IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements and Required Supplementary Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Table of Contents

KPMG
KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report

The Board of Trustees
Iowa Municipalities Workers' Compensation Association:

We have audited the accompanying balance sheet of Iowa Municipalities Workers' Compensation Association (the Association) as of June 30, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year 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 audit. The accompanying financial statements of the Association as of June 30, 2007 were audited by other auditors whose report thereon, dated November 9, 2007, expressed an unqualified opinion on those statements.

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*. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iowa Municipalities Workers' Compensation Association as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 – 8, is not a required part of the basic financial statements but is supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 table of contents is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The supplementary information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008, 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, 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.

KPMG LLP

Des Moines, Iowa
November 3, 2008

**IOWA MUNICIPALITIES WORKERS'
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

December 31, 2008 and 2007

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, 2008 and 2007. The Association encourages readers to consider the information presented here in conjunction with the basic financial statements, including the notes thereto.

Financial Highlights

Year Ended June 30, 2008

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2008 by $23,842,381. Total net assets increased by $5,671,163 during fiscal year 2008.
- The Association's total assets increased by $4,214,787 from 2007 to 2008.
- Additions to capital assets during fiscal year 2008 were $26,650, offset by disposals of $0, and depreciation expense of $32,054.
- The ending unrestricted cash and cash equivalents balance was $8,510,935 for the Association at June 30, 2008.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2008 totaled $33,296,277 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 and investment balances, investment income increased $642,652 from 2007 to 2008.

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. 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, excluding disposals of capital assets and accumulated depreciation.
- 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.

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 sheets; statements of revenues, expenses, and changes in net assets; and statements 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 its finances, in a manner similar to those used by private-sector business. These statements offer historical information about its activities.

The balance sheets include all of the Association's assets and liabilities and provide 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 statements of revenues, expenses, and changes in net assets present the 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 statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. They also provide information as to the source of the cash, the type of activities the cash was used for, and what the change in cash balances during the reporting periods was.

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 nonfinancial 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, 2008, 2007, and 2006 is presented below.

Condensed Balance Sheets

		2008	2007	2006
Current assets, investments and other assets	$	43,916,688	39,696,497	33,792,069
Capital assets		58,547	63,951	65,442
Total assets	$	43,975,235	39,760,448	33,857,511
Unpaid claims	$	17,283,922	17,595,685	16,002,739
Other liabilities		2,848,932	3,993,545	2,462,646
Total liabilities	$	20,132,854	21,589,230	18,465,385
Invested in capital assets	$	58,547	63,951	65,442
Unrestricted net assets		23,783,834	18,107,267	15,326,684
Total net assets	$	23,842,381	18,171,218	15,392,126

The total assets of the Association at the 2008 fiscal year-end were $43,975,235, an increase of $4,214,787 over the previous year. This is attributable to payroll and rate increases for member premiums in 2008 and increased investment income for the year. Total liabilities decreased by $1,456,376 due primarily to unpaid claims (claims reserves) holding steady and unpaid claims for IBNR (Incurred but Not Reported) decreasing per the actuarial analysis at June 30, 2008.

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 again 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, and amounts due to broker for securities purchased.

During fiscal year 2008, total net assets increased by $5,671,163. This increase in net assets resulted from a decrease in claim reserves combined with increased premium written and investment income for fiscal year 2008.

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.

Revenues, Expenses, and Changes in Net Assets

A summary of the Association's condensed operations and net assets at June 30, 2008, 2007, and 2006 is presented below.

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

		2008	2007	2006
Net premium earned	$	13,545,543	13,098,939	13,959,324
Net claims		7,094,052	9,121,204	8,153,722
Total operating revenues, net		6,451,491	3,977,735	5,805,602
Total operating expenses		3,106,913	2,898,443	2,816,878
Total nonoperating revenues		2,326,585	1,699,800	1,061,417
Change in net assets		5,671,163	2,779,092	4,050,141
Total net assets, beginning of year		18,171,218	15,392,126	11,341,985
Total net assets, end of year	$	23,842,381	18,171,218	15,392,126

Revenues:

During fiscal year 2008, the Association had an increase in earned premiums, net of reinsurance, of $446,604, approximately 3.4% above the prior year. This increase resulted from the following items: (1) a 7.5% increase in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI), (2) an increase of 0.9% due to changes in member payrolls made by the members, offset by (3) a 5.0% decrease due to an increase in member discounts made by the Association. The premium was enough to offset net claims for the year.

