# IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

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

YEAR ENDED JUNE 30, 2007

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IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

BOARD MEMBERS

| | |
|---|---|
| Randall C. Nichols, Chairperson | Eldora-New Providence Community Schools |
| Rick Pederson, Vice Chairperson | Fredericksburg Community Schools |
| Warren Davison | Allison-Bristow Community Schools |
| Bob Longmuir | Clarksville Community Schools |
| Robert Cue | Dunkerton Community Schools |
| Duane Bark | Durant Community Schools |
| Lynn Evans | Hartley-Melvin-Sanborn Community Schools |
| Robert Weber | Janesville Consolidated Schools |
| Sarah Pinion | Jesup Community Schools |
| Bob Shaw | Keystone AEA #1 |
| Fred Whipple | Mediapolis Community Schools |
| Christopher Anderson | Riceville Community Schools |
| Steve Ward | RRMR Community Schools |
| Art Pixler | Sentral Community Schools |
| Jeff Herzberg | Sibley-Ocheyedan Community Schools |
| John Johnson | West Central Community Schools |
| Joe Burnett | Wilton Community Schools |

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# INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Iowa Star Schools 28E Retention Pool Trust

We have audited the financial statements of the Iowa Star Schools 28E Retention Pool Trust (a common pool of funds) as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Trust'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 management, 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 Iowa Star Schools 28E Retention Pool Trust as of June 30, 2007, 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 January 21, 2008 on our consideration of the Iowa Star Schools 28E Retention Pool Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Managements Discussion and Analysis on pages 3 through 6 is not a required part of the 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 on it.

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

Newton, Iowa
January 21, 2008

**Members American Institute & Iowa Society of Certified Public Accountants**

## 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 year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Trust's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

- The Trust's operating revenues increased 5.56%, or $432,554, from fiscal 2006 to fiscal 2007. The increase in revenues was due to the increase in premiums received. This increase was the result of the addition of Hartley-Melvin-Sanborn.

- The Trust's operating expenses increased 4.3% or $333,725, from fiscal 2006 to fiscal 2007. The increase was primarily due to the increase in premiums paid. This increase was the result of the addition of Hartley-Melvin-Sanborn.

- The Trust's net assets increased $116,157, from June 30, 2006 to June 30, 2007.

### 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 Net Assets is the basis 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.

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 provide in the basic financial statements.

**FINANCIAL ANALYSIS OF THE IOWA STAR SCHOOLS 28E RETENTION POOL 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 for fiscal 2007 were $106,195. This compares to a deficit $9,962 for fiscal 2006. A summary of the Trust's net assets as of June 30, 2007 are presented below.

| | Condensed Statement of Net Assets June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Current assets | $ 710,958 | 158,881 |
| Total assets | 710,958 | 158,881 |
| Current liabilities | 604,763 | 168,843 |
| Total liabilities | 604,763 | 168,843 |
| Net assets: | | |
| Designated for special purpose | 88,638 | 22,319 |
| Unrestricted | 17,557 | (32,281) |
| Total net assets | $ 106,195 | (9,962) |

Designation by the Board is for the purpose of setting up a reserve for future legal, insurance and audit fees. These fees were collected from the participants of the trust and amounted to $88,638 at the end of the fiscal year.

*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, 2007 is presented below:

| | Changes in Net Assets | | |
|---|---|---|---|
| | Year ended June 30, | | Change |
| | 2007 | 2006 | 2006-07 |
| Operating Revenues: | | | |
| Charges for services | $ 8,210,928 | 7,778,374 | 5.56% |
| Total operating revenues | 8,210,928 | 7,778,374 | 5.56% |
| Operating Expenses: | | | |
| Premiums | 8,049,258 | 7,714,617 | 4.34% |
| Services | 41,471 | 41,457 | 0.03% |
| Miscellaneous | 4,042 | 4,972 | -18.70% |
| Total operating expenses | 8,094,771 | 7,761,046 | 4.30% |
| Operating income | 116,157 | 17,328 | 570.34% |
| Non-operating Revenue: | | | |
| Interest income | 0 | 92 | -100.00% |
| Change in net assets before other financing sources | 116,157 | 17,420 | 566.80% |
| Other financing sources | | | |
| Transfer in | 6,214 | 0 | 100.00% |
| Transfer out | (6,214) | 0 | 100.00% |
| Total other financing sources | 0 | 0 | 0.00% |
| Change in net assets | 116,157 | 17,420 | 566.80% |
| Net assets beginning of year | (9,962) | (27,382) | -63.62% |
| Net assets end of year | $ 106,195 | (9,962) | 1166.00% |

