

# Metro Interagency Insurance Program

Financial and Compliance Report  
06.30.2005

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
Metro Interagency Insurance Program  
Cedar Rapids, Iowa

We have audited the accompanying basic financial statements of Metro Interagency Insurance Program as of June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Metro Interagency Insurance Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Metro Interagency Insurance Program as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2005, on our consideration of the Metro Interagency Insurance Program's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The report's purpose is to describe the scope of testing of internal control over financial reporting and compliance and the results of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. The 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 3 – 8, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that 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.

*McGladrey & Pullen, LLP*

Cedar Rapids, Iowa  
December 29, 2005

## Metro Interagency Insurance Program

### Management's Discussion and Analysis Year Ended June 30, 2005

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#### Introduction

Metro Interagency Insurance Program (Program) was incorporated in 1990 under a joint powers agreement in accordance with Chapter 28E of the Code of Iowa. The Program is to provide services necessary and appropriate for the establishment, operation and maintenance of an insurance program for employee health and medical claims for the employees of its members. There are currently six members of the Program, which are school districts in the Cedar Rapids metropolitan area, Grant Wood Area Education Agency and Kirkwood Community College.

The following discussion and analysis of the Program's financial statements presents an overview of the financial position and activities for the years ended June 30, 2005 and 2004. This discussion has been prepared by management and should be read in conjunction with financial statements and related notes.

#### Using the Financial Statements

The Program's annual report contains three financial statements: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. The report was prepared using the accrual basis of accounting. These statements provide information on the Program as a whole and present the Program's financial position and results of operations. In the opinion of management, the financial statements represent accurately the financial situation of the Program as of and for the years ended June 30, 2005 and 2004. The various components of the financial statements document financial growth of the Program and its ability to meet its financial obligations as they come due.

#### Financial Highlights

As indicated by the enclosed "Statement of Net Assets," the Program's plan has made significant gains toward the elimination of its "deficit" position. The \$3,842,455 improvement, as indicated on the "Changes in Net Asset," shows that the steps taken during the past four fiscal years have worked well to improve the financial position of the Program.

The Program had a cumulative deficit of \$1,562,610 at the end of fiscal year 2003. This was significantly reduced to a cumulative deficit of \$82,226 by the end of fiscal year 2004. This substantial gain was achieved by increasing premium charged to an appropriate level to handle claims cost. As of June 30, 2005, the plan has achieved a cumulative surplus of \$3,760,229 as indicated on the Statement of Net Assets report. Due to the position of the Program, it is anticipated that the Board will request that the surplus notes be returned to its members during the 2005-06 fiscal year.

- The Program has continued to remain self funded with Wellmark as its administrator and Frank Berlin and Associates as its consultant. The past four years (2002-2005) Fixed Costs, which include administrative fees, access fees and re-insurance, have remained fairly steady making up approximately 14-17% of the total cost. During the same time period Net Paid Claims has increased from \$14.3 Million in 2001 to \$16.9 Million in 2005. This represents an 18% increase in claims over the four year period of time.

## Metro Interagency Insurance Program

### Management's Discussion and Analysis Year Ended June 30, 2005

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- Increased claims costs have been offset and compensated for by increases in premiums of 16.2% and 22.8% during the years ended June 30, 2005 and 2004, respectively.
- Due to the positive turn around, the Board approved a minimal rate increase in premiums of 3.1% for the 2005-2006 fiscal year which included Wellmark's Disease Management Program. This increase included a 9% margin to assure that the positive gains achieved would not be spent placing the plan in a deficit position again.
- In an effort to keep Fixed Costs at a minimum, the Board also approved a reinsurance specific stop loss threshold of \$200,000, up from the previous \$100,000 threshold.

### The Statements of Net Assets

The Statement of Net Assets presents the financial position of the Program at the end of the fiscal year and reports the Program's net assets and changes in them during the current fiscal year, respectively. The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the Program, while the change in net assets over time determines whether the financial health of the Program is improving. The Statement of Net Assets shows the overall financial position of the Program and the Statement of Revenues, Expenses and Changes in Net Assets shows the current financial performance.

