Metro Interagency Insurance Program

Financial Report
June 30, 2012

Contents

McGladrey

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 (the Program) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Metro Interagency Insurance Program as of June 30, 2012 and 2011, and the changes in its financial position and its 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 our reports dated December 17, 2012 and November 4, 2011, on our consideration of the Metro Interagency Insurance Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 2-6 and a Schedule of Claims Development Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management of the Program has not presented the required Schedule of Claims Development Information. Our opinion on the basic financial statements is not affected by this missing information.

McGladrey LLP

Cedar Rapids, Iowa
December 17, 2012

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, 2012, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the 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, 2012, 2011 and 2010. 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 table on page 3, the Program has experienced a decrease in net assets in two of the last three fiscal years. The $7,001 current year change, as indicated on the Statements of Revenues, Expenses and Changes in Net Assets, is a result of the Program Board's decision to keep premium increases at a minimum.

The Program has carried a positive net asset balance with a cumulative surplus of $11,533,259 at the end of fiscal year 2010, a cumulative surplus of $9,957,142 at the end of fiscal year 2011 and a cumulative surplus of $9,964,143 at the end of fiscal year 2012. The strong position of the Program has caused the Board to review premiums charged and allowed for no increases in premiums charged for the 2010-2011 fiscal year. Premiums were adjusted for the 2011-2012 and 2012-2013 fiscal years.

The Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Net Assets present the financial position of the Program at the end of the fiscal year. 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 or not. The Statements of Net Assets show the overall financial position of the Program and the Statements of Revenues, Expenses and Changes in Net Assets show the current year financial performance.

The following table summarizes the Program's assets, liabilities and net assets as of June 30, 2012, 2011 and 2010:

	2012	2011	2010
Current assets	**$ 13,898,484**	$ 14,044,628	$ 15,311,872
Noncurrent assets, capital assets	**681**	1,023	1,365
Total assets	**13,899,165**	14,045,651	15,313,237
Liabilities, current	**3,935,022**	4,088,509	3,779,978
Net assets:			
Investment in capital assets	**681**	1,023	1,365
Restricted	**9,963,462**	9,956,119	11,531,894
Total net assets	**$ 9,964,143**	$ 9,957,142	$ 11,533,259
Change in net assets	**$ 7,001**	$ (1,576,117)	$ (431,779)

The Program's cash and receivable balances as of June 30, 2012, 2011 and 2010 have exceeded total current liabilities. Net assets decreased from 2010 to 2011 and were relatively unchanged from 2011 to 2012. The Program's Board purposely chose to "freeze" premiums and utilize reserves in the 2009-2010 and 2010-2011 fiscal years therefore decreasing net assets and approved a minimal increase for the 2011-2012 fiscal year.

The following table summarizes the Program's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010:

	2012	2011	2010
Change in Net Assets:			
Total operating revenues	**$ 29,348,425**	$ 29,196,255	$ 28,181,479
Total operating expenses	**29,367,077**	30,798,904	28,655,260
Net operating (loss)	**(18,652)**	(1,602,649)	(473,781)
Net nonoperating revenues	**25,653**	26,532	42,002
Change in net assets	**7,001**	(1,576,117)	(431,779)
Net assets, beginning	**9,957,142**	11,533,259	11,965,038
Net assets, ending	**$ 9,964,143**	$ 9,957,142	$ 11,533,259
Total revenues	**$ 29,374,078**	$ 29,222,787	$ 28,223,481
Total expenses	**$ 29,367,077**	$ 30,798,904	$ 28,655,260

Operating Revenues

As a corporate body under Iowa Code 504A pursuant to Iowa Code Chapter 28E, the Program is a "self funded" entity. Operating revenues for the Program primarily consist of premiums paid for the insurance products provided. As indicated, revenues increased by approximately .5% from $29.2 million to $29.3 million from 2011 to 2012 although premiums were raised by 3.6% on a new triple option plan design. Revenues increased 3.5% from 2010 to 2011 although premiums charged remained unchanged. Additional participation by individuals and Federal reimbursements contributed to this increase.

The triple option plan design contains one HMO product and two PPO products. Each plan offered the four tier design of single, two person, employee + children, and family. Additionally, the Board approved an HSA product that Cedar Rapids Community School District offered during the 2011-2012 fiscal year.

