Metro Interagency Insurance Program

Financial and Compliance Report
06.30.2006

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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, 2006 and 2005, 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 financial position of the Metro Interagency Insurance Program as of June 30, 2006 and 2005, and the 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 28, 2006, 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.

As discussed in Note 7, the Program adopted the provisions of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.

The management's discussion and analysis, on Pages 3 – 7, is not a required part of the basic financial statements, but is 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 28, 2006

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 and Marion 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, 2006 and 2005. 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, 2006 and 2005. 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 $1,813,273 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 to a current year ending net asset position of $5,573,502.

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 and a surplus of $3,760,229 by the end of fiscal year 2005. This substantial gain was achieved by increasing premium charged to an appropriate level to handle claims cost. As of June 30, 2006, the plan has achieved a cumulative surplus of $5,573,502 as indicated on the Statement of Net Assets report. Due to the position of the program, Surplus notes were returned to its members during the 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 (2003 - 2006) 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 $19.7 Million in 2006. This represents a 38% increase in claims over the four year period of time.
- Increased claims costs have been offset and compensated for by increases in premiums of 4.3% and 3.1% during the years ended June 30, 2006 and 2005, respectively.
- Due to the positive turn around, the Board approved a minimal rate increase in premiums of 4.3% for the 2006 - 2007 fiscal year which included Wellmark's Disease Management Program. This increase did not include the 9% margin previously necessary.

- 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.
- In February, the Board received approval from the State Insurance Commissioner to return the Surplus Notes to each of its members in the total amount of $727,856, including interest. Members who elected not to participate in a surplus note, received a reimbursement of premiums totaling $348,551. The plan is now recognized by the Insurance Commissioners office as being fully funded.

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, 2006, 2005 and 2004:

	2006	2005	2004
Current assets	$ 8,107,788	$ 6,357,382	$ 2,492,009
Noncurrent assets, capital assets	1,611	2,165	2,719
Total assets	8,109,399	6,359,547	2,494,728
Liabilities, current	2,535,897	2,599,318	2,576,954
Net assets:			
Investment in capital assets	1,611	2,165	2,719
Restricted	5,571,891	3,758,064	-
Unrestricted	-	-	(84,945)
Total net assets	$ 5,573,502	$ 3,760,229	$ (82,226)
Change in net assets	$ 1,813,273	$ 3,842,455	$ 1,480,384

The following table summarizes the Program's revenues, expenses and changes in net assets for the years ended June 30, 2006, 2005 and 2004:

	2006	2005	2004
Change in Net Assets:			
Total operating revenues	$ 25,771,435	$ 25,310,965	$ 23,137,123
Total operating expenses	24,142,765	21,523,077	21,675,204
Net operating income	1,628,670	3,787,888	1,461,919
Net nonoperating revenues (expenses)	184,603	54,567	18,465
Change in net assets	1,813,273	3,842,455	1,480,384
Net assets (deficit), beginning	3,760,229	(82,226)	(1,562,610)
Net assets (deficit), ending	$ 5,573,502	$ 3,760,229	$ (82,226)
Total revenues	$ 25,963,245	$ 25,376,182	$ 23,156,019
Total expenses	$ 24,149,972	$ 21,533,727	$ 21,675,635

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 from 2005 to 2006 due to a 3.1% rate increase for all plans. Revenues were 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.

Premium rates were increased at the February Board Meeting by 4.3% for the 2006-07 fiscal year. Due to the positive financial position of the program, elimination of the debt position, and deficit payback, the increased rates did not reflect the additional 9% margin which was included in the two previous years.

Operating Expenses

The Program's operating expenses primarily consist of "Net Paid Claims" (89.7%) for medical services provided those participants in the plan. Additional "Fixed Costs" (10.3%) include: Reinsurance, Administration, Access Fees and the Program's Operations fees.

Expenses in both 2005 and 2006 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, 2006, 2005 and 2004. 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:

	2006	2005	2004
Cash provided (used) by:			
Operating activities	$ 2,284,676	$ 4,209,647	$ 1,529,611
Investing activities	191,810	65,217	18,896
Capital and related financing activities	-	-	(3,200)
Noncapital financing activities	(727,857)	-	527,000
Net change in cash	1,748,629	4,274,864	2,072,307
Cash, beginning of year	6,349,306	2,074,442	2,135
Cash, end of year	$ 8,097,935	$ 6,349,306	$ 2,074,442

The cash position of the plan at the end of the fiscal year indicates that surplus dollars will need to be considered when rates are set in the upcoming years.

