IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements as of June 30, 2007 and 2006 and for the Years then Ended and Required 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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Deloitte.

Deloitte & Touche LLP
Capital Square
400 Locust Street, Suite 740
Des Moines, Iowa 50309-2331
USA

Tel: +1 515 288 1200
Fax: +1 515 288 7801
www.deloitte.com

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, 2007 and 2006, 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, 2007 and 2006, 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.

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 required supplementary information listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This required 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 9, 2007, 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 9, 2007

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

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 year ended June 30, 2007 and 2006. 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, 2007

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2007 by $18,171,218. Total net assets increased by $2,779,092 during fiscal year 2007.
- The Association's total assets increased by $5,902,937 from 2006 to 2007.
- Additions to capital assets during fiscal year 2007 were $35,112, offset by disposals of $13,892 and depreciation expense of $34,957.
- The ending unrestricted cash and cash equivalents balance was $3,233,130 for the Association at June 30, 2007.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2007 totaled $34,188,519, 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, increased investment balances, and an increase in income from the investment in NLC Mutual Insurance Company, investment income increased $644,734 from 2006 to 2007.

For the year ended June 30, 2006

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2006 by $15,392,126. Net assets increased by $4,050,141 during fiscal year 2006.
- The Association's total assets increased by $4,848,279 from 2005 to 2006.
- Additions to capital assets during fiscal year 2006 were $6,643, excluding disposals of capital assets and accumulated depreciation.
- The ending unrestricted cash and cash equivalents balance was $2,022,455 for the Association at June 30, 2006.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2006 totaled $30,203,122 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 $427,996 from 2005 to 2006.

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, 2007, 2006 and 2005 is presented below.

Condensed Balance Sheets

	2007	2006	2005
Current assets, investments and other assets	$ 39,696,497	$ 33,792,069	$ 28,901,376
Capital assets	63,951	65,442	107,856
Total assets	$ 39,760,448	$ 33,857,511	$ 29,009,232
Unpaid claims	$ 17,595,685	$ 16,002,739	$ 14,372,043
Other liabilities	3,993,545	2,462,646	3,295,204
Total liabilities	$ 21,589,230	$ 18,465,385	$ 17,667,247
Invested in capital assets, net of related debt	$ 63,951	$ 65,442	$ 107,856
Unrestricted net assets	18,107,267	15,326,684	11,234,129
Total net assets	$ 18,171,218	$ 15,392,126	$ 11,341,985

The total assets of the Association at the 2007 fiscal year end were $39,760,448, an increase of $5,902,937 over the previous year. This is attributable to payroll and rate increases for member premiums in 2007 and increased investment income for the year. Total liabilities increased by $3,123,845 due primarily to increases in unpaid claims (claims reserves), unpaid claims for IBNR (Incurred But Not Reported), and amounts due to broker for securities purchased.

The total assets of the Association at the 2006 fiscal year end were $33,857,511, an increase of $4,848,279 from the previous year. This is primarily attributable to discount decreases and payroll increases for member premiums in 2006. A surcharge was also implemented for members on the high-risk list based upon established criteria. Total liabilities increased by $798,138 predominantly because of increases in unpaid claims (claims reserves) and unpaid claims for IBNR (Incurred But Not Reported).

During fiscal year 2007, total net assets increased by $2,779,092. This increase in net assets resulted from only slight increases in claims reserves compared to premium written and increased investment income for fiscal year 2007.

