

INTERSTATE INSURANCE
PRODUCT REGULATION COMMISSION



States, Strength & Speed Aligned

ANNUAL REPORT

2006

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INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION



States, Strength & Speed Aligned

About the IIPRC

The Interstate Insurance Compact ("Compact") is an important state-based modernization initiative that benefits insurance regulators, consumers and the insurance industry. The Compact established a multi-state public entity, the Interstate Insurance Product Regulation Commission ("IIPRC"), which serves as an instrumentality of its Member States.

The IIPRC provides a central point of electronic filing for life insurance, annuities, disability income, and long-term care insurance products. Through the IIPRC, Member States collectively use their expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products.

The speed-to-market value of the IIPRC streamlines the way insurance products are filed, reviewed and approved. Insurers may continue to rely on the extensive experience and competence of the state-based regulatory system in reviewing products, while the benefits of uniformity and regulatory efficiencies allow consumers to have quicker access to competitive insurance products in an ever-changing, global marketplace.



Letter from the Chair



June 2007

The Interstate Insurance Product Regulation Commission made great strides during our inaugural year. As a key state-based modernization initiative for insurance regulation, we began our efforts to implement a central point of product filing under uniformly adopted standards for life insurance, annuities, disability income, and long-term care products.

Working collaboratively with our state legislators, consumer representatives and the industry throughout the year, our Members implemented the framework for the operations of the Commission.

After our historic first meeting at the National Press Club in Washington, DC during June 2006 and within the first six months of our start-up, the Commission adopted our Bylaws and rulemaking structure, hired our Executive Director, established our headquarters, and promulgated our first five Uniform Standards. We held the Annual Meeting of the Commission in November 2006 in Lansdowne, Virginia, where we set our governance structure. During 2006, we also welcomed our newly-formed Legislative Committee.

We carried this momentum into 2007 by increasing our membership to 30 jurisdictions, representing half of the premium volume nationwide. The Commission also established its two advisory committees by appointing representatives from the consumer advocacy community and from the industry. We are continuing to adopt new Uniform Standards as we prepare to launch our product filing operations in 2007.

This Annual Report provides a snapshot of our accomplishments during 2006, the results of our first audit, and our plans for remainder of 2007. I look forward to meeting our challenges with the continued support of our Members as we work toward the modernization goal of streamlined filing and efficiency while continuing to hold the strong bar on consumer protection.

A handwritten signature in black ink that reads "Jane L. Cline".

Commissioner Jane L. Cline, IIPRC Chair
West Virginia Offices of the Insurance Commissioner

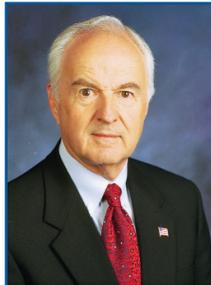
IIPRC Officers



Commissioner Jane L. Cline
Chair
Offices of the Insurance Commissioner
State of West Virginia



Commissioner Linda A. Watters
Vice Chair
Office of Financial and Insurance Services
State of Michigan



Commissioner Glenn Wilson
Treasurer
Department of Commerce
State of Minnesota



Commissioner M. Diane Koken
Inaugural Chair
Insurance Department
Commonwealth of Pennsylvania

Letter from the Executive Director



June 2007

During 2006, the Interstate Insurance Product Regulation Commission (IIPRC) set out to meet the speed-to-market mandate established by our Members under the Insurance Compact. Charged with creating a central point of product filing for asset protection products under Uniform Standards, the IIPRC will enhance regulatory efficiencies in the insurance marketplace while maintaining the high standards of consumer protection expected under the hallmark of state-based regulation.

Beginning with the Compact's plan of action initiated by the National Association of Insurance Commissioners (NAIC), the IIPRC moved at a record pace to establish our organizational framework, hire key staff and adopt our first Uniform Standards during our inaugural year. The IIPRC made critical progress in 2006 with the vital support of our Members and state legislators, and with the essential input of consumer representatives and the insurance industry. We have built a solid foundation from which to launch our insurance product filing operations in 2007.

With 30 Members representing half of nationwide premium volume to date, we will continue to outreach to more states to join us as we build a pro-active and durable operation to carrying out the Compact's mission in the evolving insurance sector.

