

Metro Interagency Insurance Program

Financial Report
June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Metro Interagency Insurance Program (the Program), as of and for the years ended June 30, 2013 and 2012, and the related notes to the basic financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 6 and the Schedule of Claims Development Information, on page 16 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 required supplementary information 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 6, 2013 and December 17, 2012, on our consideration of the 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 internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

McGladrey LLP

Cedar Rapids, Iowa
December 6, 2013

Metro Interagency Insurance Program

Management's Discussion and Analysis Year Ended June 30, 2013

Introduction

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 its members. There are currently six members of the Program, which are four 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, 2013 and 2012. 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 Position, the Statements of Revenues, Expenses and Changes in Net Position 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. 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 4, the Program has experienced an increase in net position in two of the last three fiscal years. The \$168,932 current year change, as indicated on the Statements of Revenues, Expenses and Changes in Net Position, is the result of the Program having favorable experience while keeping premium increases at a minimum.

The Program has carried a positive net position balance with a cumulative surplus of \$9,957,142 at the end of fiscal year 2011, a cumulative surplus of \$9,964,143 at the end of fiscal year 2012 and a cumulative surplus of \$10,133,075 at the end of fiscal year 2013. The continued strong position of the Program has caused the Board to approve premium rates at an actuarial level less than what is considered 100% of anticipated costs. Premium rates were set at 97% of anticipated costs for the 2012-2013 fiscal years.

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

The Statements of Net Position present the financial position of the Program at the end of the fiscal year. The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the Program, while the change in net position over time determines whether the financial health of the Program is improving or not. The Statements of Net Position show the overall financial position of the Program and the Statements of Revenues, Expenses and Changes in Net Position show the current year financial performance.

Metro Interagency Insurance Program

Management's Discussion and Analysis Year Ended June 30, 2013

The following table summarizes the Program's assets, liabilities and net position as of June 30, 2013, 2012 and 2011:

	2013	2012	2011
Current assets	\$ 13,915,782	\$ 13,898,484	\$ 14,044,628
Noncurrent assets, capital assets	338	681	1,023
Total assets	<u>13,916,120</u>	<u>13,899,165</u>	<u>14,045,651</u>
Liabilities, current	<u>3,783,045</u>	<u>3,935,022</u>	<u>4,088,509</u>
Net position:			
Net investment in capital assets	338	681	1,023
Restricted	<u>10,132,737</u>	<u>9,963,462</u>	<u>9,956,119</u>
Total net position	<u>\$ 10,133,075</u>	<u>\$ 9,964,143</u>	<u>\$ 9,957,142</u>
Change in net position	<u>\$ 168,932</u>	<u>\$ 7,001</u>	<u>\$ (1,576,117)</u>

The Program's cash and receivable balances as of June 30, 2013, 2012 and 2011 have exceeded total current liabilities. Net position was relatively unchanged from 2011 to 2012 and increased \$168,932 from 2012 to 2013. The Program's Board purposely chose to "freeze" premiums and utilize reserves in the 2010-2011 fiscal year, therefore decreasing net position and approved a minimal increase for the 2011-2012 fiscal year. As mentioned previously, the Board approved premiums for the 2012-2013 year at 97% of the anticipated needs. Despite this approach, good experience resulted in the positive change in net position.

The following table summarizes the Program's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Change in net position:			
Total operating revenues	\$ 29,971,501	\$ 29,348,425	\$ 29,196,255
Total operating expenses	<u>29,826,289</u>	<u>29,367,077</u>	<u>30,798,904</u>
Net operating income (loss)	145,212	(18,652)	(1,602,649)
Net nonoperating revenues	<u>23,720</u>	<u>25,653</u>	<u>26,532</u>
Change in net position	168,932	7,001	(1,576,117)
Net position, beginning	<u>9,964,143</u>	<u>9,957,142</u>	<u>11,533,259</u>
Net position, ending	<u>\$ 10,133,075</u>	<u>\$ 9,964,143</u>	<u>\$ 9,957,142</u>
Total revenues	<u>\$ 29,995,221</u>	<u>\$ 29,374,078</u>	<u>\$ 29,222,787</u>
Total expenses	<u>\$ 29,826,289</u>	<u>\$ 29,367,077</u>	<u>\$ 30,798,904</u>

Metro Interagency Insurance Program

Management's Discussion and Analysis Year Ended June 30, 2013

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 2.1% from \$29.3 million to \$30.0 million from 2012 to 2013 as premiums were raised by 2.4%. Revenues increased 0.5% from 2011 to 2012 although premiums were raised by 3.6% on a new triple option plan design. Favorable experience and the addition of participating members have contributed to the increase in revenues.