During fiscal year 2006, total net assets increased by $4,050,141. This increase in net assets resulted from premiums increasing while unpaid claims (claims reserves) only increased slightly over the course of fiscal year 2006.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A summary of the Association's condensed operations and net assets at June 30, 2007, 2006 and 2005 is presented below.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2007	2006	2005
Net premium earned	$ 13,098,939	$ 13,959,324	$ 13,710,575
Net claims	9,121,204	8,153,722	6,100,123
Total operating revenues, net	3,977,735	5,805,602	7,610,452
Total operating expenses	2,898,443	2,816,878	2,793,256
Total nonoperating revenues	1,699,800	1,061,417	641,142
Change in net assets	2,779,092	4,050,141	5,458,338
Total net assets, beginning of year	15,392,126	11,341,985	5,883,647
Total net assets, end of year	$ 18,171,218	$ 15,392,126	$ 11,341,985

Revenues: During fiscal year 2007, the Association had a decrease in premiums, net of reinsurance, of $860,385, approximately 6.2% below the prior year. This decrease resulted from the following items: (1) two large members left the pool to self-insure, resulting in a 4.0% decrease in premiums, (2) 5.0% was due to an increase in member discounts made by the Association, (3) the discount was offset by a 4.0% increase in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI), as well as (4) a decrease of 1.2% due to changes in member payrolls made by the members. The premium was enough to offset net claims for the year.

During fiscal year 2006, the Association had an increase in premiums, net of reinsurance, of $248,749, approximately 1.8% over the prior year. This increase resulted from the following items: (1) 5.0% was due to a decrease in member discounts made by the Association, (2) the discount was offset by a 5.0% NCCI rate decrease, and (3) the remaining 1.8% increase 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 2007, nonoperating revenues increased by $638,383 from the prior year as a result of investment income. This increase resulted primarily from an increase of $637,276 in income from the Association's investment in NLC Mutual Insurance Company.

During fiscal year 2006, nonoperating revenues increased by $420,275 from the prior year essentially due to investment income. Not only did interest rates rise, but the Association worked extensively on receiving the highest possible investment return. The investment balance was higher at the end of fiscal year 2006 as compared to fiscal year 2005.

Expenses: During fiscal year 2007, the Association increased claim reserves due to an increase in the cost of expected claims. The purchase of an annuity settlement for one claim allowed the Association to decrease indemnity reserves on this claim, but due to expected medical costs on this claim, the Association had to increase the medical reserves. Total net claims during fiscal year 2007 were $9,121,204, as compared to $8,153,722 during the previous fiscal year. This was an increase of $967,482, or 11.9%.

During fiscal year 2006, the Association increased claim reserves from previous fiscal years. This increase was mainly due to an increase in claims reserves for IBNR (Incurred But Not Reported). Total net claims during fiscal year 2006 were $8,153,722, as compared to $6,100,123 during the previous fiscal year. This was an increase of $2,053,599, or 33.7%.

During fiscal year 2007, operating expenses increased 2.9%, or $81,565, over the previous fiscal year mainly due to expenses related to an increase in administrative fees paid to the Iowa League of Cities.

During fiscal year 2006, operating expenses increased 0.8%, or $23,622, remaining essentially the same from the previous fiscal year.

Net Assets: At June 30, 2007, the Association's net assets showed a $2,779,092 increase from the previous fiscal year, ending up at $18,171,218.

At June 30, 2006, the Association's net assets showed a $4,050,141 increase from the previous fiscal year, ending up at $15,392,126.

CAPITAL ASSETS

As of June 30, 2007, 2006 and 2005 the Association owns mainly computer equipment and software for capital assets.

	2007	**2006**	**2005**
Equipment	$ 188,045	$ 192,640	$ 220,685
Software	191,927	166,112	168,451
Total	379,972	358,752	389,136
Less: accumulated depreciation-equipment	(153,863)	(136,104)	(142,351)
Less: accumulated depreciation-software	(162,158)	(157,206)	(138,929)
Capital assets, net	$ 63,951	$ 65,442	$ 107,856

Capital asset purchases during fiscal year 2007 were $35,112, which included new computers and monitors, licenses for software.

Capital asset purchases during fiscal year 2006 were $6,643, which included three new computers.

For more detailed information refer to Note 4 to the financial statements.