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 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 2008, nonoperating revenues increased by $626,785 from the prior year as a result of investment income. This increase resulted primarily from higher investment income from the Association's investments in certificates of deposit and U.S. government backed paper. The Association has worked extensively the last three years on receiving the highest possible investment return while following the guidelines of the investment policy and the *Code of Iowa* Section 12B.10 Public Fund Investment Standards.

During fiscal year 2007, nonoperating revenues increased by $638,383 from the prior year as a result of investment income. The Association had a higher investment balance throughout 2007, which contributed to the increase in revenue along with slightly higher interest rates.

Expenses

During fiscal year 2008, the Association decreased net claims due to claims paid decreasing slightly and a decrease in IBNR reserves per the actuarial analysis. Total net claims during fiscal year 2008 were $7,144,588, as compared to $9,121,204 during the previous fiscal year. This was a decrease of $1,976,616, or 21.7%.

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 2008, operating expenses increased 5.4%, or $157,934, over the previous fiscal year due to the new telephonic reporting program for first reports of injury and for expenses related to an increase in administrative fees paid to the Iowa League of Cities.

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.

Net Assets

At June 30, 2008, the Association's net assets showed a $5,671,163 increase from the previous fiscal year, ending up at $23,842,381.

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.

Capital Assets

As of June 30, 2008, 2007, and 2006, the Association owns mainly computer equipment and software for capital assets.

		2008	2007	2006
Equipment	$	207,407	188,045	192,640
Software		199,215	191,927	166,112
Total		406,622	379,972	358,752
Less accumulated depreciation-equipment		(173,910)	(153,863)	(136,104)
Less accumulated depreciation-software		(174,165)	(162,158)	(157,206)
Capital assets, net	$	58,547	63,951	65,442

(Continued)

Capital asset purchases during fiscal year 2008 and 2007 were $26,650 and $35,112, respectively, which included new computers, monitors, and licenses for software.

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, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	8,510,935	3,233,130
Restricted cash and cash equivalents		25,000	25,000
Investments		10,162,848	10,490,631
Receivables:			
Accrued interest		699,446	885,884
Reinsurance recoverable		880,790	931,577
Other		7,606	99
Total receivables		1,587,842	1,817,560
Prepaid expenses		44,283	60,150
Total current assets		20,330,908	15,626,471
Noncurrent assets:			
Investments		23,133,429	23,697,888
Capital assets, net		58,547	63,951
Other assets		452,351	372,138
Total noncurrent assets		23,644,327	24,133,977
Total assets	$	43,975,235	39,760,448
Liabilities and Net Assets			
Current liabilities:			
Unpaid claims	$	17,283,922	17,595,685
Advanced premiums		2,778,373	2,874,916
Due to broker for securities purchased		—	1,000,000
Accounts payable and other accrued expenses		45,559	93,629
Deposit payable		25,000	25,000
Total current liabilities		20,132,854	21,589,230
Net assets:			
Invested in capital assets		58,547	63,951
Unrestricted net assets		23,783,834	18,107,267
Total net assets		23,842,381	18,171,218
Total liabilities and net assets	$	43,975,235	39,760,448

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenues:		
Premiums written and earned	$ 14,423,939	13,937,375
Less reinsurance premiums	878,396	838,436
Net premiums earned	13,545,543	13,098,939
Claims paid	7,456,334	7,765,257
(Decrease) increase in gross unpaid claims	(311,530)	1,592,947
Reinsurance recoveries received	(50,770)	(47,269)
Decrease (increase) in reinsurance recoveries netted to unpaid claims	50,554	(189,731)
Net claims	7,144,588	9,121,204
Total operating revenues, net	6,400,955	3,977,735
Operating expenses:		
Direct expenses	1,109,347	813,019
Depreciation expense	32,054	34,957
General and administrative expenses	1,914,976	2,050,467
Total operating expenses	3,056,377	2,898,443
Operating income	3,344,578	1,079,292
Nonoperating revenues:		
Investment income	2,320,642	1,695,990
Other income	5,943	3,810
Total nonoperating revenues	2,326,585	1,699,800
Change in net assets	5,671,163	2,779,092
Total net assets, beginning of year	18,171,218	15,392,126
Total net assets, end of year	$ 23,842,381	18,171,218