I invite you to review our 2006 Annual Report which highlights the progress made in our start-up year, including the first audit of the IIPRC, and outlines our continued development plans.

I also would like to take this opportunity to thank our Members, both past and present, our state legislators, advisory committee representatives, and the NAIC for the time and energies invested in making our start-up year a success.

We look forward to carrying the momentum of the past year through to the start of our product filing operations in June 2007.



Frances Arricale
IIPRC Executive Director

IIPRC Highlights and Plans



Since meeting its operational threshold in May 2006, the Interstate Insurance Product Regulation Commission (IIPRC) now has 30 Members representing half of the premium volume nationwide, and has been making great strides towards becoming fully operational by mid-2007. The following provides a highlight of achievements and outlines continued plans.

- June 2006: **Inaugural Meeting of IIPRC in Washington, DC.** Under the motto banner of “*States, Strength and Speed Aligned,*” the IIPRC Members reaffirm their commitment to modernize state-based insurance regulation to meet the needs of the evolving global insurance marketplace while continuing to uphold strong consumer protections.
- August 2006: **IIPRC Publishes Bylaws.** The IIPRC maps the framework of the organization and its operating dynamics through extensive consultations with regulators, legislative representatives, consumers, and industry.
- November 2006: **First Annual IIPRC Meeting.** In Lansdowne, VA, the IIPRC holds its first Annual Meeting where the membership elects Officers and announces the appointment of the organization’s new Executive Director to oversee the start-up and day-to-day operations.
- December 2006: **First Standards Adopted.** Within its initial six (6) months of operation, the IIPRC adopts its first Uniform Standards on Adjustable Life upon the completion of full public notice and comment. **Legislative Committee Leadership.** The IIPRC Legislative Committee names its leadership and works as an active partner to oversee the progress of the IIPRC.
- March 2007: **Operational Progress.** IIPRC Officers from West Virginia, Michigan and Minnesota conclude New York City Meeting with continued progress towards the start-up of IIPRC product filing operations.
- April to May 2007: **Product Filing Processes.** The IIPRC continues to prepare its operations with the addition of expert product filing review staff. New Coordinator staff manages the administrative requirements and vital public notice platforms of the IIPRC. Additional work is completed on the System for Electronic Rate and Form Filing (SERFF) which allows the companies to electronically file their products with the IIPRC, and a filing fee structure is put in place which ensures that all proper state fees are collected on behalf of the Member States.
- **Plans for June 2007:** The IIPRC aims to be ready to receive the first product filings by companies. In addition to its first five (5) adopted Standards, the IIPRC will also have Uniform Standards for a Life Application and six (6) Riders ready for filing use by June.

IIPRC Membership



Linda Hall
*Director, **Alaska***
Division of Insurance

Marcy Morrison
*Commissioner, **Colorado***
Division of Insurance

John Oxendine
*Commissioner, **Georgia***
Department of Insurance

Shelley K. Santo
*Special Designee, **Hawaii***
Insurance Division

William Deal
*Director, **Idaho***
Department of Insurance

Jim Atterholt
*Commissioner, **Indiana***
Department of Insurance

Susan E. Voss
*Commissioner, **Iowa***
Division of Insurance

Sandy Praeger
*Commissioner, **Kansas***
Insurance Department

Julie Mix McPeak
*Executive Director, **Kentucky***
Office of Insurance

Eric A. Cioppa
*Acting Superintendent, **Maine***
Bureau of Insurance

R. Steven Orr
*Commissioner, **Maryland***
Insurance Administration

Nonnie Burnes
*Commissioner, **Massachusetts***
Division of Insurance

Linda A. Watters
*Commissioner, **Michigan***
Office of Financial/Insurance Services

Glenn Wilson
*Commissioner, **Minnesota***
Department of Commerce

L. Tim Wagner
*Director, **Nebraska***
Department of Insurance

Roger A. Sevigny
*Commissioner, **New Hampshire***
Department of Insurance

Jim Long
*Commissioner, **North Carolina***
Department of Insurance

Mary Jo Hudson
*Director, **Ohio***
Department of Insurance

Kim Holland
*Commissioner, **Oklahoma***
Department of Insurance

Randy R. Rohrbaugh
*Acting Commissioner, **Pennsylvania***
Insurance Department

Dorelisse Juarbe Jiménez
*Commissioner, **Puerto Rico***
Office of the Commissioner of Insurance