Given the strong fiscal position, the Board determined that an increase less than the previously anticipated 6% increase in premiums would be made for the 2011-2012 fiscal year. Taking into consideration the Program's cash balances and potential for additional Federal reimbursements, a 2.4% premium increase on the triple option plan design was approved by the Board for the 2012-2013 fiscal year.

Operating Expenses

The Program's insurance, premiums, claims and administrative charges expense primarily consist of "net paid claims" (93%) for medical, dental and vision services provided to those participants in the Program. Additional "fixed costs" (7%) include: reinsurance, administration, access fees and the Program's operations fees.

Expenses in the 2011-2012 fiscal year decreased over previous year, but still ran slightly ahead of revenues, as indicated on the chart on the previous page. Fixed costs have held steady and net paid claims have increased slightly faster than premiums due to minimal rate increases as a result of favorable history and plan design changes.

Expenses in the 2010-2011 fiscal year increased approximately $2.1 million due to Net Paid Claims increasing faster than premiums due to no increases as a result of favorable history and implementation of health awareness initiatives.

Cash Flows

The following summary of cash flows provides information regarding the Program's cash receipts and disbursements during the years ended June 30, 2012, 2011 and 2010. This provides an assessment of the Program's ability to generate net cash flows and meet obligations as they come due.

Cash Flows for the Years Ended:

	2012	2011	2010
Cash (used in)			
Operating activities	**$ (153,910)**	$ (1,277,182)	$ (496,895)
Investing activities	**25,653**	26,532	42,002
Capital and related financing activities	**-**	-	(959)
Net change in cash	**(128,257)**	(1,250,650)	(455,852)
Cash, beginning of year	**13,918,164**	15,168,814	15,624,666
Cash, end of year	**$ 13,789,907**	$ 13,918,164	$ 15,168,814

The cash position of the Program went down each of the last three fiscal years as indicated above. This was considered and planned for in the each fiscal year when rates either remained the same, or were only slightly increased over the previous year. The Board approved rate increases for the 2012-2013 fiscal year with the understanding that a portion of the reserves may be needed to meet all obligations while holding premium increases to a minimum.

The Board remains mindful of the claims fluctuation reserve (CFR) and the reserve for incurred but not reported claims (IBNR) as is required by the Iowa Code and Iowa Insurance Commissioner's Office. The estimated CFR as of June 30, 2012 and 2011 for the Program's plan was $4.29 million and $4.54 million, respectively, and is included in restricted net assets. The estimated IBNR as of June 30, 2012 and 2011 for the Program's plan was $2.85 million and $3.00 million, respectively, and is included in current liabilities.

Capital Assets

As of June 30, 2012 and 2011, the Program had capital assets, principally equipment, with a recorded cost of $2,170, with accumulated depreciation of $1,489 and $1,147, respectively, for a net of $681 and $1,023, respectively. Depreciation charges totaled $342 for both years.

Debt Administration

As of June 30, 2012 and 2011, the Program had no outstanding debt. 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 Program was in compliance with the State Insurance Commissioner's guidelines for financial condition as of June 30, 2012 and 2011. The success of changes implemented in 2004 has grown the balance and financial position of the Program to a point that a focus on the size of the positive balance remains necessary. The Board has utilized the reserve balance to maintain premium rates and lessen the impact of premiums on the new plans. Subsequent Boards must continue to monitor the reserve balance and effect of premium rates vs. expenditures each fiscal year.

The 2012-2013 Board, and subsequent Boards will need to monitor participation and performance of the plans as it relates to the Program's fund balance. The Board continued to monitor information about the Affordable Care Act and the impact, if any, it will have on the Program.

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, 4401 Sixth Street SW, Cedar Rapids, Iowa 52404 or call 319-399-6763.