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS'
COMPENSATION ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from members for premiums	$ 14,327,396	14,414,039
Cash received from reinsurers for reinsurance	50,770	47,269
Cash payments to reinsurers for reinsurance premiums	(874,390)	(907,935)
Cash payments to suppliers for goods and services	(3,068,039)	(2,731,543)
Cash payments to claimants	(7,456,334)	(7,765,257)
Other cash receipts	5,943	5,455
Net cash provided by operating activities	2,985,346	3,062,028
Cash flows from capital and related financing activity:		
Purchases of capital assets	(26,650)	(35,112)
Cash flows from investing activities:		
Proceeds from maturities of investments	30,835,423	14,128,395
Purchases of investments	(30,711,866)	(17,489,901)
Interest received on investments	2,244,974	1,551,487
Interest acquired	(49,422)	(6,222)
Net cash provided by (used in) investing activities	2,319,109	(1,816,241)
Increase in cash and cash equivalents	5,277,805	1,210,675
Cash and cash equivalents, beginning of year	3,258,130	2,047,455
Cash and cash equivalents, end of year	$ 8,535,935	3,258,130
Reconciliation of change in net assets to net cash provided by operating activities:		
Operating income	$ 3,344,578	1,079,292
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	32,054	34,957
Change in:		
Receivables	49,223	(183,704)
Prepaid expenses	15,867	7,638
Unpaid claims	(311,763)	1,592,946
Advanced premiums	(96,543)	476,662
Accounts payable and other accrued expenses	(48,070)	54,237
Net cash provided by operating activities	$ 2,985,346	3,062,028

Noncash investing and financing activities:

During the years ended June 30, 2008 and 2007, the Association recognized an unrealized gain (loss) on investments of $231,313 and $(376,116), respectively.

During the years ended June 30, 2008 and 2007, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of $80,213 and $266,652, respectively.

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) 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 Association'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.

(b) Basis of Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles. 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 349 cities, 66 counties, and 60 Chapter 28E entities for 2008.

Operating revenues and expenses include activities that have characteristics of exchange transactions. Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as investment income. Nonoperating expenses include activities such as losses on disposal of assets and interest expense.

(c) 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.

(Continued)

(d) 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. This agreement is renewed annually.

(e) Investments

U.S. government agencies and corporate debt securities are carried at fair values, which are based on quoted market prices as available. Investments purchased with an original maturity of one year or less are reported as current in the balance sheets. Interest income is recognized on an accrual basis. Realized gains and losses on the investments are recognized on a specific-identification basis, and are reported with unrealized gains and losses as investment income within Nonoperating revenues.

(f) 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.

(g) Unpaid Claims

The Association provides liabilities for unpaid claims based upon the undiscounted aggregate case basis estimates for losses reported; estimates of unreported losses based upon past experience, modified for current trends; and deductions of amounts for reinsurance placed with reinsurers. Losses are reported net of amounts recoverable from subrogation.

Also included in the liability for losses are undiscounted estimates of incurred but not reported (IBNR) losses based on historical experience. The Association provides liabilities for loss adjustment expenses by estimating future expenses to be incurred in settlement of the claims provided for in the reserve for losses.

Management believes that the provisions for losses and loss adjustment expenses at June 30, 2008 reflect management's best estimate of the ultimate net losses and loss adjustment expenses as reviewed by an independent actuary. Since the provisions are necessarily based on estimates, the ultimate liability may be more or less than such provisions.

(h) Reinsurance

Premiums, losses, and loss adjustment expenses subject to reinsurance are presented separately in the statement of revenues, expenses, and changes in net assets.