Joseph Torti, III
*Superintendent, **Rhode Island***
Insurance Division

Leslie A. Newman
*Commissioner, **Tennessee***
Department of Commerce and Insurance

Mike Geeslin
*Commissioner, **Texas***
Department of Insurance

D. Kent Michie
*Commissioner, **Utah***
Department of Insurance

Paulette Thabault
*Commissioner, **Vermont***
Division of Insurance

Alfred W. Gross
*Commissioner, **Virginia***
State Corporation Commission,
Bureau of Insurance

Mike Kreidler
*Commissioner, **Washington***
Office of the Insurance Commissioner

Jane L. Cline
*Commissioner, **West Virginia***
Office of the Insurance Commissioner

Ken Vines
*Commissioner, **Wyoming***
Department of Insurance

Former Members serving during 2006

David Rivera
*Commissioner, **Colorado***
Division of Insurance

Shad Priest
*Acting Director, **Idaho***
Department of Insurance

Alessandro A. Iuppa
*Superintendent, **Maine***
Bureau of Insurance

Julie M. Bowler
*Commissioner, **Massachusetts***
Division of Insurance

Ann Womer Benjamin
*Director, **Ohio***
Department of Insurance

M. Diane Koken
*Commissioner, **Pennsylvania***
Insurance Department

John P. Crowley
*Commissioner, **Vermont***
Division of Insurance

Member Committees



Management

Jane L. Cline, Chair
Commissioner, West Virginia

Linda A. Watters, Vice Chair
Commissioner, Michigan

Glenn Wilson, Treasurer
Commissioner, Minnesota

John Oxendine
Commissioner, Georgia

Jim Atterholt
Commissioner, Indiana

Nonnie Burnes
Commissioner, Massachusetts

Jim Long
Commissioner, North Carolina

Mary Jo Hudson
Director, Ohio

Kim Holland
Commissioner, Oklahoma

Randy R. Rohrbaugh
Acting Commissioner, Pennsylvania

Mike Geeslin
Commissioner, Texas

Paulette Thabault
Commissioner, Vermont

Alfred W. Gross
Commissioner, Virginia

Mike Kreidler
Commissioner, Washington

Audit

Utah, Chair
Rhode Island, Vice Chair
Alaska
Iowa
Kentucky

Communications

Oklahoma, Chair
Maryland, Vice Chair
Georgia
Idaho
Indiana
Michigan
Puerto Rico
Texas

Finance

Nebraska, Chair
Massachusetts, Vice Chair
Colorado
Idaho
Maine
Minnesota
North Carolina

Product Standards

New Hampshire, Chair
Texas, Vice Chair
Kansas
Massachusetts
Minnesota
Ohio
Oklahoma
Pennsylvania
Utah
Vermont
Virginia
Washington
Wyoming

Rulemaking

Vermont, Chair
Pennsylvania, Vice Chair
Hawaii
Massachusetts
Minnesota
Ohio
Oklahoma
Rhode Island
Utah
Virginia
Washington
West Virginia

Technology

Ohio, Chair
Iowa, Vice Chair
Georgia
Michigan
North Carolina
Kentucky
Maryland

Legislative Committee

Representative Robert Damron, Chair
Commonwealth of Kentucky

Senator Delores Kelley, Vice Chair
State of Maryland

Senator Ralph Hudgens
State of Georgia

Representative Mike Ripley
State of Indiana

Senator Ruth Teichman
State of Kansas

Representative Brian Patrick Kennedy
State of Rhode Island

Representative Larry Taylor
State of Texas



Advisory Committees



Consumer Advisory Committee

Brendan Bridgeland
Center for Insurance Research

Rod Bordelon
Office of the Public Insurance Counsel, State of Texas

T. Ryan Wilson
American Association of Retired Persons (AARP)

Industry Advisory Committee

Steve Buhr
AEGON

Michael Gerber
National Association of Insurance and Financial Advisors

Dennis Herchel
Massachusetts Mutual Life Insurance Company

Nancy Johnson
UNUM

Michael Lovendusky
American Council of Life Insurers

Cande Olsen
New York Life Insurance Company

Randi Reichel
America's Health Insurance Plans

Gary Sanders
Association of Health Insurance Advisors

Frances Arricale
Executive Director

Sara Bamford
Administrative Coordinator

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Audit Report





Independent Accountants' Report on Financial Statements

Management Committee
Interstate Insurance Product Regulation Commission
Washington, D.C.

