IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements as of June 30, 2005 and 2004 and for the Years then Ended and Supplementary Information as of the End of the Past Ten Fiscal Years and Independent Auditors' Reports

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Iowa Municipalities Workers' Compensation Association
Des Moines, Iowa

We have audited the accompanying balance sheets of Iowa Municipalities Workers' Compensation Association (the "Association") as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Association'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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Chapter 11 of the Code of Iowa. Those standards and Chapter 11 of the Code of Iowa 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

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

As described in Note 1 to the financial statements, the Association adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures* as of and for the year ended June 30, 2005. The adoption of this pronouncement resulted in modified disclosures regarding the credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk of the Association's investments.

The management's discussion and analysis on pages 4 - 9, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Association's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Association taken as a whole. The supplementary information listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Association's management. Such information has been subjected to the auditing procedures applied by us in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2005, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

November 3, 2005

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

Iowa Municipalities Workers' Compensation Association, referred to as the "Association", offers readers of our basic financial statements this narrative overview and analysis of the financial activities of the Association for the fiscal years ended June 30, 2005 and 2004. The Association encourages readers to consider the information presented here in conjunction with the basic financial statements, including the notes thereto.

FINANCIAL HIGHLIGHTS

For the year ended June 30, 2005

- The assets of the Association exceeded its liabilities at the close of the most recent fiscal year by $11,341,985. Net assets increased by $5,458,338 during fiscal year 2005.
- The Association's total assets increased by $4,565,816 from 2004 to 2005.
- Additions to fixed assets during fiscal year 2005 were $32,629, excluding disposals of fixed assets and accumulated depreciation.
- The ending, unrestricted cash and cash equivalents balance was $1,977,381 for the Association at June 30, 2005.
- The investments held by the Association at the end of fiscal year 2005 were $25,179,677, which were invested in accordance with the *Code of Iowa* Section 12B.10 Public Fund Investment Standards and the investment policy established by the Association's Board of Trustees.
- Due to higher interest rates on new investments, the investment income increased $591,754 from 2004 to 2005.

For the year ended June 30, 2004

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2004 by $5,883,647. Total net assets decreased by $1,761,887 during fiscal year 2004.
- The Association's total assets increased by $3,394,842 from 2003 to 2004.
- Additions to computer equipment and software during fiscal year 2004 were $15,753, offset by disposals of $11,327 and depreciation expense of $63,159.
- The ending cash and cash equivalents balance was $7,880,888 for the Association at June 30, 2004.
- The investments held by the Association at the end of fiscal year 2004 were $15,079,880, which were invested in accordance with the *Code of Iowa* Section 12B.10 Public Fund Investment Standards and the investment policy established by the Association's Board of Trustees.
- Due to the decline of interest rates, the investment income fell $276,752 from 2003 to 2004.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Association's audited basic financial statements. The basic financial statements are comprised of the balance sheet, statement of revenues, expenses and changes in net assets, and statement of cash flows. This report also includes notes to the financial statements that explain in more detail some of the information in the financial statements.

REQUIRED BASIC FINANCIAL STATEMENTS

The Association's basic financial statements are designed to provide readers with a broad overview of the finances, in a manner similar to those used by private-sector business. These statements offer short- and long-term information about its activities.

The balance sheet includes all of the Association's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). This statement also provides the basis for evaluating the capital structure of the Association and assessing the liquidity and financial flexibility of the Association. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating.

The statement of revenues, expenses and changes in net assets accounts for all of the current year revenues and expenses. This statement measures the success of the Association's operations over the past year and can be used to determine whether the Association has successfully recovered all of its costs through member premiums and any other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The cash flow statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. It also provides answers to various questions such as where did the cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE ASSOCIATION

As noted earlier, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating. It is essentially a way to measure the financial health or position of the Association. The balance sheet and statement of revenues, expenses and changes in net assets report the net assets of the Association and the changes therein. However, other non-financial factors such as changes in economic conditions and new or changed governmental legislation should also be considered.

NET ASSETS

A summary of the Association's condensed balance sheets at June 30, 2005, 2004 and 2003 is presented below.