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, IA 50309.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

BALANCE SHEETS
JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,233,130	$ 2,022,455
Restricted cash and cash equivalents	25,000	25,000
Investments	10,490,631	12,473,130
Receivables:		
Accrued interest	885,884	625,701
Reinsurance recoverable	931,577	741,847
Other	99	670
Total receivables	1,817,560	1,368,218
Prepaid expenses	60,150	67,788
Total current assets	15,626,471	15,956,591
NONCURRENT ASSETS:		
Investments	23,697,888	17,729,992
Capital assets, net	63,951	65,442
Other assets	372,138	105,486
TOTAL ASSETS	$ 39,760,448	$ 33,857,511
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Unpaid claims	$ 17,595,685	$ 16,002,739
Advanced premiums	2,874,916	2,398,254
Due to broker for securities purchased	1,000,000	-
Accounts payable and other accrued expenses	93,629	39,392
Deposit payable	25,000	25,000
Total current liabilities	21,589,230	18,465,385
NET ASSETS:		
Invested in capital assets, net of related debt	63,951	65,442
Unrestricted net assets	18,107,267	15,326,684
Total net assets	18,171,218	15,392,126
TOTAL LIABILITIES AND NET ASSETS	$ 39,760,448	$ 33,857,511

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, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Premiums written and earned	$13,937,375	$15,253,805
Less: Reinsurance premiums	838,436	1,294,481
Net premiums earned	13,098,939	13,959,324
Claims paid	7,765,257	6,631,952
Increase (decrease) in gross unpaid claims	1,592,947	1,630,696
Reinsurance recoveries received	(47,269)	(96,568)
(Increase) decrease in reinsurance recoveries netted to unpaid claims	(189,731)	(12,358)
Net claims	9,121,204	8,153,722
Total operating revenues, net	3,977,735	5,805,602
OPERATING EXPENSES:		
Direct expenses	813,019	888,091
Depreciation expense	34,957	46,718
General and administrative expenses	2,050,467	1,882,069
Total operating expenses	2,898,443	2,816,878
Operating income	1,079,292	2,988,724
NONOPERATING REVENUES:		
Investment income	1,695,990	1,051,256
Other income	3,810	10,161
Total nonoperating revenues	1,699,800	1,061,417
CHANGE IN NET ASSETS	2,779,092	4,050,141
TOTAL NET ASSETS, BEGINNING OF YEAR	15,392,126	11,341,985
TOTAL NET ASSETS, END OF YEAR	$18,171,218	$15,392,126

See notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members for premiums	$14,414,039	$15,680,970
Cash received from reinsurers for reinsurance	47,269	96,568
Cash payments to reinsurers for reinsurance premiums	(907,935)	(1,249,613)
Cash payments to suppliers for goods and services	(2,731,543)	(3,037,986)
Cash payments to claimants for claims	(7,765,257)	(6,631,952)
Other cash receipts	5,455	10,161
Net cash provided by operating activities	3,062,028	4,868,148
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from sales of computer equipment and software	-	2,342
Purchases of computer equipment and software	(35,112)	(6,643)
Net cash used in capital financing activities	(35,112)	(4,301)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	14,128,395	24,389,082
Purchases of investments	(17,489,901)	(30,262,962)
Interest received on investments	1,551,487	1,057,107
Interest paid upfront on investments	(6,222)	(2,000)
Net cash used in investing activities	(1,816,241)	(4,818,773)
INCREASE IN CASH AND CASH EQUIVALENTS	1,210,675	45,074
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,047,455	2,002,381
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,258,130	$ 2,047,455

(continued)

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 1,079,292	$ 2,988,724
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,957	46,718
Change in:		
Receivables	(183,704)	(2,867)
Prepaid expenses	7,638	33,685
Unpaid claims	1,592,946	1,630,696
Advanced premiums	476,662	427,165
Accounts payable and other accrued expenses	54,237	(255,973)
Net cash provided by operating activities	$ 3,062,028	$ 4,868,148

NONCASH INVESTING AND FINANCING ACTIVITIES:

During the years ended June 30, 2007 and 2006, the Association recognized an unrealized (loss) gain on investments of ($376,116) and $149,565, respectively.