Metro Interagency Insurance Program

Statements of Net Assets
June 30, 2012 and 2011

Assets	**2012**	2011
Current Assets:		
Cash and cash equivalents	**$ 13,789,907**	$ 13,918,164
Insurance refund receivable	**108,577**	126,464
Total current assets	**13,898,484**	14,044,628
Capital Assets:		
Equipment	**2,170**	2,170
Less accumulated depreciation	**1,489**	1,147
Total capital assets	**681**	1,023
Total assets	**$ 13,899,165**	$ 14,045,651

Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 1,085,022**	$ 1,088,509
Reserve for incurred but not reported claims	**2,850,000**	3,000,000
Total current liabilities	**3,935,022**	4,088,509
Net Assets:		
Invested in capital assets	**681**	1,023
Restricted	**9,963,462**	9,956,119
Total net assets	**9,964,143**	9,957,142
Total liabilities and net assets	**$ 13,899,165**	$ 14,045,651

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Member assessments for insurance	**$ 29,234,022**	$ 28,666,370
Early retiree reinsurance program reimbursement	**-**	432,731
Other operating revenue, cobra premiums and other	**114,403**	97,154
Total operating revenues	**29,348,425**	29,196,255
Operating expenses:		
Insurance premiums, claims and administrative charges	**29,180,178**	30,482,035
Insurance pool assessment	**33,971**	186,038
Consulting services	**93,790**	65,750
Contracted services	**35,708**	34,698
Cobra administration and notice fees	**8,507**	17,208
Professional services	**12,956**	11,734
Plan insurance	**1,067**	500
Filing and state audit fees	**100**	100
Depreciation	**342**	342
Miscellaneous	**458**	499
Total operating expenses	**29,367,077**	30,798,904
Net operating (loss)	**(18,652)**	(1,602,649)
Nonoperating revenue, investment income	**25,653**	26,532
Change in net assets	**7,001**	(1,576,117)
Net assets, beginning	**9,957,142**	11,533,259
Net assets, ending	**$ 9,964,143**	$ 9,957,142

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from member assessments	**$ 29,234,022**	$ 28,673,583
Cash received from early retiree reinsurance program reimbursement	**-**	432,731
Cash received from other operating revenue	**120,076**	86,094
Cash paid for insurance premiums, claims and administrative charges	**(29,229,275)**	(30,171,189)
Cash paid for consulting services	**(93,790)**	(65,750)
Cash paid for insurance pool assessment	**(123,971)**	(169,038)
Cash paid for contracted services	**(35,708)**	(34,698)
Cash paid for cobra administration and notice fees	**(10,683)**	(16,082)
Cash paid for professional fees	**(12,956)**	(11,734)
Cash paid for other operating expenses	**(1,625)**	(1,099)
Net cash (used in) operating activities	**(153,910)**	(1,277,182)
Cash Flows from Investing Activities, interest received	**25,653**	26,532
Net (decrease) in cash and cash equivalents	**(128,257)**	(1,250,650)
Cash and Cash Equivalents:		
Beginning	**13,918,164**	15,168,814
Ending	**$ 13,789,907**	$ 13,918,164
Reconciliation to Net Cash (Used in) Operating Activities:		
Operating (loss)	**$ (18,652)**	$ (1,602,649)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:		
Depreciation	**342**	342
Changes in certain assets and liabilities:		
Insurance refund receivable	**17,887**	16,594
Accounts payable	**(3,487)**	108,531
Reserve for incurred but not reported claims	**(150,000)**	200,000
Net cash (used in) operating activities	**$ (153,910)**	$ (1,277,182)

See Notes to Basic Financial Statements.

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

Nature of operations: Metro Interagency Insurance Program (the 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 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.

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.

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

As part of this restriction, the Iowa Code and Iowa Insurance Commissioner's Office requires a claims fluctuation reserve (CFR). The CFR is required by the Iowa Code and Iowa Insurance Commissioner's Office. The estimated CFR as of June 2012 and 2011 for the Program was $4.29 million and $4.54 million, respectively, and is included in restricted net assets.

Cash and cash equivalents: The Program considers all short-term investments that are highly liquid to be cash equivalents. The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and administered by an appointed investment management company. The investment in the Iowa Schools Joint Investment Trust is stated at amortized cost.

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 (Wellmark) for the year ended June 30, 2012. The contract contained these parameters:

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

b. Aggregate Stop/Loss of 125% of Wellmark actuarial projections for the rating period.

c. All claims will be paid by Wellmark 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 includes 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 assisted management with the establishment of the reserve as of June 30, 2012 and 2011.

The Program makes payments to Wellmark each week based upon actual claims and administrative expenses. Amounts relating to the fiscal year are reflected as a payable at year-end.

Income taxes: The 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 (FASB) 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. The Program has elected not to apply FASB guidance subsequent to November 30, 1989.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the Program beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

None of the recently issued accounting pronouncements are expected to materially affect the financial statements.