Condensed Balance Sheet

	2005	2004	2003
Current and other assets	$ 28,901,376	$ 24,306,981	$ 20,859,196
Capital assets, net	107,856	136,435	189,378
Total assets	$ 29,009,232	$ 24,443,416	$ 21,048,574
Unpaid claims	$ 14,372,043	$ 16,406,138	$ 11,496,228
Other liabilities	3,295,204	2,153,631	1,906,812
Total liabilities	$ 17,667,247	$ 18,559,769	$ 13,403,040
Invested in capital assets, net	$ 107,856	$ 136,435	$ 189,378
Unrestricted net assets	11,234,129	5,747,212	7,456,156
Total net assets	$ 11,341,985	$ 5,883,647	$ 7,645,534

The total assets of the Association at the 2005 fiscal year end were $29,009,232, an increase of $4,565,816 from the previous year. This is primarily attributable to discount decreases and payroll increases for member premiums in 2005. Total liabilities decreased by $892,522 predominantly because of decreases in unpaid claims (claims reserves).

The total assets of the Association at the 2004 fiscal year end were $24,443,416, an increase of $3,394,842 from the previous year. This is primarily attributable to increases in rates for member premiums in 2004. Total liabilities increased by $5,156,729 predominantly because of large increases in unpaid claims (claims reserves).

During fiscal year 2005, total net assets increased by $5,458,338. This increase in net assets resulted from the premiums increasing while the unpaid claims (claims reserves) decreased over the course of fiscal year 2005.

During fiscal year 2004, total net assets decreased by $1,761,887. This reduction in net assets resulted from the large increase in unpaid claims (claims reserves) not being offset by the increase in member premiums for fiscal year 2004.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A summary of the Association's condensed statements of revenues, expenses and changes in net assets for the years ended June 30, 2005, 2004, and 2003 is presented below.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2005	2004	2003
Net premiums earned	$13,710,575	$11,534,490	$ 9,624,705
Net claims	6,100,123	10,902,525	7,771,470
Operating revenues, net	7,610,452	631,965	1,853,235
Operating expenses	2,793,256	2,425,524	2,136,008
Nonoperating revenues	641,142	31,672	315,216
Change in net assets	5,458,338	(1,761,887)	32,443
Distribution to members	-	-	(355,255)
Net assets, beginning of year	5,883,647	7,645,534	7,968,346
Net assets, end of year	$11,341,985	$ 5,883,647	$ 7,645,534

Revenues: During fiscal year 2005, the Association had an increase in premiums, net of reinsurance, of $2,176,085, approximately 19% over the prior year. This increase resulted from the following items: (1) 5% was due to a decrease in member discounts made by the Association, (2) 1% was due to an increase in new member growth, and (3) the remaining 13% was due to changes in member payrolls made by the members. The premium increase was enough to offset net claims for the year.

During fiscal year 2004, the Association had a rate increase effective July 1, 2003 of approximately 18%. The National Council on Compensation Insurance (NCCI) in the state of Iowa requested a rate increase of 11%, an additional 4% was due to payroll increases of members and 3% was due to a decrease in the Association's discount to members. This resulted in the majority of the increase in premiums, net of reinsurance, of $1,909,785. The remainder of the increase was a result of new members entering the program. The premium increase was not enough to offset large claim reserve increases.

During fiscal year 2005, nonoperating revenues increased by $609,470 from the prior year essentially due to investment income. Not only did interest rates rise slightly, but the Association worked extensively on receiving the highest possible investment return. The investments balance was also higher at the end of fiscal year 2005.

During fiscal year 2004, nonoperating revenues decreased by $283,544 from the prior year essentially due to investment income. Not only did interest rates continue to be low, but the Association was required to recognize approximately $80,000 in unrealized losses due to several investments being purchased at a much higher premium than in previous years.

Expenses: During fiscal year 2005, the Association decreased claim reserves from previous fiscal years due to a decrease in the cost of expected claims. The purchase of annuity settlements for several claims allowed the Association to significantly decrease reserves and claim costs for these claims. This directly affected net assets during fiscal year 2005 in a positive manner. Total net claims during fiscal year 2005 were $6,100,123, as compared to $10,902,525 during the previous fiscal year. This was a decrease of $4,802,402, or 44.0%.