During the years ended June 30, 2007 and 2006, the Association recognized its share of the net earnings (loss) on its investment in a mutual capital reinsurance company in the amounts of $266,652 and ($370,624), respectively.

(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 nine 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 351 cities, 65 counties and 57 Chapter 28E entities for 2007.

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 / Deposit Payable **-** The Association received a cash deposit from the City of Ottumwa for third party claims administration 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. 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 for capital assets is computed using the straight-line method over a three- to 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.

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, 2007, 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	$ 12,000,000	$ 6,500,000	$ 5,500,000		
Obligations guaranteed by the U.S. government	1,036,830				$ 1,036,830
U.S. government agencies	21,151,689	3,990,631	12,117,948	$ 1,285,410	3,757,700
	$ 34,188,519	$ 10,490,631	$ 17,617,948	$ 1,285,410	$ 4,794,530

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, 2007, the Association had no investments in commercial paper. As of June 30, 2007, obligations of U.S. government agencies were rated AAA by Standard & Poor'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, 2007, 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. As of June 30, 2007, investments in the Federal Home Loan Bank and the Federal National Mortgage Association represent 42.3% and 16.6%, respectively, of the Association's total investments. No other issuer represents more than 5% of the Association's portfolio.

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, 2007, the Association had diversified maturities on its fixed income securities included in the investment portfolio.

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, 2007.

3. REINSURANCE

The Association has maintained reinsurance policies for the years ended June 30, 2007 and 2006. Effective July 1, 2006, the Association retained a reinsurance agreement with Safety National Casualty Corporation ("Safety National"). As of June 30, 2007, the specific limit of indemnity was unlimited per occurrence in excess of $750,000, subject to a $2,000,000 per occurrence sublimit for employers' liability for the Standard Group. Prior to July 1, 2006, the Association retained a reinsurance agreement with NLC Mutual Insurance Company ("NLC"). As of June 30, 2006, the specific limit of indemnity was unlimited per occurrence in excess of $500,000, subject to a $4,500,000 per occurrence sublimit for employers' liability for the Standard Group.

At June 30, 2007 and 2006, the Association's Standard Group had a recoverable from reinsurer on unpaid claims amounting to $931,577 and $741,847, 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 prior year reinsurance agreements with NLC, there was 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 (loss) included in investment income. These contributions are reflected in other assets in the accompanying balance sheets. Although there is no longer a reinsurance agreement with NLC, the Association has elected to maintain the capital contribution with NLC. For 2007 and 2006, investment gain (loss) from NLC was $266,652 and $(370,624), respectively. The total expenditures made for the capital contributions and reinsurance premiums were historically 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, 2007 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, at cost:				
Equipment	$ 192,640	$ 7,424	$ (12,019)	$ 188,045
Software	166,112	27,688	(1,873)	191,927
Total capital assets, at cost	358,752	35,112	(13,892)	379,972
Less accumulated depreciation:				
Equipment	(136,104)	(28,090)	10,331	(153,863)
Software	(157,206)	(6,867)	1,915	(162,158)
Total accumulated depreciation	(293,310)	(34,957)	12,246	(316,021)
Capital assets, net	$ 65,442	$ 155	$ (1,646)	$ 63,951

A summary of changes in capital assets for the year ended June 30, 2006 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, at cost:				
Equipment	$ 220,685	$ 6,643	$ (34,688)	$ 192,640
Software	168,451	-	(2,339)	166,112
Total capital assets, at cost	389,136	6,643	(37,027)	358,752
Less accumulated depreciation:				
Equipment	(142,351)	(28,441)	34,688	(136,104)
Software	(138,929)	(18,277)	-	(157,206)
Total accumulated depreciation	(281,280)	(46,718)	34,688	(293,310)
Capital assets, net	$ 107,856	$ (40,075)	$ (2,339)	$ 65,442

