. Madison Community Schools
Ed Chabal, Vice Chairperson	Mt. Pleasant Community Schools
James Sleister, Secretary	West Burlington Community Schools
Marlene Stoutner, Treasurer	Keota Community Schools
John Dotson	L & M Community Schools
Greg Manske	Great River Area Education
Doug Graber	Morning Sun Community Schools
Roger Macklem	Pekin Community Schools
Jack Turner	Keokuk Catholic Schools
Michelle Foster	Southeastern Community College
Deb Trine	Burlington Area Catholic Schools

# NOLTE, CORNMAN & JOHNSON P.C.

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## INDEPENDENT AUDITOR'S REPORT

To the Board Members of  
Southeast Iowa Schools Health Care Plan

We have audited the accompanying financial statements of the Southeast Iowa Schools Health Care Plan (a common pool of funds) for the year ended June 30, 2005. These financial statements are the responsibility of the Plan's Board Members. Our responsibility is to express an opinion on 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 significant estimates made by the administrator, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Iowa Schools Health Care Plan as of June 30, 2005, and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 6, 2005 on our consideration of the Southeast Iowa Schools Health Care Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Managements Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

*Nolte, Cornman & Johnson P.C.*  
NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa  
December 6, 2005

Members American Institute & Iowa Society of Certified Public Accountants

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Southeast Iowa Schools Health Care Plan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Plan's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The Plan's operating revenues for the Business Type Activities increased 4%, or \$282,191, from fiscal 2004 to fiscal 2005. The primary increase was the result of increases in Cobra premiums revenues.
- The Plan's operating revenues for the Fiduciary Fund increased 7%, or \$51,563, from fiscal 2004 to fiscal 2005. 125 Plan deposits increased from fiscal 2004 to fiscal 2005.
- The Plan's operating expenses for the Business Type Activities were 7%, or \$426,990, more in fiscal 2005 than in fiscal 2004. The Plan's operating expenses for the Fiduciary Fund were 15%, or \$110,164, more in fiscal 2005 than in fiscal 2004.
- The Plan's net assets in the Business Type Activities increased 36%, or \$256,923, from June 30, 2004 to June 30, 2005. The Plan's net assets in the Fiduciary Fund decreased 79%, or \$42,330, from June 30, 2004 to June 30, 2005.

### USING THIS ANNUAL REPORT

The Southeast Iowa Schools Health Care Plan has Business Type Activities and a Fiduciary 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 are intended to serve as an introduction to Southeast Iowa Schools Health Care Plan'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 Plan's financial activities.

The Statement of Net Assets presents information on the Plan'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 Plan is improving or deteriorating.

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

The Statement of Cash Flows presents the change in the Plan's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Plan 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 provide in the basic financial statements.

**FINANCIAL ANALYSIS OF THE SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN**

*Statement of Net Assets*

As noted earlier, net assets may serve over time as a useful indicator of the Plan's financial position. The Plan's net assets for fiscal 2005 for the Business Type Activities totaled \$967,706. This compares to \$710,783 for fiscal 2004. A summary of the Plan's Business Type Activities net assets are presented below.

	<u>Condensed Statement of Net Assets</u>	
	<u>Business Type Activities</u>	
	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,080,766	710,783
Total assets	<u>1,080,766</u>	<u>710,783</u>
Current liabilities	113,060	0
Total liabilities	<u>113,060</u>	<u>0</u>
Net assets:		
Unrestricted	967,706	710,783
Total net assets	<u>\$ 967,706</u>	<u>710,783</u>

*Statement of Revenues, Expenses and Change in Net Assets*

Operating revenues are received for insurance premiums from the member groups. Operating expenses are expenses paid to members for benefits and claims. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2005 is presented below:

	Changes in Net Assets		
	Business Type Activities		Total
	Year ended June 30,		Change
	2005	2004	2004-05
Operating Revenues:			
Charges for services	\$ 7,073,096	6,790,905	4.16%
Total operating revenues	7,073,096	6,790,905	4.16%
Operating expenses			
Premium - Health insurance	5,809,524	5,358,575	8.42%
Vision claims	67,763	61,428	10.31%
Wrap claims	114,966	113,234	1.53%
EBS Administration fee	102,397	99,784	2.62%
Premium - Basic Group Life	109,451	106,548	2.72%
Premium - Long-Term Disability	191,248	206,272	-7.28%
PSF claims	413,536	437,501	-5.48%
Miscellaneous	7,288	5,841	24.77%
Total operating expenses	6,816,173	6,389,183	6.68%
Change in net assets	256,923	401,722	-36.04%
Net assets beginning of year	710,783	309,061	129.98%
Net assets end of year	\$ 967,706	710,783	36.15%

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

In fiscal 2005, operating revenues in the Business Type Activities increased by \$282,191, or 4.16%, primarily a result of an increase in premium revenues of \$152,634.

*Statement of Cash Flows*

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes charges for services reduced by payments for goods and services.

**ECONOMIC FACTORS**

- The future of Southeast Iowa Schools Health Care Plan depends on the continuing participation by schools and the usage of programs.

**CONTACTING THE SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Plan's finances and to show the Plan's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Southeast Iowa Schools Health Care Plan, 214 N. Main Street, P.O. Box 1053, Burlington, Iowa.

FINANCIAL STATEMENTS

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
STATEMENT OF NET ASSETS  
BUSINESS TYPE ACTIVITIES  
JUNE 30, 2005

ASSETS:	
Cash	\$ 1,044,952
Receivables:	
Accounts	35,814
TOTAL ASSETS	<u>1,080,766</u>
LIABILITIES:	
Deferred revenues	38,060
Incurred but not reported	75,000
TOTAL LIABILITIES	<u>113,060</u>
NET ASSETS:	
Unrestricted	<u>\$ 967,706</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
 STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS  
 BUSINESS TYPE ACTIVITIES  
 YEAR ENDED JUNE 30, 2005

Operating revenues:		
Charges for service		\$ 7,073,096
Operating expenses:		
Premium - Health insurance		5,809,524
Vision claims		67,763
Wrap claims		114,965
EBS Administration fee		102,397
Premium - Basic Group Life		109,451
Premium - Long-Term Disability		191,248
PSF claims		413,537
Miscellaneous		7,288
Total operating expenses		6,816,173
Change in net assets		256,923
Net assets beginning of year		710,783
Net assets end of year		\$ 967,706

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
 STATEMENT OF CASH FLOWS  
 BUSINESS TYPE ACTIVITIES  
 YEAR ENDED JUNE 30, 2005

Cash flows from operating activities:	
Cash received from charges for services	\$ 7,092,948
Cash paid to suppliers for goods and services	<u>(6,741,173)</u>
Net cash provided by operating activities	<u>351,775</u>
Net increase in cash and cash equivalents	351,775
Cash and cash equivalents beginning of year	<u>693,177</u>
Cash and cash equivalents end of year	<u>\$ 1,044,952</u>
<b>Reconciliation of operating income to net cash provided</b>	
<b>by operating activities:</b>	
Change in net assets	\$ 256,923
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(18,208)
Increase in deferred revenue	38,060
Increase in incurred but not reported	<u>75,000</u>
Net cash provided by operating activities	<u>\$ 351,775</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2005

ASSETS:	
Cash and pooled investments	\$ 56,720
Receivables:	
Accounts	2,856
TOTAL ASSETS	<u>59,576</u>
LIABILITIES:	
Accounts payable	<u>48,534</u>
NET ASSETS:	
Unrestricted	<u>\$ 11,042</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2005

Additions:	
Local sources:	
125 Plan deposits	<u>\$          790,047</u>
Deductions:	
Support services:	
125 Plan withdrawals	<u>          832,377</u>
Change in net assets	(42,330)
Net assets beginning of year	<u>          53,372</u>
Net assets end of year	<u><u>\$          11,042</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

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

The Southeast Iowa Schools Health Care Plan is a voluntary joint undertaking of units of government to create and maintain a self-funded health benefits program through cooperative action with private agencies, as authorized by Chapter 28E of the Code of Iowa. The Plan maintains a fully funded health and dental plan. The vision benefit plan continues to be self funded. The plan will continue to be a cooperative effort to achieve financial savings to participants while providing health care benefits to their respective employees.