During fiscal year 2004, the Association significantly increased claim reserves from previous fiscal years due to an increase in the cost of expected claims. This directly affected net assets during fiscal year 2004 in a negative manner. Total net claims during fiscal year 2004 were $10,902,525, as compared to $7,771,470 during the previous fiscal year. This was an increase of $3,131,055, or 40.3%. The increase resulted from an increase in case reserves of claims as determined by the claims staff.

During fiscal year 2005, operating expenses increased 15.2%, or $367,732, over the previous fiscal year mainly due to expenses related to the increase in member premiums, such as agent commissions and medical bill review expenses.

During fiscal year 2004, operating expenses increased 13.6%, or $289,516, over the previous fiscal year mainly due to expenses related to the increase in member premiums, such as agent commissions and medical bill review expenses.

Net Assets: At June 30, 2005, the Association's net assets showed a $5,458,338 increase from the previous fiscal year, ending up at $11,341,985.

At June 30, 2004, the Association's net assets showed a $1,761,887 reduction from the previous fiscal year, ending up at $5,883,647.

CAPITAL ASSETS

As of June 30, 2005, 2004 and 2003, the Association's capital assets consisted primarily of computer equipment and software.

	2005	2004	2003
Equipment	$ 220,685	$ 194,200	$ 189,941
Software	168,451	162,307	162,140
Total	389,136	356,507	352,081
Less: accumulated depreciation	(281,280)	(220,072)	(162,703)
Capital assets, net	$ 107,856	$ 136,435	$ 189,378

Capital asset purchases during fiscal year 2005 were $32,629, which included new computers and monitors, a digital copier/scanner/printer, check printer, digital camera and software programs/licenses.

Capital asset purchases during fiscal year 2004 were $15,753, which included new computers and monitors, storage file cabinets and software programs/licenses. Several obsolete computers were disposed of bringing the net change in capital assets during fiscal year 2004 to $4,426 before accumulated depreciation.

PERFORMANCE COMPARED TO BUDGET

The annual budget is prepared internally by staff and approved by the Board of Trustees approximately 90 days prior to the beginning of each fiscal year. This budget estimates the amount of premium, investment income, claims-related expenses, and general and administrative expenses the Association will earn or incur during the following year. Throughout the year, staff prepares interim financial statements to compare the projected revenue and expense figures with the Association's actual experience.

The following summary compares the Association's operating expenses budget information for fiscal years 2005 and 2004 to actual operating expenses for fiscal years 2005 and 2004, respectively.

Budget vs. Actual

	Fiscal Year 2005		Fiscal Year 2004	
	Budget	Actual	Budget	Actual
Direct expenses	$ 858,000	$ 877,523	$ 770,600	$ 758,933
General and administrative expenses	1,737,980	1,854,525	1,566,175	1,603,432
Depreciation expense	64,000	61,208	55,000	63,159
Total operating expenses	$2,659,980	$2,793,256	$2,391,775	$2,425,524

The budget for 2005 underestimated the expenses that the Association would incur compared to the revenues which it would earn; thus, the actual amount of net assets at the end of fiscal year 2005 was less than projected. Operating expenses were $2,793,256 or 5.0% over budget for fiscal year 2005. The overage is primarily due to expenses that are attributable to premium increases, such as agent commissions and medical bill review expenses.

The budget for 2004 underestimated the expenses that the Association would incur compared to the revenues which it would earn; thus, the actual amount of net assets at the end of fiscal year 2004 was less than projected. Operating expenses were $2,425,524 or 1.4% over budget for fiscal year 2004. The overage is primarily due to expenses that are attributable to premium increases, such as agent commissions and medical bill review expenses.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Association's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Accounting Department, Iowa Municipalities Workers' Compensation Association, 317 Sixth Avenue, Suite 800, Des Moines, Iowa 50309.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