It will also be necessary to consider the necessary Claims Fluctuation Reserve (CFR) as is required by the Iowa Code and Iowa Insurance Commissioners office. The CFR as of June, 2006 for the MIIP plan was estimated at $3.4 Million.

Capital Assets

As of June 30, 2006 and 2005, the Program had capital assets, principally equipment, with a recorded cost of $2,769 for each year, with accumulated depreciation of $1,158 and $604, respectively, for a net of $1,611 and $2,165, respectively. Depreciation charges totaled $554 and $554, respectively.

Debt Administration

As of June 30, 2006 and 2005, the Program has notes payable of none and $710,000 outstanding, respectively. 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. During the year ended June 30, 2006, the Program was granted permission to payoff the surplus notes. 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, 2006.

The MIIP Board has established a sub-committee to study plan design and make recommendations of their findings to the Board during the 2006-07 fiscal year. The Board has asked the sub-committee to specifically look at current plan designs, possible new plan designs, Disease management programs, Wellness programs, communication recommendations, and health care consumerism as it pertains to employees making wise insurance decisions. It is anticipated that the Board will act upon these recommendations during the 2006-07 fiscal 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 Program, 1120 33rd Avenue SW, Cedar Rapids, Iowa 52404 or call 319-399-6793.

Metro Interagency Insurance Program

Statements of Net Assets
June 30, 2006 and 2005

Assets		2006		2005
Current Assets				
Cash and cash equivalents	$	8,097,935	$	6,349,306
Insurance refund receivable		9,853		8,076
Total current assets		8,107,788		6,357,382
Capital Assets (Note 3)				
Equipment		2,769		2,769
Less accumulated depreciation		1,158		604
Total capital assets		1,611		2,165
Total assets	$	8,109,399	$	6,359,547

Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	235,897	$	28,668
Accrued interest		-		10,650
Reserve for incurred but not reported claims (Note 4)		2,300,000		1,850,000
Surplus notes payable (Note 5)		-		710,000
Total current liabilities		2,535,897		2,599,318
Net Assets:				
Invested in capital assets		1,611		2,165
Restricted (Note 7)		5,571,891		3,758,064
Total net assets		5,573,502		3,760,229
Total liabilities and net assets	$	8,109,399	$	6,359,547

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenues:		
Member assessments for insurance (Note 6)	$ 25,632,552	$ 25,183,390
Other operating revenue, cobra premiums and other	138,883	127,575
Total operating revenues	25,771,435	25,310,965
Operating expenses:		
Insurance premiums, claims and administrative charges	23,955,278	21,380,462
Insurance pool assessment	140,005	97,381
Contracted services	28,421	26,925
Cobra administration and notice fees	8,606	7,370
Professional services	8,625	8,625
Plan insurance	1,018	734
Filing and state audit fees	100	725
Depreciation	554	554
Miscellaneous	158	301
Total operating expenses	24,142,765	21,523,077
Net operating income	1,628,670	3,787,888
Nonoperating revenue (expense):		
Interest income	191,810	65,217
Interest expense	(7,207)	(10,650)
Net nonoperating revenue	184,603	54,567
Change in net assets	1,813,273	3,842,455
Net assets (deficit), beginning	3,760,229	(82,226)
Net assets, ending	$ 5,573,502	$ 3,760,229

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Cash received from member assessments	$ 25,632,552	$ 25,183,390
Cash received from other operating revenue	138,883	127,575
Cash paid for insurance premiums, claims and administrative charges	(23,300,245)	(20,953,044)
Cash paid for insurance pool assessment	(140,005)	(97,381)
Cash paid for contracted services	(28,421)	(28,039)
Cash paid for cobra administration and notice fees	(8,187)	(12,469)
Cash paid for professional fees	(8,625)	(8,625)
Cash paid for other operating expenses	(1,276)	(1,760)
Net cash provided by operating activities	2,284,676	4,209,647
Cash Flows from Investing Activities, interest received	191,810	65,217
Cash Flows from Capital and Related Financing Activities	-	-
Cash Flows from Noncapital Financing Activities		
Principal payment on surplus notes payable	(710,000)	-
Cash paid for interest	(17,857)	-
Net cash provided by noncapital financing activities	(727,857)	-
Net increase in cash and cash equivalents	1,748,629	4,274,864
Cash and Cash Equivalents:		
Beginning	6,349,306	2,074,442
Ending	$ 8,097,935	$ 6,349,306
Reconciliation to Net Cash Provided by Operating Activities		
Operating income	$ 1,628,670	$ 3,787,888
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	554	554
Changes in certain assets and liabilities:		
Insurance refund receivable	(1,777)	409,491
Accounts payable	207,229	11,714
Reserve for incurred but not reported claims	450,000	-
Net cash provided by operating activities	$ 2,284,676	$ 4,209,647