(Continued)

(i) 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.

(j) Premium and Income Recognition

Premiums are recognized ratably over terms of the respective policies and include an estimate for earned but unbilled premiums. Unearned premiums are computed on a daily pro rata basis over the terms of the policies and are stated after deduction for reinsurance placed with other insurers. The policy coverage period for participating members runs consistent with the fiscal year, hence all premiums are fully earned over the course of the year and no amounts remain unearned at the balance sheet date.

(k) 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.

(l) 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.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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) 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 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 U.S. 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 reverse 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, 2008 and 2007, the Association's portfolio of investments included the following:

	2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Certificates of deposit	$ 16,194,285	—	—	16,194,285
U.S. government agencies	16,919,734	205,407	(23,149)	17,101,992
	$ 33,114,019	205,407	(23,149)	33,296,277

	2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Certificates of deposit	$ 12,000,000	—	—	12,000,000
U.S. government agencies	22,598,069	59,574	(469,124)	22,188,519
	$ 34,598,069	59,574	(469,124)	34,188,519

As of June 30, 2008, the Association had the following maturities on its investments:

		Investment maturities (in years)			
Investment type	Fair value	Less than 1	1 – 5	5 – 10	More than 10
Certificates of deposit	$ 16,194,285	10,162,848	6,031,437	—	—
U.S. government agencies	17,101,992	—	5,228,299	1,003,750	10,869,943
	$ 33,296,277	10,162,848	11,259,736	1,003,750	10,869,943

Investment income consisted of the following for the years ended June 30, 2008 and 2007:

		2008	2007
Interest income	$	2,036,442	1,800,944
Unrealized gains (losses)		591,808	(376,111)
Realized gains (losses)		(307,608)	271,157
	$	2,320,642	1,695,990

(a) 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, 2008, the Association had no investments in commercial paper. As of June 30, 2008, 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.

(b) 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, 2008, management believes there is minimal custodial credit risk in the Association's investment portfolio.

(c) 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, 2008, investments in the Government National Mortgage Association and the Federal National Mortgage Association represent 20.7% and 14.1%, respectively, of the Association's total investments. No other issuer represents more than 5.0% of the Association's portfolio.

(d) 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 attempts to manage interest rate risk by staggering the maturities of its fixed income securities in a way that avoids concentration of assets to a specific duration. Maturities that provide stability of income and reasonable liquidity sufficient to meet the needs and uses of the Association are required. Management attempts to manage the risk of market place volatility 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 270 days or less from the date of purchase.

(3) Reinsurance

The Association has maintained reinsurance agreements for the years ended June 30, 2008 and 2007. Effective July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation (Safety National). As of June 30, 2008 and 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 members. 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, 2008 and 2007, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to $880,790 and $931,577, 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 to the insured.

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 2008 and 2007, investment gain (loss) from NLC was $80,213 and $266,652, 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, 2008 is as follows:

		Beginning balance	Additions	Deletions	Ending balance
Capital assets, at cost:					
Equipment	$	188,045	19,362	—	207,407
Software		191,927	7,288	—	199,215
Total capital assets, at cost		379,972	26,650	—	406,622
Less accumulated depreciation:					
Equipment		(153,863)	(20,047)	—	(173,910)
Software		(162,158)	(12,007)	—	(174,165)
Total accumulated depreciation		(316,021)	(32,054)	—	(348,075)
Capital assets, net	$	63,951	(5,404)	—	58,547

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

(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. Under the agreement, the League is responsible for managing and administering the services performed by the Association. The agreement is subject to termination by either party upon six months' written notice. During the years ended June 30, 2008 and 2007, management fees of $1,160,000 and $1,040,000, respectively, were incurred.