The Statement of Revenues, Expenses and Changes in Net Assets reflects an increase in the net assets at the end of the fiscal year. This was due to switch from self funded to fully funded insurance.

In fiscal 2007, operating revenues increased by $432,554, or 5.56%, primarily a result of an increase in premiums received. Operating expenses increased by $333,725 or 4.3%, due to the increase in premiums paid.

*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.

## DEBT ADMINISTRATION

At June 30, 2007, the Trust had no long-term debt outstanding.

## ECONOMIC FACTORS

- The future of Iowa Star Schools 28E Retention Pool Trust depends on the continuing participation by schools and the usage of programs.

## CONTACTING THE IOWA STAR SCHOOLS 28E RETENTION POOL TRUST

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 Iowa Star Schools 28E Retention Pool Trust, 214 N. Main Street, P.O. Box 1053, Burlington, Iowa.

# FINANCIAL STATEMENTS

Exhibit A

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST
STATEMENT OF NET ASSETS
BUSINESS-TYPE ACTIVITIES
JUNE 30, 2007

| | |
|---|---|
| ASSETS: | |
| Cash | $ 43,428 |
| Prepaid expenses | 667,530 |
| TOTAL ASSETS | 710,958 |
| LIABILITIES: | |
| Accounts payable | 41,055 |
| Deferred revenues | 563,708 |
| TOTAL LIABILITIES | 604,763 |
| NET ASSETS: | |
| Designated for special purposes | 88,638 |
| Unrestricted | 17,557 |
| TOTAL NET ASSETS | $ 106,195 |

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
BUSINESS-TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2007

| | |
|---|---|
| Operating revenues: | |
| Charges for service | $ 8,210,928 |
| Operating expenses: | |
| Insurance premiums | 8,049,258 |
| Accounting and administration fees | 41,471 |
| Miscellaneous | 4,042 |
| Total operating expenses | 8,094,771 |
| Operating income | 116,157 |
| Other financing sources: | |
| Transfers in | 6,214 |
| Transfers out | (6,214) |
| Total other financing sources | 0 |
| Change in net assets | 116,157 |
| Net assets beginning of year | (9,962) |
| Net assets end of year | $ 106,195 |

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST
STATEMENT OF CASH FLOWS
BUSINESS-TYPE ACTIVITIES
YEAR ENDED JUNE 30, 2007

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from charges for services | $ | 7,585,653 |
| Cash paid to suppliers for goods and services | | (7,658,851) |
| Net cash used by operating activities | | (73,198) |
| Net decrease in cash and cash equivalents | | (73,198) |
| Cash and cash equivalents beginning of year | | 116,626 |
| Cash and cash equivalents end of year | $ | 43,428 |

| | | |
|---|---|---|
| **Reconciliation of operating income to net cash used by operating activities:** | | |
| Operating income | $ | 116,157 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Decrease in accounts receivable | | 42,255 |
| Increase in prepaid expenses | | (667,530) |
| Increase in deferred revenue | | 431,420 |
| Increase in accounts payable | | 4,500 |
| Net cash used by operating activities | $ | (73,198) |

SEE NOTES TO FINANCIAL STATEMENTS.

## (1) Summary of Significant Accounting Policies

The Iowa Star Schools 28E Retention Pool Trust is a voluntary joint undertaking of units of government to create and maintain a fully-funded health benefits program through cooperative action with private agencies, as authorized by Chapter 28E of the Code of Iowa. The Trust maintains a fully funded health and dental plan.