BALANCE SHEETS
JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,977,381	$ 7,880,888
Restricted cash and cash equivalents	25,000	-
Investments, current portion	18,247,325	15,079,880
Receivables:		
Accrued interest	412,246	80,230
Reinsurance recoverable	729,489	733,172
Other	-	701
Total receivables	1,141,735	814,103
Prepaid expenses	101,473	109,353
Total current assets	21,492,914	23,884,224
NONCURRENT ASSETS:		
Investments	6,932,352	-
Capital assets, net	107,856	136,435
Other assets	476,110	422,757
TOTAL ASSETS	$ 29,009,232	$ 24,443,416
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Unpaid claims	$ 14,372,043	$ 16,406,138
Advanced premiums	1,971,089	2,104,452
Due to broker for securities purchased	1,003,750	-
Accounts payable and other accrued expenses	295,365	49,179
Deposit payable	25,000	-
Total current liabilities	17,667,247	18,559,769
NET ASSETS:		
Invested in capital assets, net	107,856	136,435
Unrestricted net assets	11,234,129	5,747,212
Total net assets	11,341,985	5,883,647
TOTAL LIABILITIES AND NET ASSETS	$ 29,009,232	$ 24,443,416

See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Premiums written and earned	$ 14,826,661	$ 12,368,040
Less: Reinsurance premiums	1,116,086	833,550
Net premiums earned	13,710,575	11,534,490
Claims paid	8,140,300	6,539,906
(Decrease) increase in gross unpaid claims	(2,034,096)	4,909,909
Reinsurance recoveries received	(9,765)	(10,771)
Decrease (increase) in reinsurance recoveries netted to unpaid claims	3,684	(536,519)
Net claims	6,100,123	10,902,525
Total operating revenues, net	7,610,452	631,965
OPERATING EXPENSES:		
Direct expenses	877,523	758,933
Depreciation expense	61,208	63,159
General and administrative expenses	1,854,525	1,603,432
Total operating expenses	2,793,256	2,425,524
Operating income (loss)	4,817,196	(1,793,559)
NONOPERATING REVENUES:		
Investment income	623,260	31,506
Other income	17,882	166
Total nonoperating revenues	641,142	31,672
CHANGE IN NET ASSETS	5,458,338	(1,761,887)
TOTAL NET ASSETS, BEGINNING OF YEAR	5,883,647	7,645,534
TOTAL NET ASSETS, END OF YEAR	$ 11,341,985	$ 5,883,647

See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members for premiums	$ 14,693,298	$ 12,585,418
Cash received from reinsurers for reinsurance	9,765	10,771
Cash payments to reinsurers for reinsurance premiums	(1,107,152)	(815,994)
Cash payments to suppliers for goods and services	(2,461,215)	(2,416,285)
Cash payments to claimants for claims	(8,140,300)	(6,539,906)
Other cash receipts	17,882	5,046
Net cash provided by operating activities	3,012,278	2,829,050
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from sales of computer equipment and software	-	657
Purchases of computer equipment and software	(32,629)	(15,753)
Net cash used in capital financing activities	(32,629)	(15,096)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	25,071,198	11,492,956
Purchases of investments	(34,188,420)	(19,179,471)
Deposits of restricted cash	(25,000)	-
Deposits of capital for equity method investments	(162,594)	-
Interest received on investments	441,116	298,765
Interest paid upfront on investments	(19,456)	(117,177)
Net cash used in investing activities	(8,883,156)	(7,504,927)
DECREASE IN CASH AND CASH EQUIVALENTS	(5,903,507)	(4,690,973)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,880,888	12,571,861
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,977,381	$ 7,880,888

(continued)

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 4,817,196	$ (1,793,559)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	61,208	63,159
Change in:		
Receivables	22,266	(532,083)
Prepaid expenses	7,880	(65,196)
Unpaid claims	(2,034,095)	4,909,910
Advanced premiums	(133,363)	217,379
Accounts payable and other accrued expenses	271,186	29,440
Net cash provided by operating activities	$ 3,012,278	$ 2,829,050

(concluded)

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - Iowa Municipalities Workers' Compensation Association (the "Association") was formed in July, 1981 under Chapter 28E, *Code of Iowa*, to allow Iowa cities to join together to comply with provisions of Chapter 87, *Code of Iowa*, by pooling the risks of their workers' compensation liabilities. In 1987, the 28E Agreement forming the Association was amended to allow Iowa counties to become members. The Association is governed by a seven member Board of Trustees of city and county officials elected by the members. The program's general objectives are to formulate, develop and administer, on behalf of the member political subdivisions, a program of joint self-insurance to stabilize costs related to members' workers' compensation liabilities. Program components include claims management, member education and loss control services.