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 the Cedar Rapids Community School District began offering 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. A 3.5% premium increase on the triple option plan design was approved by the Board for the 2013-2014 fiscal year.

Operating Expenses

The Program's insurance, premiums, claims and administrative charges expense primarily consist of "net paid claims" (95%) for medical, dental and vision services provided to those participants in the Program. Additional "fixed costs" (5%) include: reinsurance, administration, access fees and the Program's operations fees.

Operating expenses in the 2012-2013 fiscal year increased over the previous year, but ran slightly behind revenues, as indicated on the chart on the previous page. Fixed costs have decreased and premiums have increased slightly faster than net paid claims due to rate increases.

Expenses in the 2011-2012 fiscal year decreased over the 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.

Cash Flows

The following summary of cash flows provides information regarding the Program's cash receipts and disbursements during the years ended June 30, 2013, 2012 and 2011. 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:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash from (used in):			
Operating activities	\$ (221)	\$ (153,910)	\$ (1,277,182)
Investing activities	23,720	25,653	26,532
Net change in cash	<u>23,499</u>	<u>(128,257)</u>	<u>(1,250,650)</u>
Cash, beginning of year	<u>13,789,907</u>	13,918,164	15,168,814
Cash, end of year	<u>\$ 13,813,406</u>	<u>\$ 13,789,907</u>	<u>\$ 13,918,164</u>

Metro Interagency Insurance Program

Management's Discussion and Analysis Year Ended June 30, 2013

The cash position of the Program went down two of the last three fiscal years as indicated above. This was considered and planned for in each fiscal year when rates either remained the same, or were only slightly increased over the previous year. The cash position of the Program increased slightly in the 2012-2013 fiscal 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, 2013 and 2012 for the Program's plan was \$4.41 million and \$4.29 million, respectively, and is included as a restricted component of net position. The estimated IBNR as of June 30, 2013 and 2012 for the Program's plan was \$2.95 million and \$2.85 million, respectively, and is included in current liabilities.

Capital Assets

As of June 30, 2013 and 2012, the Program had capital assets, principally equipment, with a recorded cost of \$2,170, with accumulated depreciation of \$1,832 and \$1,489, respectively, for a net of \$338 and \$681, respectively. Depreciation charges totaled \$343 and \$342 for fiscal years ended June 30, 2013 and 2012, respectively.

Debt Administration

As of June 30, 2013 and 2012, 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, 2013 and 2012. The success of changes implemented in 2004, in addition to favorable experience, 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 and set new rates at a level less than anticipated expenditures to 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 2013-2014 Board is aware that the Program is subject to federal and state laws as it pertains to the successful operation of the Program. Specifically, the Board has discussed, and remains mindful of, the Federal Affordable Care Act and its impact on the plan.

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 Position June 30, 2013 and 2012

Assets	2013	2012
Current Assets:		
Cash and cash equivalents	\$ 13,813,406	\$ 13,789,907
Insurance refund receivable	102,376	108,577
Total current assets	13,915,782	13,898,484
Capital Assets:		
Equipment, less accumulated depreciation	338	681
Total assets	\$ 13,916,120	\$ 13,899,165
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	\$ 833,045	\$ 1,085,022
Reserve for incurred but not reported claims	2,950,000	2,850,000
Total current liabilities	3,783,045	3,935,022
Net Position:		
Net investment in capital assets	338	681
Restricted	10,132,737	9,963,462
Total net position	10,133,075	9,964,143
Total liabilities and net position	\$ 13,916,120	\$ 13,899,165

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

Statements of Revenues, Expenses and Changes in Net Position Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Member assessments for insurance	\$ 29,861,511	\$ 29,234,022
Other operating revenue, cobra premiums and other	109,990	114,403
Total operating revenues	29,971,501	29,348,425
Operating expenses:		
Insurance premiums, claims and administrative charges	29,604,462	29,180,178
Insurance pool assessment	100,979	33,971
Consulting services	60,000	93,790
Contracted services	35,379	35,708
Cobra administration and notice fees	12,163	8,507
Professional services	11,975	12,956
Plan insurance	542	1,067
Filing and state audit fees	100	100
Depreciation	343	342
Miscellaneous	346	458
Total operating expenses	29,826,289	29,367,077
Net operating income (loss)	145,212	(18,652)
Nonoperating revenue, interest income	23,720	25,653
Change in net position	168,932	7,001
Net position, beginning	9,964,143	9,957,142
Net position, ending	\$ 10,133,075	\$ 9,964,143