We have audited the accompanying balance sheet of the Interstate Insurance Product Regulation Commission (the "Commission") as of December 31, 2006, and the related statements of activities and revenues, expenses and changes in net assets for the period from June 13, 2006 (inception) to December 31, 2006. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Interstate Insurance Product Regulation Commission as of December 31, 2006, and the changes in its financial position and cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which 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.

BKD, LLP

Kansas City, Missouri
May 31, 2007

Interstate Insurance Product Regulation Commission

Management's Discussion and Analysis

December 31, 2006

Introduction

This discussion and analysis of the financial performance of the Interstate Insurance Product Regulation Commission (the "Commission") provides management's overview of the financial activities for the period from June 13, 2006 (inception) to December 31, 2006. It should be read in conjunction with the accompanying financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's three basic financial statement—a balance sheet, listing assets, liabilities, and net assets; a statement of revenues, expenses and changes in net assets, showing the Commission's operating performance in terms of revenues, expenses, and the resulting change in net assets; and a statement of cash flows, summarizing the use of funds from the National Association of Insurance Commissioner's (NAIC's) contribution. The Commission is accounted for as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB) and presents its financial statements using the accrual basis of accounting.

Financial Highlights

Balance Sheet

- In March 2006, the NAIC Internal Administration (EX1) Subcommittee approved a \$500,000 grant to the Commission to fund startup costs.
- During the initial business operations set up, the NAIC incurred expenditures on behalf on the Commission. These transactions are recorded as a liability to the NAIC in the amount of \$248,968. This activity was settled with a cash transfer in January 2007.
- A capital asset of \$126,902 has been established for modifications to SERFF, as this system will be used to process Commission filings. In June 2006, the Commission adopted SERFF as its electronic rate and form filing system. The Commission has assumed the cost of upgrades and enhancements to the SERFF system to meet Commission requirements such as the collection and remission of state filing fees. Some of these system changes were made in 2006, with more expected in 2007. The Commission will earn revenues when insurance companies process transactions through the NAIC's System for Electronic Rate and Form Filings (SERFF) using standards established by the Commission for its member states. The amortization of this asset will begin with the first Commission filing, expected in the latter half of 2007.
- Accounts payable and accrued expenses are \$329,396 as of December 31. Included in this balance is an amount due to the NAIC of \$248,968 for transactions processed on behalf of the Commission, as noted above.

- Assets of the Commission exceeded its liabilities at the close of the calendar year by \$280,871 (net assets).

A Condensed Balance Sheet as of December 31, 2006 is presented below:

Assets

Total Current Assets	\$ 483,365
Capital Assets, Net	<u>126,902</u>
Total assets	<u>\$ 610,267</u>

Liabilities and Net Assets

Total Current Liabilities	\$ 329,396
Unrestricted Net Assets	<u>280,871</u>
Total liabilities and unrestricted net assets	<u>\$ 610,267</u>

Statement of Revenue, Expenses and Changes in Net Assets

- Contributions were \$500,000. According to the Commission Bylaws Article XII 1., the Commission may accept contributions and other forms of funding from the NAIC, compacting states, or other sources. The NAIC provided sponsorship funding for the Commission's initial startup. This was the sole source of funding for the Commission in 2006.
- Salaries were less than expected for the year as only one employee was retained during 2006. This expense will increase in 2007, as staff to support analytical and administrative areas are hired.
- Professional services include fees for outside legal counsel to establish the corporate entity, prepare bylaws and articles of incorporation, implement employee benefit plans, and review corporate governance matters.
- Travel expense is comprised of commissioner travel to the Commission's Annual Meeting, the 2006 NAIC Fall National Meeting and executive director candidate interviews and legislative and consumer advisory committee travel.
- Office Services consists of telephone, office supplies, mail services, and printing. The majority of cost in this line relates to the use of conference calls during the initial start up discussions.
- Meeting and hotel services were incurred for meeting rooms, food and beverage service, audio visual, and other costs related to meetings of the Commission.
- Other expenses are for the recruitment of the executive director for the Commission.

