



**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Financial Statements and Required Supplementary Information

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

**IOWA MUNICIPALITIES WORKERS’  
COMPENSATION ASSOCIATION**

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**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 sheets of Iowa Municipalities Workers' Compensation Association (the Association) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and 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 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years 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 audits were made for the purpose of forming an opinion on the basic financial statements of the Association taken as a whole. The supplemental information statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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. The introductory and statistical sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on them.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, 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 read in conjunction with this report in assessing the results of our audits.

KPMG LLP

Des Moines, Iowa  
October 8, 2009

# IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

## Management's Discussion and Analysis

June 30, 2009 and 2008

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, 2009 and 2008. 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, 2009*

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2009 by \$26,381,795. Total net assets increased by \$2,539,414 during fiscal year 2009.
- The Association's total assets increased by \$5,033,078 from 2008 to 2009.
- Additions to capital assets during fiscal year 2009 were \$17,667, offset by disposals of \$5,495, and depreciation expense of \$29,972.
- The ending unrestricted cash and cash equivalents balance was \$7,205,664 for the Association at June 30, 2009.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2009 totaled \$39,093,825 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.
- The current economic environment caused lower interest rates which in turn caused investment income to decrease by \$399,978 from 2008 to 2009 despite the higher investment balances.

#### *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. 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. There were no disposals and depreciation expense was \$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.

# **IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2009 and 2008

## **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 and members (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.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2009 and 2008

**Net Assets**

A summary of the Association's condensed balance sheets at June 30, 2009, 2008, and 2007 is presented below.

***Condensed Balance Sheets***

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets, investments and other assets	\$ 48,967,557	43,916,688	39,696,497
Capital assets	40,756	58,547	63,951
Total assets	<u>49,008,313</u>	<u>43,975,235</u>	<u>39,760,448</u>
Unpaid claims	19,856,832	17,283,922	17,595,685
Other liabilities	2,769,686	2,848,932	3,993,545
Total liabilities	<u>22,626,518</u>	<u>20,132,854</u>	<u>21,589,230</u>
Invested in capital assets	40,756	58,547	63,951
Unrestricted net assets	<u>26,341,039</u>	<u>23,783,834</u>	<u>18,107,267</u>
Total net assets	<u>\$ 26,381,795</u>	<u>23,842,381</u>	<u>18,171,218</u>

The total assets of the Association at the 2009 fiscal year-end were \$49,008,313, an increase of \$5,033,078 over the previous year. This is largely attributable to payroll and rate increases for member premiums in 2009. Total liabilities increased by \$2,493,664 due primarily to an increase in unpaid claims (claims reserves) and unpaid claims for IBNR (Incurred but Not Reported) increasing per the actuarial analysis at June 30, 2009.

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.

During fiscal year 2009, total net assets increased by \$2,539,414. This increase in net assets resulted from increased premium written due to member payroll changes and National Council on Compensation Insurance (NCCI) rate increases for fiscal year 2009.

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.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2009 and 2008

**Revenues, Expenses, and Changes in Net Assets**

A summary of the Association's condensed operations and net assets at June 30, 2009, 2008, and 2007 is presented below.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premium earned	\$ 15,040,852	13,545,543	13,098,939
Net claims	10,795,238	7,144,588	9,121,204
Total operating revenues, net	4,245,614	6,400,955	3,977,735
Total operating expenses	3,623,619	3,056,377	2,898,443
Total nonoperating revenues	1,917,419	2,326,585	1,699,800
Change in net assets	2,539,414	5,671,163	2,779,092
Total net assets, beginning of year	23,842,381	18,171,218	15,392,126
Total net assets, end of year	\$ <u>26,381,795</u>	<u>23,842,381</u>	<u>18,171,218</u>

***Revenues***

During fiscal year 2009, the Association had an increase in earned premiums, net of reinsurance, of \$1,495,309, approximately 11.0% above the prior year. This increase resulted from the following items: (1) a 5.5% increase in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI), (2) an increase of 6.5% due to changes in member payrolls made by the members, offset by (3) a 1.0% 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 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 2009, nonoperating revenues decreased by \$409,166 from the prior year as a result of investment income. This decrease resulted primarily from lower investment income from the Association's investments in certificates of deposit and U.S. government backed paper due to the current economic environment. 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 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.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2009 and 2008

***Expenses***

During fiscal year 2009, the Association saw an increase in net claims predominantly related to the occurrence of several large claims including one that reached the reinsurance level. In addition, IBNR reserves increased at or near inflationary levels. Total net claims during fiscal year 2009 were \$10,795,238, as compared to \$7,144,588 during the previous fiscal year. This was an increase of \$3,650,650, or 51.1%.

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 2009, operating expenses increased 18.6%, or \$567,242, over the previous fiscal year due to increased medical bill review fees resulting from increased medical bill charges, increased agent commissions due to increased member premium and expenses related to an increase in administrative fees paid to the Iowa League of Cities. Also, the telephonic reporting program for first reports of injury was expanded from a pilot program to the entire membership as of January 1.

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

***Net Assets***

At June 30, 2009, the Association's net assets showed a \$2,539,414 increase from the previous fiscal year, ending up at \$26,381,795.

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.