The following table summarizes the Program's assets, liabilities and net assets as of June 30, 2005, 2004 and 2003:

	2005	2004	2003
Current assets	\$ 6,357,382	\$ 2,492,009	\$ 189,771
Noncurrent assets, capital assets	2,165	2,719	-
Total assets	<u>6,359,547</u>	<u>2,494,728</u>	<u>189,771</u>
Liabilities, current	<u>2,599,318</u>	<u>2,576,954</u>	<u>1,752,381</u>
Net assets:			
Investment in capital assets	2,165	2,719	-
Restricted	3,758,064	-	-
Unrestricted	-	(84,945)	(1,562,610)
Total net assets	<u>\$ 3,760,229</u>	<u>\$ (82,226)</u>	<u>\$ (1,562,610)</u>
Change in net assets	<u>\$ 3,842,455</u>	<u>\$ 1,480,384</u>	<u>\$ 302,268</u>

## Metro Interagency Insurance Program

### Management's Discussion and Analysis Year Ended June 30, 2005

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The following table summarizes the Program's revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Change in Net Assets:			
Total operating revenues	\$ 25,310,965	\$ 23,137,123	\$ 19,611,969
Total operating expenses	21,523,077	21,675,204	19,320,928
Net operating income	3,787,888	1,461,919	291,041
Net nonoperating revenues (expenses)	54,567	18,465	11,227
Change in net assets	3,842,455	1,480,384	302,268
Net assets, beginning	(82,226)	(1,562,610)	(1,864,878)
Net assets, ending	\$ 3,760,229	\$ (82,226)	\$ (1,562,610)
Total revenues	\$ 25,376,182	\$ 23,156,019	\$ 19,623,196
Total expenses	\$ 21,533,727	\$ 21,675,635	\$ 19,320,928

### Operating Revenues

As a corporate body under Iowa Code 504A pursuant to Iowa Code Chapter 28E, "self funded" entity, operating revenues for the Program primarily consist of premiums paid for the insurance products provided. As indicated, revenues increased substantially from 2004 to 2005 due to a 3.1% rate increase for all plans. Revenues were also up significantly in the previous year due to a 16.2% increase in rates. Both rate increases included a margin of 9% over expected claims to reduce the deficit position of the entity.

## Metro Interagency Insurance Program

### Management's Discussion and Analysis Year Ended June 30, 2005

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#### Operating Expenses

The Program's operating expenses primarily consist of "Net Paid Claims" (85.1%) for medical services provided those participants in the plan. Additional "Fixed Costs" (14.9%) include: Reinsurance, Administration, Access Fees and the Program's Operations fees.

Expenses in both 2004 and 2005 increased over previous years, but at a lesser rate than revenues, as indicated on the chart above. Fixed Costs have been held steady and Net Paid Claims have not outpaced increased premiums due to appropriate rate increases and additional margins.

#### Cash Flows

The following Summary of Cash Flows provides information regarding the Program's cash receipts and disbursements during the years ended June 30, 2005, 2004 and 2003. This provides an assessment of the Program's ability to generate future net cash flows and meet obligations as they come due.

Cash Flows for the Years Ended:

	2005	2004	2003
Cash provided (used) by:			
Operating activities	\$ 4,209,647	\$ 1,529,611	\$ (718,499)
Investing activities	65,217	18,896	474,333
Capital and related financing activities	-	(3,200)	-
Noncapital financing activities	-	527,000	183,000
Net change in cash	4,274,864	2,072,307	(61,166)
Cash, beginning of year	2,074,442	2,135	63,301
Cash, end of year	\$ 6,349,306	\$ 2,074,442	\$ 2,135

## **Metro Interagency Insurance Program**

### **Management's Discussion and Analysis Year Ended June 30, 2005**

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#### **Capital Assets**

As of June 30, 2005 and 2004, the Program had capital assets, principally equipment, with a recorded cost of \$2,769 for each year, with accumulated depreciation of \$604 and \$50, respectively, for a net of \$2,165 and \$2,719, respectively. Depreciation charges for the current year totaled \$554 and \$50, respectively.

#### **Debt Administration**

As of June 30, 2005 and 2004, the Program has notes payable of \$710,000 outstanding for both years. At June 30, 2004, the Program issued surplus notes for four of its members. These notes may only be paid with the permission of the Iowa Insurance division and only out of surplus earnings of the Program. The surplus notes were issued in an effort to eliminate the deficit of the Program. The Program does not have any debt limitations that may affect financing of future facilities or services, and there have not been any changes in credit ratings.