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

**Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities:		
Cash received from member assessments	\$ 29,861,511	\$ 29,234,022
Cash received from other operating revenue	111,743	120,076
Cash paid for insurance premiums, claims and administrative charges	(29,739,112)	(29,229,275)
Cash paid for consulting services	(60,000)	(93,790)
Cash paid for insurance pool assessment	(115,979)	(123,971)
Cash paid for contracted services	(35,379)	(35,708)
Cash paid for cobra administration and notice fees	(10,042)	(10,683)
Cash paid for professional fees	(11,975)	(12,956)
Cash paid for other operating expenses	(988)	(1,625)
Net cash (used in) operating activities	(221)	(153,910)
Cash Flows Provided by Investing Activities, interest received		
	23,720	25,653
Net increase (decrease) in cash and cash equivalents	23,499	(128,257)
Cash and Cash Equivalents:		
Beginning	13,789,907	13,918,164
Ending	\$ 13,813,406	\$ 13,789,907
Reconciliation to Net Cash (Used in) Operating Activities:		
Operating income (loss)	\$ 145,212	\$ (18,652)
Adjustments to reconcile operating income (loss) to net cash (used in) operating activities:		
Depreciation	343	342
Changes in certain assets and liabilities:		
Insurance refund receivable	6,201	17,887
Accounts payable	(251,977)	(3,487)
Reserve for incurred but not reported claims	100,000	(150,000)
Net cash (used in) operating activities	\$ (221)	\$ (153,910)

See Notes to Basic Financial Statements.

Metro Interagency Insurance Program

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 position: Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its 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 position is available, the Program first applies restricted resources.

Metro Interagency Insurance Program

Notes to Basic Financial Statements

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 2013 and 2012 for the Program was \$4.41 million and \$4.29 million, respectively, and is included as a restricted component of net position.

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 years ended June 30, 2013 and 2012. The contract contained these parameters:

- a. Individual Stop Loss deductible 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 determine its reserve estimates. An independent actuary assisted management with the establishment of the reserve as of June 30, 2013 and 2012.

The Program makes payments to Wellmark each week based upon actual claims and administrative expenses. Amounts relating to actual claims incurred are reflected as a payable at June 30, 2013 and 2012.

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.

Metro Interagency Insurance Program

Notes to Basic Financial Statements

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

Adopted accounting pronouncements: Effective July 1, 2012, the Program retrospectively adopted for all periods presented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This guidance incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of this standard had no significant impact on the financial statements.

Effective July 1, 2012, the Program retrospectively adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Since the Program has no deferred inflows or outflows of resources as defined by the standard, this guidance impacted the financial statements only by changing the term "net assets" to "net position".

Note 2. Cash and Cash Equivalents

As of June 30, 2013 and 2012, the Program's cash and cash equivalents were as follows:

	2013	2012
Cash and other deposits	\$ 13,325,008	\$ 13,301,533
Investment with the Iowa Schools Joint Investment Trust	488,398	488,374
	<u>\$ 13,813,406</u>	<u>\$ 13,789,907</u>

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.

Metro Interagency Insurance Program

Notes to Basic Financial Statements

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, 2013 and 2012, the Program's investments were rated as follows:

Investment Type	Moody's Investors Services	Standard & Poor's
June 30, 2013:		
Iowa Schools Joint Investment Trust	Not rated	AAAm
June 30, 2012:		
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, 2013 and 2012, 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, 2013 and 2012, 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.

Metro Interagency Insurance Program

Notes to Basic Financial Statements

Note 3. Capital Assets

A summary of capital assets as of June 30, 2013 and 2012 is as follows:

	Year Ended June 30, 2013			
	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable assets, equipment	\$ 2,170	\$ -	\$ -	\$ 2,170
Less accumulated depreciation	1,489	343	-	1,832
Total depreciable assets, net	\$ 681	\$ (343)	\$ -	\$ 338