(Continued)

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. Under the agreement, the League provides the Association with its membership lists and information, makes advertising space available in its publications, promotes the Association to League members, and provides opportunities for the Association to promote the program. The agreement is subject to termination by either party upon six months' written notice. During the years ended June 30, 2008 and 2007, fees of $117,214 and $111,000, 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, 2008 and 2007:

		2008	2007
Unpaid claims at beginning of year, net of reinsurance of $931,577 and $741,847 as of June 30, 2007 and 2006, respectively	$	16,664,108	15,260,892
Incurred claims, net of reinsurance:			
Provision for insured events of the current year		9,253,373	9,374,036
Decrease in provision for insured events of prior years		(2,108,785)	(252,832)
Total incurred claims		7,144,588	9,121,204
Reinsurance recoveries received		50,770	47,269
Payments:			
Claims attributable to insured events of the current year		2,736,935	2,898,033
Claims attributable to insured events of prior years		4,719,399	4,867,224
Total payments		7,456,334	7,765,257
Unpaid claims at end of year, net of reinsurance recoverable of $880,790 and $931,577 as of June 30, 2008 and 2007, respectively	$	16,403,132	16,664,108

(7) Annuities

During the year ended June 30, 2008, no annuities were 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. Under the arrangements, the Association pays the premium to the unaffiliated insurer and the obligation for future payments is transferred under the annuity contract. As a result, the Association believes there is no material contingent liability related to these annuities. Accordingly, as of June 30, 2008 and 2007, the amounts of $2,026,013 and $2,394,913, 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 10 years. The rows of the tables are defined as follows:

1. This line shows the total of each fiscal year's gross earned premiums, reported investment income and other 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 10 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 10 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

June 30, 2008

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
1 Premiums and investment income:											
Earned	$	5,781	6,061	6,797	7,329	10,557	12,400	15,450	16,305	15,637	16,751
Ceded		190	115	137	216	624	834	1,116	1,294	838	878
Net earned		5,591	5,946	6,660	7,113	9,933	11,566	14,334	15,011	14,799	15,873
2 Unallocated expenses		1,242	1,296	2,431	1,718	2,136	2,426	2,793	2,817	2,898	3,107
3 Estimated incurred claims and expense, end of policy year (no cessions)		4,533	3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253
4 Net paid (cumulative) as of:											
End of policy year		2,273	1,248	1,585	1,645	2,770	2,140	3,021	2,562	2,898	2,737
One year later		2,667	3,070	3,225	3,176	5,231	4,085	5,121	4,535	5,058	—
Two years later		3,531	3,740	4,152	4,049	6,495	4,705	6,256	6,140	—	—
Three years later		4,307	3,996	4,614	4,319	6,909	5,165	6,812	—	—	—
Four years later		4,510	4,186	5,184	4,580	7,117	5,266	—	—	—	—
Five years later		4,723	4,446	5,539	5,194	7,206	—	—	—	—	—
Six years later		5,140	4,488	5,629	5,348	—	—	—	—	—	—
Seven years later		5,234	4,727	5,650	—	—	—	—	—	—	—
Eight years later		5,351	4,727	—	—	—	—	—	—	—	—
Nine years later		5,370	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:											
End of policy year		4,533	3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253
One year later		4,100	4,200	5,800	5,300	9,110	7,097	9,745	9,425	8,575	—
Two years later		4,912	4,850	5,700	5,598	8,134	6,218	9,315	8,694	—	—
Three years later		5,530	4,566	6,315	5,494	8,170	6,205	8,714	—	—	—
Four years later		5,529	4,733	5,880	5,667	7,881	5,950	—	—	—	—
Five years later		5,689	4,839	5,715	5,812	7,797	—	—	—	—	—
Six years later		5,706	4,595	5,720	5,834	—	—	—	—	—	—
Seven years later		5,618	4,732	5,826	—	—	—	—	—	—	—
Eight years later		5,737	4,732	—	—	—	—	—	—	—	—
Nine years later		5,975	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year		1,442	982	1,253	555	(724)	(3,143)	(1,341)	(543)	(799)	—

See accompanying independent auditors' report.

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

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*

The Board of Trustees
Iowa Municipalities Workers' Compensation Association:

We have audited the financial statements of Iowa Municipalities Workers' Compensation Association (the Association) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the *Code of Iowa*, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

KPMG

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.

KPMG LLP

Des Moines, Iowa
November 3, 2008