#### **Economic Factors that May Affect the Future**

The economic forecast for the Program looks steady. Due to the bold steps taken by the Program Board, starting with the complete plan design change effective July 1, 2002 and necessary rate increases as indicated above, the plan is in compliance with the State Insurance Commissioners guidelines for financial condition as of June 30, 2005. The Program anticipates it will receive approval from the State Insurance Commissioners to repay the surplus loans during fiscal 2006. The Program continues to be prudent in establishing its rates charges to members by maintaining a margin of 9% over expected claims, up 3% from the prior year.

Additionally, the Program Board has approved, effective July 1, 2005, the purchase of reinsurance for those claims that exceed \$200,000, instead of the current \$100,000 limit. Based on the plans previous large claim experience, this is projected to save at least \$400,000 in expenditures per year.

#### **Request for Information**

This financial report has been prepared in the spirit of full disclosure to provide the reader with an overview of the Metro Interagency Insurance Program's operations. If the reader has questions or would like additional information about the Metro Interagency Insurance Program, please direct the request to Theresa Stevens, Metro Interagency Insurance, 1120 33<sup>rd</sup> Avenue SW, Cedar Rapids, Iowa 52404 or call 319-399-6793.

Metro Interagency Insurance Program

Statements of Net Assets

June 30, 2005 And 2004

<b>Assets</b>	<b>2005</b>	<b>2004</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,349,306	\$ 2,074,442
Insurance refund receivable	8,076	417,567
<b>Total current assets</b>	<b>6,357,382</b>	<b>2,492,009</b>
<b>Capital Assets (Note 3)</b>		
Equipment	2,769	2,769
Less accumulated depreciation	604	50
<b>Total capital assets</b>	<b>2,165</b>	<b>2,719</b>
<b>Total assets</b>	<b>\$ 6,359,547</b>	<b>\$ 2,494,728</b>
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 28,668	\$ 16,954
Accrued interest	10,650	-
Reserve for incurred but not reported claims (Note 4)	1,850,000	1,850,000
Surplus notes payable (Note 5)	710,000	710,000
<b>Total current liabilities</b>	<b>2,599,318</b>	<b>2,576,954</b>
<b>Net Assets (Deficit):</b>		
Invested in capital assets	2,165	2,719
Unrestricted	3,758,064	(84,945)
<b>Total net assets (deficit)</b>	<b>3,760,229</b>	<b>(82,226)</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,359,547</b>	<b>\$ 2,494,728</b>

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements Of Revenues, Expenses and Changes In Net Assets (Deficit)  
Years Ended June 30, 2005 And 2004

	2005	2004
Operating revenues:		
Member assessments for insurance (Note 6)	\$ 25,183,390	\$ 23,059,994
Other operating revenue, cobra premiums and other	127,575	77,129
<b>Total operating revenues</b>	<b>25,310,965</b>	<b>23,137,123</b>
Operating expenses:		
Insurance premiums, claims and administrative charges	21,380,462	21,496,797
Insurance pool assessment	97,381	126,481
Contracted services	26,925	25,045
Cobra administration and notice fees	7,370	19,834
Professional services	8,625	4,175
Plan insurance	734	1,106
Filing and state audit fees	725	725
Depreciation	554	50
Miscellaneous	301	991
<b>Total operating expenses</b>	<b>21,523,077</b>	<b>21,675,204</b>
<b>Net operating income</b>	<b>3,787,888</b>	<b>1,461,919</b>
Nonoperating revenue (expense):		
Interest income	65,217	18,896
Interest expense	(10,650)	(431)
<b>Net nonoperating revenue</b>	<b>54,567</b>	<b>18,465</b>
<b>Change in net assets</b>	<b>3,842,455</b>	<b>1,480,384</b>
Net assets (deficit), beginning	(82,226)	(1,562,610)
Net assets (deficit), ending	<b>\$ 3,760,229</b>	<b>\$ (82,226)</b>