The Iowa Star Schools 28E Retention Pool Trust is composed of one representative from each of the seventeen member groups. The member groups are: Allison-Bristow Community Schools, Clarksville Community Schools, Dunkerton Community Schools, Durant Community Schools, Eldora-New Providence Community Schools, Fredericksburg Community Schools, Hartley-Melvin-Sanborn Community Schools, Janesville Community Schools, Jesup Community Schools, Keystone AEA #1, Mediapolis Community Schools, Riceville Community Schools, RRMR Community Schools, Sentral Community Schools, Sibley-Ocheyedan Community Schools, West Central Community Schools and Wilton Community Schools

The Iowa Star Schools 28E Retention Pool Trust'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, Iowa Star Schools 28E Retention Pool Trust has included all funds, organizations, agencies, boards, commissions and authorities. 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 is 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 financial burdens on the Trust. Iowa Star Schools 28E Retention Pool 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) 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.

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 Trust 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 Trust 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 Iowa Star Schools 28E Retention Pool Trust 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 Iowa Star Schools 28E Retention Pool Trust, 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 Iowa Star Schools 28E Retention Pool Trust's deposits in banks at June 30, 2007 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 deposits or other evidences of deposit at federally insured depository institutions approved by the Trust; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Trust had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Third Party Administrative Fee**

The Iowa Star Schools 28E Retention Pool Trust has an agreement with Employee Benefit Systems, to administer the plan and process claims. The agreement provides for the payment of administrative fees. Administration fees paid to, for the year ended June 30, 2007 totaled $36,546.

**(4) Risk Management**

The Trust 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 Trust assumes liability for any deductibles and claims in excess of coverage limitations.

Schedule 1

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
YEAR ENDED JUNE 30, 2007

| | Self-Funded | Fully-Funded | Total |
|---|---|---|---|
| Operating revenue: | | | |
| Charges for services | $ 0 | 8,210,928 | 8,210,928 |
| Operating expense: | | | |
| Insurance premiums | 0 | 8,049,258 | 8,049,258 |
| Accounting and administration fees | 0 | 41,471 | 41,471 |
| Miscellaneous | 0 | 4,042 | 4,042 |
| Total operating expense | 0 | 8,094,771 | 8,094,771 |
| Operating income | 0 | 116,157 | 116,157 |
| Other financing sources: | | | |
| Transfers in | 0 | 6,214 | 6,214 |
| Transfers out | (6,214) | 0 | (6,214) |
| Total other financing sources | (6,214) | 6,214 | 0 |
| Change in net assets | (6,214) | 122,371 | 116,157 |
| Beginning net assets | 6,214 | (16,176) | (9,962) |
| Ending net assets | $ 0 | 106,195 | 106,195 |

SEE NOTES TO FINANCIAL STATEMENTS.

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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
Iowa Star Schools 28E Retention Pool Trust:

We have audited the financial statements of Iowa Star Schools 28E Retention Pool Trust as of and for the year ended June 30, 2007, and have issued our report thereon dated January 21, 2008. Our report expressed an unqualified opinion on the financial statements. 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Trust's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements 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.

This report, a public record by law, is intended solely for the information and use of the Board Members and customers of the 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.

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

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa
January 21, 2008

IOWA STAR SCHOOLS 28E RETENTION POOL TRUST
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

**Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

No matters were noted.

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

(1) Disbursements from Trust Fund - We noted no expenditures from the Trust Fund other than those allowed by Chapter 35.20(2)f of the Iowa Administrative Code.

(2) Business Transactions with Related Parties - No business transactions between the Trust and related parties were noted.

(3) 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.

(6) Check Retention - We noted during the audit that the Trust is not receiving the backs of the checks from the bank.

Recommendation - In order to comply with 554D.114 of the Code of Iowa, the Trust should contact their bank to start receiving the front and back of all checks issued.

Response - The Trust will contact the bank to ensure that the fronts and backs of all checks are received.

Conclusion - Response accepted.