	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

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 change in the reserve for IBNR claims for the years ended June 30, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
Reserve for incurred but not reported claims, beginning of year	\$ 2,850,000	\$ 3,000,000	\$ 2,800,000
Insurance premiums, claims and administrative charges:			
Provision for insured events of current year	30,657,550	29,964,965	30,949,729
(Decreases) in provision for insured events of prior years	(1,053,088)	(784,787)	(467,694)
	29,604,462	29,180,178	30,482,035
Payments:			
Attributable to insured events of current year	(27,845,123)	(26,892,375)	(27,838,883)
Attributable to insured events of prior years	(1,893,989)	(2,336,900)	(2,332,306)
	(29,739,112)	(29,229,275)	(30,171,189)
Other, change in payable for plan related costs	234,650	(100,903)	(110,846)
Reserve for incurred but not reported claims, end of year	\$ 2,950,000	\$ 2,850,000	\$ 3,000,000

Metro Interagency Insurance Program

Notes to Basic Financial Statements

Note 5. Related Party Transactions

The Program had the following related party transactions for the years ended June 30, 2013 and 2012:

	Member Assessment Revenue	
	2013	2012
Cedar Rapids Community School District	\$ 11,396,672	\$ 11,044,011
College Community School District	3,338,002	3,225,010
Linn-Mar Community School District	3,842,477	3,856,407
Marion Independent School District	1,558,215	1,512,248
Grant Wood Area Education Agency	3,456,202	3,311,771
Kirkwood Community College	6,269,943	6,284,575
Total	\$ 29,861,511	\$ 29,234,022

Metro Interagency Insurance Program

Required Supplementary Information - Schedule of Claims Development Information - Unaudited

All Membership Years

June 30, 2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Assessment and investment revenue:										
Earned	\$ 23,078,459	\$ 25,237,957	\$ 25,817,155	\$ 27,543,111	\$ 27,425,823	\$ 28,184,640	\$ 28,154,577	\$ 28,692,902	\$ 29,259,675	\$ 29,885,231
Ceded	**	**	**	**	**	**	**	**	**	**
Net earned	23,078,459	25,237,957	25,817,155	27,543,111	27,425,823	28,184,640	28,154,577	28,692,902	29,259,675	29,885,231
Unallocated expenses	178,407	142,615	187,487	188,161	255,034	502,956	304,565	316,869	186,899	221,827
Estimated insured claims and expenses, end of policy year										
Incurred	21,496,797	21,380,462	23,955,278	24,454,720	25,265,254	27,366,280	28,969,322	30,949,729	29,964,965	30,657,550
Ceded	-	-	-	-	-	-	-	-	-	-
Net incurred	21,496,797	21,380,462	23,955,278	24,454,720	25,265,254	27,366,280	28,969,322	30,949,729	29,964,965	30,657,550
Cumulative paid claims as of:										
End of the policy year	21,206,797	21,380,462	23,505,278	24,354,720	25,165,254	24,866,280	26,169,322	27,838,883	26,892,375	27,845,123
One year later	*	*	*	*	*	*	*	*	*	-
Two years later	*	*	*	*	*	*	*	*	-	-
Three years later	*	*	*	*	*	*	*	-	-	-
Four years later	*	*	*	*	*	*	-	-	-	-
Five years later	*	*	*	*	*	-	-	-	-	-
Six years later	*	*	*	*	-	-	-	-	-	-
Seven years later	*	*	*	-	-	-	-	-	-	-
Eight years later	*	*	-	-	-	-	-	-	-	-
Nine years later	*	-	-	-	-	-	-	-	-	-
Re-estimated ceded losses and expenses	*	*	*	*	*	*	*	*	*	-
Re-estimated net incurred claims and expenses:										
End of the policy year	21,496,797	21,380,462	23,955,278	24,454,720	25,265,254	27,366,280	28,969,322	30,949,729	29,964,965	30,657,550
One year later	*	*	*	*	*	*	*	*	*	-
Two years later	*	*	*	*	*	*	*	*	-	-
Three years later	*	*	*	*	*	*	*	-	-	-
Four years later	*	*	*	*	*	*	-	-	-	-
Five years later	*	*	*	*	*	-	-	-	-	-
Six years later	*	*	*	*	-	-	-	-	-	-
Seven years later	*	*	*	-	-	-	-	-	-	-
Eight years later	*	*	-	-	-	-	-	-	-	-
Nine years later	*	-	-	-	-	-	-	-	-	-
Increase (decrease) in estimated net incurred claims and expenses from end of the policy year	*	*	*	*	*	*	*	*	*	-

* This information was not included as it was not readily available.

** Excess insurance premiums are included with incurred estimated insured claims and expenses



**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**

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of Metro Interagency Insurance Program (the Program), as of and for the year ended June 30, 2013, and the related notes to the basic financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Cedar Rapids, Iowa
December 6, 2013