A Condensed Statement of Revenue, Expenses and Changes in Net Assets for the Period Ended December 31, 2006 is presented below:

Total Operating Expenses	\$ <u>219,129</u>
Loss from Operations	(219,129)
Grant from NAIC	<u>500,000</u>
Change in Net Assets	280,871
Net Assets, Beginning of Period	<u>—</u>
Net Assets, End of Period	<u>\$ 280,871</u>

Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

Debt

The Commission and the NAIC are currently negotiating a License and Services Agreement. While the terms are still under negotiation, the Agreement contemplates a base fee for administrative and technical services, facilities, and equipment with an adjustable fee tied to conditions precedent regarding the Commission's net revenue. The NAIC will also provide a non-exclusive license to the SERFF system. The Commission will pay an annual license/maintenance fee in the amount of \$25,000 for the use of SERFF.

Economic Factors

The Commission is targeting 2007 for the start-up of its product filing operations. This will involve approval by the Commission of the appropriate Uniform Standards and Operating Procedures under which the Commission will review and approve/disapprove product filings in the product areas of life insurance, annuities, long-term care and disability income insurance. The Commission is authorized under its Statute to charge transaction fees that will cover its operating expenses and annual budget. Once the Commission's rules and systems are in place, and a practical volume of filings are submitted by insurers, it is expected that transaction fee revenue will begin to cover operating expenses.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances and to show accountability for the funds received in 2006. Questions about this report and requests for additional financial information should be directed to Frances Arricale at (202) 624-5969.

Interstate Insurance Product Regulation Commission

Balance Sheet December 31, 2006

Assets

Current Assets

Cash	\$	482,265
Prepaid expenses		<u>1,100</u>
Total current assets		483,365

Capital Assets, Net

		<u>126,902</u>
Total assets	\$	<u><u>610,267</u></u>

Liabilities and Net Assets

Current Liabilities

Due to NAIC	\$	248,968
Accounts payable		64,412
Accrued expenses		<u>16,016</u>
Total current liabilities		329,396

Unrestricted Net Assets

		<u>280,871</u>
Total liabilities and unrestricted net assets	\$	<u><u>610,267</u></u>

Interstate Insurance Product Regulation Commission

Statement of Revenue, Expenses and Changes in Net Assets For the Period from June 13, 2006 (Inception) to December 31, 2006

Expenses	
Salaries	\$ 15,300
Professional services	34,924
Employee benefits	1,470
Travel and transportation	20,868
Rental and maintenance	65
Office services	19,593
Insurance	1,374
Meeting expense	48,777
Executive recruitment	<u>76,758</u>
Total expenses	<u>219,129</u>
Loss from Operations	(219,129)
Grant from NAIC	<u>500,000</u>
Change in Net Assets	280,871
Net Assets, Beginning of Period	<u>—</u>
Net Assets, End of Period	<u>\$ 280,871</u>

Interstate Insurance Product Regulation Commission

Statement of Cash Flow

For the Period From June 13, 2006 (Inception) to December 31, 2006

Operating Activities

Cash payments to suppliers and vendors for goods and services	\$ (965)
Cash payments for salaries and benefits	<u>(16,770)</u>
Net cash used in operating activities	<u>(17,735)</u>

Noncapital Financing Activities

Cash receipts from NAIC contribution	<u>500,000</u>
Net cash provided by financing activities	<u>500,000</u>

Increase in Cash

482,265

Cash, Beginning of Period

—

Cash, End of Period

\$ 482,265

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities

Loss from operations	\$ (219,129)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities	
Prepaid expenses and other assets	(1,100)
Accounts payable and accrued liabilities	<u>202,494</u>
Net cash provided by operating activities	\$ <u><u>(17,735)</u></u>

Supplemental Cash Flow Information

Capital assets acquired via advance from NAIC	\$ 126,902
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Interstate Insurance Product Regulation Commission

Notes to Financial Statements

December 31, 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Interstate Insurance Product Regulation Commission (the "Commission"), formed in June 2006, is a multi-state commission creating a central point of electronic filing for certain insurance products, including life insurance, annuities, disability income and long-term care insurance. The Commission provides its member states with the ability to collectively use their expertise to develop uniform national product standards, affording a high level of protection to purchasers of asset protection insurance products. (As of December 31, 2006, the Commission had 28 member states).