Note 2. Cash and Cash Equivalents

As of June 30, 2012 and 2011, the Program's cash and cash equivalents were as follows:

	2012	2011
Cash and other deposits	$ 13,301,533	$ 11,680,204
Investment with the Iowa Schools Joint Investment Trust	488,374	2,237,960
	$ 13,789,907	$ 13,918,164

Authorized investments: The Program is authorized by statute and policy to invest public funds in interest-bearing savings accounts, money market accounts and checking accounts, 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 Program and State of Iowa Statute, Chapter 12C, perfected repurchase agreements, pooled funds including but not limited to mutual funds, trusts and third party management arrangement or improvement certificates of a drainage district. Additionally, investments in (1) reverse repurchase agreements and (2) securities derived from interest-only cash flows from an underlying collateral debt instrument where there is risk of loss due to early redemption of the collateral are prohibited.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the Program's investment policy, 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 states that portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide stability of income and reasonable liquidity.

Note 2. Cash and Cash Equivalents (Continued)

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

As of June 30, 2012 and 2011, the Program's investments were rated as follows:

Investment Type	Moody's Investors Services	Standard & Poor's
June 30, 2012:		
Iowa Schools Joint Investment Trust	Not rated	AAAm
June 30, 2011:		
Iowa Schools Joint Investment Trust	Not rated	AAAm

Custodial credit risk: For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a governmental entity will not be able to recover its deposits. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a governmental entity will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As of June 30, 2012 and 2011, the Program's deposits with financial institutions were entirely covered by federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds. At June 30, 2012 and 2011, the Program's investments are held in the Iowa Schools Joint Investment Trust, which is not subject to custodial credit risk.

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. The investments in the Iowa Schools Joint Investment Trust are not subject to concentration of credit risk as they are considered a pooled investment.

Note 3. Capital Assets

A summary of capital assets at June 30, 2012 and 2011 is as follows:

	Year Ended June 30, 2012			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	$ 2,170	$ -	$ -	$ 2,170
Less accumulated depreciation	1,147	342	-	1,489
Total depreciable assets, net	$ 1,023	$ (342)	$ -	$ 681

	Year Ended June 30, 2011			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	$ 2,170	$ -	$ -	$ 2,170
Less accumulated depreciation	805	342	-	1,147
Total depreciable assets, net	$ 1,365	$ (342)	$ -	$ 1,023

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 probable 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, 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Reserve for incurred but not reported claims, beginning of year	$ 3,000,000	$ 2,800,000	$ 2,500,000
Insurance premiums, claims and administrative charges:			
Provision for insured events of current year	29,964,965	30,949,729	28,969,322
(Decreases) in provision for insured events of prior years	(784,787)	(467,694)	(618,627)
	29,180,178	30,482,035	28,350,695
Payments:			
Attributable to insured events of current year	(26,892,375)	(27,838,883)	(26,510,135)
Attributable to insured events of prior years	(2,336,900)	(2,332,306)	(1,881,373)
	(29,229,275)	(30,171,189)	(28,391,508)
Other, change in payable for plan related costs	(100,903)	(110,846)	340,813
Reserve for incurred but not reported claims, end of year	$ 2,850,000	$ 3,000,000	$ 2,800,000

Note 5. Related Party Transactions

The Program had the following related party transactions for the years ended June 30, 2012 and 2011:

	2012 Member Assessment Revenue	2011 Member Assessment Revenue
Cedar Rapids Community School District	$ 11,044,011	$ 10,949,826
College Community School District	3,225,010	3,022,512
Linn-Mar Community School District	3,856,407	3,805,539
Marion Independent School District	1,512,248	1,480,246
Grant Wood Area Education Agency	3,311,771	3,442,504
Kirkwood Community College	6,284,575	5,965,743
Total	$ 29,234,022	$ 28,666,370

McGladrey

**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 basic financial statements of Metro Interagency Insurance Program as of and for the year ended June 30, 2012, and have issued our report thereon, dated December 17, 2012. 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

Management of Metro Interagency Insurance Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Metro Interagency Insurance Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro Interagency Insurance Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metro Interagency Insurance Program's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 provision 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.*

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

McGladrey LLP

Cedar Rapids, Iowa
December 17, 2012