The Southeast Iowa Schools Health Care Plan is composed of one representative from each of the eleven member groups. The member groups are: Ft. Madison Community Schools, Mt. Pleasant Community Schools, West Burlington Community Schools, Keota Community Schools, L & M Community Schools, Great River Area Education, Morning Sun Community Schools, Pekin Community Schools, Keokuk Catholic Schools, Southeastern Community College and Burlington Area Catholic Schools.

The Southeast Iowa Schools Health Care Plan's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southeast Iowa Schools Health Care Plan has included all funds, organizations, agencies, boards, commissions and authorities. The Plan 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 Plan is such that exclusion would cause the Plan'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 Plan to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the Plan. Southeast Iowa Schools Health Care Plan has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Southeast Iowa Schools Health Care Plan are organized as Business Type Activities and as Fiduciary Fund. The Business Type Activities 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) 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 periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy,

management control, accountability or other purposes. The Fiduciary Fund is used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

#### Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Plan applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

#### C. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Plan considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Income Tax Status - The Southeast Iowa Schools Health Care Plan is not a legal entity but a self-funded health benefits program funded by a common pool of funds as authorized by Chapter 28E of the Code of Iowa. Any tax liability that would occur would be the responsibility of the participating agencies.

Capital Assets - As stated in Section 4, Article XVI of the 28E agreement of the Southeast Iowa Schools Health Care Plan, no property, real or personal, shall be acquired or held, except for a common pool of trust funds supporting the self-funded health benefits program.

#### (2) **Cash and Investments**

The Southeast Iowa Schools Health Care Plan's deposits in banks at June 30, 2005 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 Plan is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposits or other evidences of deposit at federally insured depository institutions approved by the Plan; 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 Southeast Iowa Schools Health Care Plan had investments in the Iowa Schools Joint Investment Trust of \$126,566 at June 30, 2005.

**(3) Third Party Administrative Fee**

The Southeast Iowa Schools Health Care Plan has an agreement with Great River Insurance Company, Inc. DBA Employee Benefit Systems, to administer the plan and process claims. The agreement provides for the payment of administrative fees; which totaled \$102,397 for the year ended June 30, 2005.

**(4) Risk Management**

The Plan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Plan assumes liability for any deductibles and claims in excess of coverage limitations.

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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 Financial Statements Performed in Accordance with Government Auditing Standards

To the Board Members of  
Southeast Iowa Schools Health Care Plan:

We have audited the accompanying financial statements of the business-type and fiduciary activities of Southeast Iowa Schools Health Care Plan as of and for the year ended June 30, 2005, which collectively comprise the entity's basic financial statements listed in the table of contents, and have issued our report thereon dated December 6, 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 the Plan'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 the Plan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. No reportable conditions were noted.

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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed test of its compliance with certain with laws, regulations, contracts and grants, 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

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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.

Comments involving statutory and other legal matters about the Plan's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Plan. 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.

This report is intended solely for the use of the Board Members of the Southeast Iowa Schools Health Care Plan and appropriate regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southeast Iowa Health Care Plan 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.

*Nolte Cornman & Johnson*     
NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa  
December 6, 2005

SOUTHEAST IOWA SCHOOLS HEALTH CARE PLAN  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming official depositories is on file. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- (2) Disbursements from Plan Fund - We noted no expenditures from the Plan Fund other than those allowed by Chapter 35.20(2) f of the Iowa Administrative Code.
- (3) Business Transactions with Related Parties - No business transactions between the Plan and related parties were noted.
- (4) Bond Coverage - Surety bond coverage of officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (4) Board Minutes - No items were found that we believe should have been approved in the board minutes but were not.
- (5) Deposits and Investments - The 28E Organization complied with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Organization's Investment policy.