Membership in the Association is limited to Iowa cities, counties, Chapter 28E entities, and other political subdivisions subject to approval in writing by the Board of Trustees or their designee; a member may withdraw from the Association at any time by complying with the rules of the Association. Annual premiums are determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims which exceeds the Association's resources available to pay such claims. A distribution to members may also be made if the Association has excess monies remaining after payment of claims and expenses.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Association has elected not to apply the provisions of pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

The Association consists of one fund designated as the Standard Group (formerly Group C). Group A remained in existence only for the settlement of the remaining claims and monies held in the fund which was liquidated December 31, 1996. Group B remained in existence only for the settlement of the remaining claims and monies held in the fund which was liquidated June 11, 2003. Standard Group membership consisted of 362 cities, 64 counties and 54 Chapter 28E entities for 2005.

Cash and Cash Equivalents - The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents / Deposits Payable - The Association received a cash deposit from the City of Ottumwa for third party claims administrator services. Pursuant to an agreement between the Association and the City of Ottumwa, the cash will be returned to the City of Ottumwa when the term of the agreement expires.

Investments - U.S. government agencies and corporate debt securities are carried at fair values which are based on quoted market prices as available. For those U.S. government agencies and corporate debt securities for which quoted market prices are not readily available, fair values are based on various price matrices as computed by the Association's investment broker. Bank deposits in nonparticipating interest-earning investment contracts are reported at cost. Investments purchased with an original maturity of one year or less are reported as current in the balance sheets.

Capital Assets - Capital assets, consisting primarily of computer equipment and software, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over a five year estimated useful life.

Unpaid Claims - The liability for unpaid claims is based on estimates of the ultimate costs of settling individual cases for losses and claims reported prior to year end plus a provision for losses incurred but not yet reported. The estimated liability for the costs of adjusting unpaid claims has been established on the basis of the experience of the Association as determined by management and reviewed by an independent actuary and includes adjustments, if necessary, for the effects of inflation and other societal and economic factors.

Advanced Premiums - Advanced premiums represent amounts received in advance from members for the following year's policies. The Association's policy coverage period coincides with its fiscal year, and as such, amounts reflected on the balance sheets at the end of each fiscal year are recognized as income in full in the subsequent year.

Due to Broker for Securities Purchased – The Association records investments based on the trade date. Therefore, a liability is recorded for those investment purchases with a trade date on or before year end but a settlement date after year end.

Income Taxes - The Association is a governmental risk pool and under various Internal Revenue Service rulings, similar organizations have been determined to be exempt from income taxes. It is therefore management's and their counsel's belief that the Association is also exempt from income taxes.

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, 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.

New Accounting Pronouncements - In 2005, the Association adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The adoption of this pronouncement resulted in modified disclosures regarding the credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk of the Association's investments.

Reclassification - Certain amounts in 2004 have been reclassified to conform to the 2005 presentation. These reclassifications had no impact on the total net assets or the change in net assets of the Association.

2. DEPOSITS AND INVESTMENTS

The Association, as prescribed by the *Code of Iowa*, is governed by the "prudent person rule". This rule requires that an investment be made with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims. Within the "prudent person" framework, the Board of Trustees has adopted investment guidelines for the Association's investment program.

The Association is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered and open-end management investment companies; and certain joint investment trusts.

The investment policy prohibits investments in reserve repurchase agreements, futures and option contracts, and common or preferred stock.

The Association's investments during the year did not vary substantially from those at the prior year end in level of risk. Certificates of deposit have been classified as investments in the financial statements as their original maturity was greater than three months. It is management's intent to hold all investments to maturity.

As of June 30, 2005, the Association had the following investments and maturities.

		Investment Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 - 5**	**5 - 10**	**More Than 10**
Certificates of deposit	$ 19,250,000	$ 17,250,000	$ 2,000,000		
U.S. Government Agencies	4,932,352	-	-	$ 1,059,417	$ 3,872,935
Commercial paper	997,325	997,325	-	-	-
	$ 25,179,677	$ 18,247,325	$ 2,000,000	$ 1,059,417	$ 3,872,935

Credit Risk: State law, as well as the Association's investment policy, limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2005, the Association's investments in commercial paper were rated at least A by Standard & Poore's and by Moody's Investors Services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Association's name, and are held by either the counterparty or the counterparty's trust department or agent but not in the Association's name. As of June 30, 2005, there was no custodial credit risk in the Association's investment portfolio.