The Commission will earn revenue predominantly through transaction fees. Transaction fees are earned when insurance companies process transactions through the National Association of Insurance Commissioners' (NAIC) System for Electronic Rate and Form Filings (SERFF). The SERFF system provides a cost-effective method of handling insurance policy rate and form filings between regulators and insurance companies. The Commission will earn revenue when a filing received through SERFF is processed using standards established by the Commission for its member states.

Basis of Accounting and Presentation

The financial statements of the Commission have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions (grant from the NAIC) are recognized when requirements are met. The Commission first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Commission prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Commission applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Interstate Insurance Product Regulation Commission

Notes to Financial Statements

December 31, 2006

Capital Assets

Capital assets consist of computer software and are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the related assets; the lives range from three to five years.

Compensated Absences

Compensation for future vacation and sick leave and deferred compensation are accrued as earned. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

Risk Management

The Commission is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims.

Net Assets

As noted previously, in the government-wide statements, equity is classified as net assets, which are described as follows:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “invested in capital assets, net of related debt.”

Income Taxes

As the Commission is organized as joint-cooperative of compacting states, the Commission is generally exempt from federal and state income taxes. However, the Commission is subject to federal income tax on any unrelated business taxable income.

**Interstate Insurance Product
Regulation Commission
Notes to Financial Statements
December 31, 2006**

Note 2: Deposits

Deposits

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Commission will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission has not adopted a formal policy regarding custodial credit risk.

The Commission's cash deposits are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At December 31, 2006, \$384,236 of the Commission's bank balance of \$484,236 were exposed to custodial credit risk (uninsured and uncollateralized).

Concentration of Credit Risk

As of December 31, 2006, all of the Commission's deposits were held by UMB Bank, n.a. in a non-interest bearing checking account.

Carrying Value

The carrying value of the deposit amounted to \$482,265 at December 31, 2006.

Note 3: Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, being depreciated Software	\$ _____ 0	\$ _____ 126,902		\$ _____ 126,902
Total capital assets, being depreciated	\$ _____ 0	\$ _____ 126,902		\$ _____ 126,902

At December 31, 2006, no depreciation had been recorded on the above assets as they had not been placed into service.

Interstate Insurance Product Regulation Commission

Notes to Financial Statements

December 31, 2006

Note 4: Related Party Transactions

The NAIC and the Commission are currently negotiating a License and Services Agreement. While the terms are still under negotiation, the Agreement contemplates a base fee for administrative and technical services, facilities and equipment with an adjustable fee tied to conditions precedent regarding the Commission's net revenue. The NAIC is also providing a non-exclusive license to the SERFF system. In June 2006, the Commission decided to adopt SERFF as its electronic rate and form filing system. The Commission has assumed the cost of upgrades and enhancements to the SERFF system to meet Commission requirements (such as the collection and remission of state filing fees). Some of these changes were made in 2006 with more expected in 2007. The Commission will pay an annual license/maintenance fee in the amount of \$25,000 for the use of SERFF. In 2006, the NAIC provided the Commission with a \$500,000 grant to fund operations. Additionally, certain expenses are paid on behalf of, and reimbursed by, the Commission. The total amount owed at year-end is \$248,968.

Note 5: Defined Contribution Plan

The Commission has a defined contribution plan 401(a) which covers substantially all employees who have completed one year or more of service. Each year, the Management Committee determines the contribution for the next year. In 2006, the Commission agreed to match up to 3.5% of contributions of those employees who will contribute to the Plan and contribute 2% of all employees' annual compensation. There was no contribution expense for 2006.

Note 6: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grants

All of the Commission's grants were from the NAIC.

Interstate Insurance Product Regulation Commission

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