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements Of Cash Flows

Years Ended June 30, 2005 And 2004

	2005	2004
<b>Cash Flows from Operating Activities:</b>		
Cash received from member assessments	\$ 25,183,390	\$ 23,059,994
Cash received from other operating revenue	127,575	77,129
Cash paid for insurance premiums, claims and administrative charges	(20,953,044)	(21,436,839)
Cash paid for insurance pool assessment	(97,381)	(126,481)
Cash paid for contracted services	(28,039)	(23,931)
Cash paid for cobra administration and notice fees	(12,469)	(13,264)
Cash paid for professional fees	(8,625)	(4,175)
Other operating cash payments	(1,760)	(2,822)
<b>Net cash provided by operating activities</b>	<b>4,209,647</b>	<b>1,529,611</b>
<b>Cash Flows from Investing Activities, interest received</b>	<b>65,217</b>	<b>18,896</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchase of capital assets	-	(2,769)
Interest expense	-	(431)
<b>Net cash used in capital and related financing activities</b>	<b>-</b>	<b>(3,200)</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Proceeds from surplus notes payable	-	710,000
Principal payment on note payable to bank	-	(183,000)
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>527,000</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,274,864</b>	<b>2,072,307</b>
<b>Cash and Cash Equivalents:</b>		
Beginning	2,074,442	2,135
Ending	<b>\$ 6,349,306</b>	<b>\$ 2,074,442</b>
<b>Reconciliation to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 3,787,888	\$ 1,461,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	554	50
Changes in certain assets and liabilities:		
Insurance refund receivable	409,491	(229,931)
Accounts payable	11,714	7,573
Reserve for incurred but not reported claims	-	290,000
<b>Net cash provided by operating activities</b>	<b>\$ 4,209,647</b>	<b>\$ 1,529,611</b>

See Notes to Basic Financial Statements.

## Metro Interagency Insurance Program

### Notes To Financial Statements

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#### Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies

Nature of operations: Metro Interagency Insurance Program (Program) was incorporated in 1990 under a joint powers agreement in accordance with Chapter 28E of the Code of Iowa. The Program is to provide services necessary and appropriate for the establishment, operation and maintenance of an insurance program for employee health and medical claims for the employees of the Cedar Rapids Community School District, College Community School District, Linn-Mar Community School District, Marion Independent School District, Grant Wood Area Education Agency and Kirkwood Community College. The Program is not intended to function as an insurance company for the school entities. Rather, it is a means of combining the administration of claims and of obtaining lower insurance rates. Although premiums billed to the school entities are determined on an actuarial basis, ultimate liability for claims remains with the respective school entity and, accordingly, the insurance risks are not transferred to the Program. The Program's fiscal year ends on June 30. There are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

Significant accounting policies followed by the Program are presented below:

Measurement focus and basis of accounting: The financial statements of the Program have been prepared on 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.

Use of estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent 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.

Member assessments: The Program offers four health plans through Wellmark Blue Cross Blue Shield of Iowa. On an annual basis, the Board of Directors of the Program determines the rate to be assessed to each member based on claims history, type of plan and operating expenses of the Program. Members are billed on a monthly basis based on the total number of covered employees of the member as well as the type of plan selected by the covered employee.

After participating in the Program for five complete fiscal years, members of the Program may voluntarily withdraw from membership as of June 30 of any fiscal year, provided that the withdrawing member has notified the Board of Directors of the Program in writing by June 30 of the preceding year and has paid in full all obligations of the member to the Program. A withdrawn member continues to be responsible for its share of the cost of claims arising from events occurring while a participating member.

For each fiscal year, the Board of Directors will annually calculate the share each participating member or withdrawn member has in the Program's equity for that fiscal year according to a formula approved by the Board of Directors as outlined in Article XI of the Bylaws of the Program.

## Metro Interagency Insurance Program

### Notes To Financial Statements

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#### Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

Net assets: Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Program first applies restricted resources. At June 30, 2005, the Program's restricted net assets relate to net assets available for distribution. However, the Program must receive prior approval from the Commissioner of Insurance of the State of Iowa before any distributions are made.

Cash and cash equivalents: The Program considers all short-term investments that are highly liquid to be cash equivalents.

Capital assets: Capital assets are defined by the Program as assets with an initial, individual cost of more than \$400 and an initial, useful life of one year or greater. Capital assets are accounted for at historical cost and consist principally of equipment. Depreciation is charged as an expense against operations. Equipment is depreciated using the straight-line method over the estimated useful life of five years.