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, 2007 and 2006, management fees of $1,040,000 and $927,000, 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 years ended June 30, 2007 and 2006, fees of $111,000 and $136,000, 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, 2007 and 2006:

	2007	2006
Unpaid claims at beginning of year, net of reinsurance of $741,847 and $729,489 as of July 1, 2006 and 2005	$ 15,260,892	$ 13,642,554
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	9,374,036	9,237,244
(Decrease) in provision for insured events of prior years	(252,832)	(1,083,522)
Total incurred claims	9,121,204	8,153,722
Reinsurance recoveries received	47,269	96,568
Payments:		
Claims attributable to insured events of the current year	2,898,033	2,562,434
Claims attributable to insured events of prior years	4,867,224	4,069,518
Total payments	7,765,257	6,631,952
Unpaid claims at end of year, net of reinsurance of $931,577 and $741,847 as of June 30, 2007 and 2006	$ 16,664,108	$ 15,260,892

7. ANNUITIES

During the year ended June 30, 2007, one annuity was purchased in a claimant’s name to fund future payments to such claimant. In prior years, 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, as of June 30, 2007 and 2006, the amounts of $2,394,913 and $2,050,765, respectively, have not been reported as assets or as liabilities on the balance sheets.

* * * * *

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

REQUIRED 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 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

REQUIRED SUPPLEMENTAL TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1. Premiums and investment income:										
Earned	$ 6,352	$ 5,781	$ 6,061	$ 6,797	$ 7,329	$ 10,557	$ 12,400	$ 15,450	$ 16,305	$ 15,637
Ceded	194	190	115	137	216	624	834	1,116	1,294	838
Net earned	6,158	5,591	5,946	6,660	7,113	9,933	11,566	14,334	15,011	14,799
2. Unallocated expenses	1,219	1,242	1,296	2,431	1,718	2,136	2,426	2,793	2,817	2,898
3. Estimated incurred claims and expense, end of policy year (no cessions)	3,031	4,533	3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374
4. Net paid (cumulative) as of:										
End of policy year	1,021	2,273	1,248	1,585	1,645	2,770	2,140	3,021	2,562	2,898
One year later	1,496	2,667	3,070	3,225	3,176	5,231	4,085	5,121	4,535	
Two years later	2,822	3,531	3,740	4,152	4,049	6,495	4,705	6,256		
Three years later	3,000	4,307	3,996	4,614	4,319	6,909	5,165			
Four years later	3,157	4,510	4,186	5,184	4,580	7,117				
Five years later	3,183	4,723	4,446	5,539	5,194					
Six years later	3,221	5,140	4,488	5,629						
Seven years later	3,231	5,234	4,727							
Eight years later	3,391	5,351								
Nine years later	3,409									
5. Reestimated net incurred claims and expense:										
End of policy year	3,031	4,533	3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374
One year later	3,550	4,100	4,200	5,800	5,300	9,110	7,097	9,745	9,425	
Two years later	3,500	4,912	4,850	5,700	5,598	8,134	6,218	9,315		
Three years later	3,508	5,530	4,566	6,315	5,494	8,170	6,205			
Four years later	3,635	5,529	4,733	5,880	5,667	7,881				
Five years later	3,638	5,689	4,839	5,715	5,812					
Six years later	3,638	5,706	4,595	5,720						
Seven years later	3,411	5,618	4,732							
Eight years later	3,426	5,737								
Nine years later	3,432									
6. (Decrease) increase in estimated net incurred claims and expense from end of policy year	401	1,204	982	1,147	533	(640)	(2,888)	(740)	188	

Deloitte.

Deloitte & Touche LLP
Capital Square
400 Locust Street, Suite 740
Des Moines, Iowa 50309-2331
USA

Tel: +1 515 288 1200
Fax: +1 515 288 7801
www.deloitte.com

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

To the Board of 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, 2007, and have issued our report thereon dated November 9, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Association's financial statements that is more than inconsequential will not be prevented or detected by the Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Association's internal control.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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 9, 2007