See Notes to Basic Financial Statements.

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 or 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.

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, 2006, $5,571,891 has been classified as restricted due to enabling legislation.

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, 2006. The contract contained these parameters:

a. Individual Stop/Loss of $200,000.

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, 2006.

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.

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

The Program's deposit accounts as of June 30, 2006 and 2005 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 that 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, 2006.

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, 2006 and 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 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.

Note 3. Capital Assets

A summary of capital assets at June 30, 2006 and 2005 is as follows:

	Year Ended June 30, 2006			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	$ 2,769	$ -	$ -	$ 2,769
Less accumulated depreciation	604	554	-	1,158
Total depreciable assets, net	$ 2,165	$ (554)	$ -	$ 1,611

	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	$ 2,719	$ (554)	$ -	$ 2,165

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, 2006 and 2005 is as follows:

	2006	2005
Reserve for incurred but not reported claims, beginning of year	$ 1,850,000	$ 1,850,000
Claims recognized	23,955,278	21,380,462
Claims payments	(23,505,278)	(21,380,462)
Reserve for incurred but not reported claims, end of year	$ 2,300,000	$ 1,850,000

Note 5. Surplus Notes Payable

In June 2004, the Program issued surplus notes payable to four of its members. Each note bore interest at 1.5% and was due on demand. In January 2006, the Program requested and received approval from the Commissioner of Insurance of the State of Iowa to repay the entire balance of the surplus notes outstanding.

Short-term debt activity for the year ended June 30, 2006 and 2005 is as follows:

	Year Ended June 30, 2006			
	Beginning Balance	Proceeds	Repayments	Ending Balance
Surplus notes payable	$ 710,000	$ -	$ (710,000)	$ -

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

Note 6. Related Party Transactions

The Metro Interagency Insurance Program had the following related party transactions for the year ended June 30, 2006 and 2005:

	2006	2005
	Member Assessment Revenue	Member Assessment Revenue
Cedar Rapids Community School District	$ 10,532,980	$ 10,421,744
College Community School District	2,473,747	2,281,206
Linn-Mar Community School District	2,935,357	2,767,119
Marion Independent School District	1,187,051	1,125,096
Grant Wood Area Education Agency	3,092,654	3,217,835
Kirkwood Community College	5,410,763	5,370,390
Total	$ 25,632,552	$ 25,183,390

Note 7. Change in Accounting Policy and Pending GASB Statements

Effective with fiscal year 2006, the Program was required to adopt the provisions of Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* Implementation of Statement No. 42 had no effect on the Program in the current year.

In addition, the Program implemented GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. The purpose of Statement No. 46 is to help the governments determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in the financial statements when there are changes in the circumstances surrounding such legislation. Under the Iowa Code, the Program may only disburse funds for expenditures related to operating the Program. In addition, the Program is required to maintain a claims reserve. As a result, all net assets excluding those invested in capital assets have been classified as restricted.

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

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* issued September 2006, is effective for the Program beginning with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues.

Management has not yet completed their assessment of this statement and the 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 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, 2006, and have issued our report thereon dated December 28, 2006. 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 over financial reporting that might be material weaknesses. 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain matters that we have reported to management of the Program in a separate letter dated December 28, 2006.

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 year ended June 30, 2006 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 of these statutes.

This report is intended solely 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 28, 2006

I. Findings Related to the Basic Financial Statements:

Reportable Conditions: None.

Compliance: None.

II. Other Findings Related to Statutory Reporting:

06-II-A: 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.

06-II-B: 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.

06-II-C: Board Minutes

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

06-II-D: 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.

06-II-E: Business Transactions

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

06-II-F: 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.