Concentration of Credit Risk: The Association is guided by Chapter 12B of the *Code of Iowa* and policy as approved by the Board of Trustees in the selection of investment securities. No investments in any one organization represent 5% or more of the Association's total investments.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. In accordance with its investment policy, the Association manages interest rate risk by staggering the maturities of its fixed income securities in a way that avoids concentration of assets to a specific maturity sector. Maturities that provide stability of income and reasonable liquidity sufficient to meet the needs and uses of the Association are required. The risk of market place volatility is managed through maturity diversification so that aggregate price losses on instruments with maturities approaching one year are not greater than coupon interest and investment income received from the balance of the portfolio. The Association's investment policy also limits the maturity date of commercial paper to two hundred seventy days or less from the date of purchase. As of June 30, 2005, the Association had diversified maturities on its fixed income securities included in the investment portfolio. In addition, the commercial paper had a maturity date thirty days from the date of purchase.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Association had no exposure to foreign currency risk at June 30, 2005.

3. REINSURANCE

The Association has maintained reinsurance policies for the years ended June 30, 2005 and 2004. As of June 30, 2005, the specific limit of indemnity is unlimited per occurrence in excess of $500,000 subject to $4,500,000 per occurrence sublimit for employers' liability for the Standard Group. At June 30, 2005 and 2004, the Association's Standard Group had a recoverable from reinsurer on unpaid claims amounting to $729,489 and $733,172, respectively.

The accompanying financial statements reflect the Association's financial position and changes in net assets net of related reinsurance. To the extent that any reinsuring companies are unable to meet their obligations under the reinsurance agreements, the Association would remain liable.

Under these reinsurance agreements with NLC Mutual Insurance Company ("NLC"), there is a requirement that a certain level of capital contributions be maintained based upon the amount of premiums written by the Association. NLC credits the Association's capital contribution with an allocation of NLC's statutory earnings included in investment income. These contributions are reflected in other assets in the accompanying balance sheets. For 2005 and 2004, investment loss from NLC was $109,241 and $81,515, respectively. The total expenditures made for the capital contributions and reinsurance premiums are competitively priced with reinsurance premiums charged by other reinsurers.

4. CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2005 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 194,200	$ 26,485	$ -	$ 220,685
Software	162,307	6,144	-	168,451
Total	356,507	32,629	-	389,136
Less accumulated depreciation	(220,072)	(61,208)	-	(281,280)
Capital assets, net	$ 136,435	$ (28,579)	$ -	$ 107,856

A summary of changes in capital assets for the year ended June 30, 2004 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 189,941	$ 14,615	$ (10,356)	$ 194,200
Software	162,140	1,138	(971)	162,307
Total	352,081	15,753	(11,327)	356,507
Less accumulated depreciation	(162,703)	(63,159)	5,790	(220,072)
Capital assets, net	$ 189,378	$ (47,406)	$ (5,537)	$ 136,435

5. MANAGEMENT AGREEMENT WITH AFFILIATE

The Association has a management agreement with the Iowa League of Cities (the "League"), an affiliate, that provides for a management fee. The agreement is subject to termination by either party upon six months written notice. During the years ended June 30, 2005 and 2004, management fees of $869,596 and $779,496, respectively, were incurred.

The Association has an additional management agreement with the League that provides for a fee for institutional value. The fee will continue for future years. The agreement is subject to termination by either party upon six months written notice. During the year ended June 30, 2005 and 2004, fees of $136,000 and $135,579, respectively, were paid to the League.

6. UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Association establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim expenses. The following represents changes in those aggregate liabilities for the Association during the years ended June 30, 2005 and 2004:

	2005	2004
Unpaid claims at beginning of year, net of reinsurance of $733,172 and $196,654 as of July 1, 2004 and 2003	$ 15,672,966	$ 11,299,574
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	10,055,157	9,092,655
(Decrease) increase in provision for insured events of prior years	(3,955,034)	1,809,870
Total incurred claims	6,100,123	10,902,525
Reinsurance recoveries received	9,765	10,771
Payments:		
Claims attributable to insured events of the current year	3,021,134	2,139,703
Claims attributable to insured events of prior years	5,119,166	4,400,201
Total payments	8,140,300	6,539,904
Unpaid claims at end of year, net of reinsurance of $729,489 and $733,172 as of June 30, 2005 and 2004	$ 13,642,554	$ 15,672,966

7. ANNUITIES

During the year ended June 30, 2005, the Association purchased several annuities in claimants' names to fund future payments to these claimants. The Association believes there is no material contingent liability related to these annuities. Accordingly, the amount of $2,050,765 has not been reported as an asset or as a liability on the balance sheet as of June 30, 2005.

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IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

The following table illustrates how the Association's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Association as of the end of each of the past ten years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned premiums and reported investment income, amounts of premiums ceded, and reported premiums (net of reinsurance) and reported investment income.

2. This line shows each fiscal year's other operating costs of the Association including overhead and claims expense not allocable to individual claims.

3. This line shows the Association's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). No claims were assumed by reinsurers.

4. This section of ten rows shows the cumulative amounts paid (net of reinsurance recoveries received) as of the end of successive years for each policy year.

5. This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

6. This line compares the latest reestimated net incurred claims amount to the amount originally established (Line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the tables show data for successive policy years.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	Fiscal and Policy Year Ended June 30 (In Thousands of Dollars)									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Premiums and investment income:										
Earned	$ 7,904	$ 6,934	$ 6,352	$ 5,781	$ 6,061	$ 6,797	$ 7,329	$ 10,557	$ 12,400	$ 15,450
Ceded	381	228	194	190	115	137	216	624	834	1,116
Net earned	7,523	6,706	6,158	5,591	5,946	6,660	7,113	9,933	11,566	14,334
2. Unallocated expenses	1,832	1,271	1,219	1,242	1,296	2,431	1,718	2,136	2,426	2,793
3. Estimated incurred claims and expense, end of policy year (no cessions)	3,600	3,508	3,031	4,533	3,750	4,573	5,279	8,521	6,674	6,415
4. Net paid (cumulative) as of:										
End of policy year	1,109	1,379	1,021	2,273	1,248	1,585	1,645	2,770	2,140	3,021
One year later	1,944	2,567	1,496	2,667	3,070	3,225	3,176	5,231	4,085	
Two years later	2,332	2,923	2,822	3,531	3,740	4,152	4,049	6,495		
Three years later	2,722	3,143	3,000	4,307	3,996	4,614	4,319			
Four years later	2,787	3,267	3,157	4,510	4,186	5,184				
Five years later	2,835	3,290	3,183	4,723	4,446					
Six years later	2,878	3,309	3,221	5,140						
Seven years later	2,880	3,317	3,231							
Eight years later	2,880	3,318								
Nine years later	2,880									
5. Reestimated net incurred claims and expense:										
End of policy year	3,600	3,508	3,031	4,533	3,750	4,573	5,279	7,584	8,753	8,349
One year later	3,077	3,425	3,550	4,100	4,200	5,800	5,300	9,110	7,097	
Two years later	2,300	3,400	3,500	4,912	4,850	5,700	5,598	8,134		
Three years later	3,000	3,450	3,508	5,530	4,566	6,315	5,494			
Four years later	2,925	3,380	3,635	5,529	4,733	5,880				
Five years later	2,926	3,375	3,638	5,689	4,839					
Six years later	2,977	3,509	3,638	5,706						
Seven years later	2,994	3,188	3,411							
Eight years later	2,934	3,463								
Nine years later	2,977									
6. (Decrease) increase in estimated net incurred clims and expense from end of policy year	(623)	(45)	380	1,173	1,089	1,307	215	550	(1,656)	

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Iowa Municipalities Workers' Compensation Association
Des Moines, Iowa

We have audited the financial statements of Iowa Municipalities Workers' Compensation Association (the "Association") as of and for the year ended June 30, 2005, and have issued our report thereon dated November 3, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, and Chapter 11 of the Code of Iowa.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have reported such to the management of the Association in a separate letter dated November 3, 2005.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

Des Moines, Iowa
November 3, 2005