Classification of revenues and expenses: Operating revenues and expenses generally result from providing services in connection with the Program's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Reserve for incurred but not reported claims: The Program negotiated master health insurance contracts with Wellmark Blue Cross Blue Shield of Iowa (BC/BS) for the year ended June 30, 2005. The contract contained these parameters:

- a. Individual Stop/Loss of \$100,000.
- b. Aggregate Stop/Loss of 125% of BC/BS actuarial projections for the rating period.
- c. All claims will be paid by BC/BS that are presented during the 12-month rating period, plus a 3-month lag period for all claims incurred during the rating period.
- d. Rating period is from July 1 through June 30.
- e. Claims may be submitted for reimbursement up to 365 days after the termination of the benefit period (benefit period = calendar year).

The reserve for incurred but not reported claims include provisions for claims incurred but not reported as of year-end. They are based upon actual expense and assumptions and projected future events, which may vary from the eventual outcome. The Program's historical experience, supplemented with other data such as lag reports, is used to base its reserve estimates. An independent actuary assists management with the establishment of the reserve as of June 30, 2005.

Income taxes: Metro Interagency Insurance Program has qualified as a tax-exempt organization under Section 115(1) of the Internal Revenue Code and Section 28E of the Iowa Code. Therefore, the Program is exempt from tax on income.

## Metro Interagency Insurance Program

### Notes To Financial Statements

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#### Note 1. Nature of Operations, Reporting Entity and Significant Accounting Policies (Continued)

Accounting pronouncements: The Program is applying all applicable Government Accounting Standards Board (GASB) pronouncements as well as following all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### Note 2. Deposits and Investments

Effective with fiscal 2005, the Program was required to adopt the provisions of GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. This statement amends certain provisions of Statement No. 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*. This Statement establishes and modifies disclosure requirements relating to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

The Program's deposit accounts as of June 30, 2005 and 2004 consisted solely of bank deposits.

Interest rate risk: Funds needed for operations may only be invested in authorized investments that mature within 397 days. Funds not identified as operating funds may be invested in investments that mature in more than 397 days. This policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk: The Program 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 Board of Directors and the Treasurer of the State of Iowa; 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 Program had no investments subject to ratings by statistical rating organizations at June 30, 2005.

Custodial credit risk: Custodial credit risk is the risk that in the event of bank failure, the Program deposits may not be returned to it.

The Program's deposits in banks at June 30, 2005 and 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 that there will be no loss of public funds.

Concentration of credit risk: The Program's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector.

Metro Interagency Insurance Program

Notes To Financial Statements

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**Note 3. Capital Assets**

A summary of capital assets at June 30, 2005 and 2004 is as follows:

	Year Ended June 30, 2005			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	\$ 2,769	\$ -	\$ -	\$ 2,769
Less accumulated depreciation	50	554	-	604
Total depreciable assets, net	<u>\$ 2,719</u>	<u>\$ (554)</u>	<u>\$ -</u>	<u>\$ 2,165</u>

  

	Year Ended June 30, 2004			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	\$ -	\$ 2,769	\$ -	\$ 2,769
Less accumulated depreciation	-	50	-	50
Total depreciable assets, net	<u>\$ -</u>	<u>\$ 2,719</u>	<u>\$ -</u>	<u>\$ 2,719</u>

**Note 4. Incurred But Not Reported Claims**

Claim liabilities include all known claims and an amount for claims that have been incurred but not reported (IBNR). A liability is reported when it is probably that a claim has occurred and the amount of the claim can be reasonably estimated. The change in the reserve for IBNR is based on: actuarial assumptions considering the effects of inflation; recent settlement trends; including frequency and amount of payouts, and other economic factors. The changes in the reserve for IBNR claims for the years ended June 30, 2005 and 2004 is as follows:

	2005	2004
Reserve for incurred but not reported claims, beginning of year	\$ 1,850,000	\$ 1,560,000
Claims recognized	21,380,462	21,496,797
Claims payments	(21,380,462)	(21,206,797)
Reserve for incurred but not reported claims, end of year	<u>\$ 1,850,000</u>	<u>\$ 1,850,000</u>

## Metro Interagency Insurance Program

### Notes To Financial Statements

#### Note 5. Surplus Notes Payable

In June 2004, the Program issued surplus notes payable to four of its members. Each note bears interest at 1.5% and is due on demand. Payment of interest and principal on the notes may be made only with the prior approval of the Commissioner of Insurance of the State of Iowa and only to the extent that the Program has sufficient earnings to make such payments. The interest and principal are subordinated to all other liabilities of the Program.

Short-term debt activity for the year ended June 30, 2005 and 2004 is as follows:

	Year Ended June 30, 2005			
	Beginning Balance	Proceeds	Repayments	Ending Balance
Surplus notes payable	\$ 710,000	\$ -	\$ -	\$ 710,000
Total notes payable	\$ 710,000	\$ -	\$ -	\$ 710,000

  

	Year Ended June 30, 2004			
	Beginning Balance	Proceeds	Repayments	Ending Balance
Line of credit agreement	\$ 183,000	\$ -	\$ (183,000)	\$ -
Surplus notes payable	-	710,000	-	710,000
Total notes payable	\$ 183,000	\$ 710,000	\$ (183,000)	\$ 710,000

#### Note 6. Related Party Transactions

The Metro Interagency Insurance Program had the following related party transactions for the year ended June 30, 2005 and 2004:

	2005	2004
	Member Assessment Revenue	Member Assessment Revenue
Cedar Rapids Community School District	\$ 10,421,744	\$ 9,676,064
College Community School District	2,281,206	1,967,695
Linn-Mar Community School District	2,767,119	2,435,660
Marion Independent School District	1,125,096	958,228
Grant Wood Area Education Agency	3,217,835	3,010,153
Kirkwood Community College	5,370,390	5,012,194
<b>Total</b>	<b>\$ 25,183,390</b>	<b>\$ 23,059,994</b>

## Metro Interagency Insurance Program

### Notes To Financial Statements

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#### Note 7. Change in Accounting Policy and Pending GASB Statements

Effective with fiscal 2005, the Program was required to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. Implementation of this Statement had no effect on beginning net assets of the Program.

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the Program. The Statements which might impact the Program are as follows:

- Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, will be effective for the Program beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.
- Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004, will be effective for the Program beginning with its year ending June 30, 2006. This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation.

Management has not yet completed their assessment of these Statements and their effect on the overall financial statement presentation of the Program.

# McGladrey & Pullen

Certified Public Accountants

## **Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And On Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

To the Board of Directors  
Metro Interagency Insurance Program  
Cedar Rapids, Iowa

We have audited the financial statements of Metro Interagency Insurance Program as of and for the year ended June 30, 2005, and have issued our report thereon, dated December 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Metro Interagency Insurance Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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. We noted other matters involving the internal control over financial reporting that we have reported to management of the Program in a separate letter dated December 29, 2005.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Metro Interagency Insurance Program'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*.

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

This report is intended for the information and use of the Board of Directors, management and others within the Program and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Cedar Rapids, Iowa  
December 29, 2005

## I. Findings Related to the Basic Financial Statements:

Reportable Conditions: None.

Compliance: None.

## II. Other Findings Related to Statutory Reporting:

### 05-II-A: Official Depositories

A resolution naming official depositories has been approved by the Program. The maximum deposit amounts stated in the resolution were not exceeded during the year, except for deposits at Farmers State Bank. The maximum authorized amount of \$5,000,000 was exceeded in June 2005 by approximately \$1,350,000.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be approved the Board.

Response – The Program will update its banking resolution.

Conclusion – Response accepted.

### 05-II-B: Questionable Expenses

We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion, dated April 25, 1979.

### 05-II-C: Travel Expense

No expenditures of Program money for travel expenses of spouses of Program officials or employees were noted. No travel advances to Program officials or employees were noted.

### 05-II-D: Business Transactions

No business transactions between the Program and Program officials and/or employees were noted.

### 05-II-E: Bond Coverage

Surety bond coverage of Program officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

## Metro Interagency Insurance Program

### Schedule of Findings and Responses Year ended June 30, 2005

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#### 05-II-F: Board Minutes

We noted no transactions requiring Board approval which had not been approved by the Board.

#### 05-II-G: Deposits and Investments

The Program has established a written investment policy as required by Chapter 12B.10 of the Iowa Code. The Program has executed a deposit agreement with its depositories as required by Chapter 12C of the Code of Iowa.