**Capital Assets**

As of June 30, 2009, 2008, and 2007, the Association owns mainly computer equipment and software for capital assets.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Equipment	\$ 154,601	207,407	188,045
Software	196,103	199,215	191,927
Total	350,704	406,622	379,972
Less accumulated depreciation-equipment	(131,793)	(173,910)	(153,863)
Less accumulated depreciation-software	(178,155)	(174,165)	(162,158)
Capital assets, net	<u>\$ 40,756</u>	<u>58,547</u>	<u>63,951</u>

Capital asset purchases during fiscal years 2009, 2008, and 2007 were \$17,667, \$26,650, and \$35,112, respectively, which included new computers, monitors, printers, software and software licenses.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2009 and 2008

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, 2009 and 2008

<b>Assets</b>	<b>2009</b>	<b>2008</b>
Current assets:		
Cash and cash equivalents	\$ 7,205,664	8,510,935
Restricted cash and cash equivalents	25,000	25,000
Investments	9,171,844	10,162,848
Receivables:		
Accrued interest	588,905	699,446
Reinsurance recoverable	1,258,307	880,790
Other	10,596	7,606
Total receivables	1,857,808	1,587,842
Prepaid expenses	310,292	44,283
Total current assets	18,570,608	20,330,908
Noncurrent assets:		
Investments	29,921,981	23,133,429
Capital assets, net	40,756	58,547
Other assets	474,968	452,351
Total noncurrent assets	30,437,705	23,644,327
Total assets	\$ 49,008,313	43,975,235
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Unpaid claims	\$ 19,856,832	17,283,922
Advanced premiums	2,684,790	2,778,373
Accounts payable and other accrued expenses	59,896	45,559
Deposit payable	25,000	25,000
Total current liabilities	22,626,518	20,132,854
Net assets:		
Invested in capital assets	40,756	58,547
Unrestricted net assets	26,341,039	23,783,834
Total net assets	26,381,795	23,842,381
Total liabilities and net assets	\$ 49,008,313	43,975,235

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Premiums written and earned	\$ 15,940,392	14,423,939
Less reinsurance premiums	899,540	878,396
Net premiums earned	<u>15,040,852</u>	<u>13,545,543</u>
Claims paid	8,694,851	7,456,334
Increase (decrease) in gross unpaid claims	2,572,910	(311,530)
Reinsurance recoveries received	(95,006)	(50,770)
(Increase) decrease in reinsurance recoveries on unpaid claims	<u>(377,517)</u>	<u>50,554</u>
Net claims	<u>10,795,238</u>	<u>7,144,588</u>
Total operating revenues, net	<u>4,245,614</u>	<u>6,400,955</u>
Operating expenses:		
Direct expenses	1,513,955	1,109,347
Depreciation expense	29,972	32,054
General and administrative expenses	<u>2,079,692</u>	<u>1,914,976</u>
Total operating expenses	<u>3,623,619</u>	<u>3,056,377</u>
Operating income	<u>621,995</u>	<u>3,344,578</u>
Nonoperating revenues (expenses):		
Investment income	1,920,664	2,320,642
Other (expenses) income	<u>(3,245)</u>	<u>5,943</u>
Total nonoperating revenues, net	<u>1,917,419</u>	<u>2,326,585</u>
Change in net assets	2,539,414	5,671,163
Total net assets, beginning of year	<u>23,842,381</u>	<u>18,171,218</u>
Total net assets, end of year	<u>\$ 26,381,795</u>	<u>23,842,381</u>

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from members for premiums	\$ 15,846,809	14,327,396
Cash received from reinsurers for reinsurance	95,006	50,770
Cash payments to reinsurers for reinsurance premiums	(925,662)	(874,390)
Cash payments to suppliers for goods and services	(3,822,187)	(3,068,039)
Cash payments to claimants	(8,694,851)	(7,456,334)
Other cash receipts	2,251	5,943
Net cash provided by operating activities	<u>2,501,366</u>	<u>2,985,346</u>
Cash flows from capital and related financing activity:		
Purchases of capital assets	<u>(17,667)</u>	<u>(26,650)</u>
Cash flows from investing activities:		
Proceeds from maturities of investments	25,624,937	30,835,423
Purchases of investments	(31,263,770)	(30,711,866)
Interest received on investments	1,885,412	2,244,974
Interest acquired	(35,549)	(49,422)
Net cash (used in) provided by investing activities	<u>(3,788,970)</u>	<u>2,319,109</u>
(Decrease) increase in cash and cash equivalents	(1,305,271)	5,277,805
Cash and cash equivalents, beginning of year	<u>8,535,935</u>	<u>3,258,130</u>
Cash and cash equivalents, end of year	<u>\$ 7,230,664</u>	<u>8,535,935</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Operating income	\$ 621,995	3,344,578
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,972	32,054
Change in:		
Receivables	(378,256)	49,223
Prepaid expenses	(266,009)	15,867
Unpaid claims	2,572,910	(311,763)
Advanced premiums	(93,583)	(96,543)
Accounts payable and other accrued expenses	14,337	(48,070)
Net cash provided by operating activities	<u>\$ 2,501,366</u>	<u>2,985,346</u>

Noncash investing and financing activities:

    During the years ended June 30, 2009 and 2008, the Association recognized an unrealized gain on investments of \$158,725 and \$231,313, respectively.

    During the years ended June 30, 2009 and 2008, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of \$22,617 and \$80,213, respectively.

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(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 348 cities, 66 counties, and 61 Chapter 28E entities for 2009.

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.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(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 prices as determined by third party pricing service using transactions for similar securities. Investments with an expected 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. The liability for unpaid claims is 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, 2009 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 agreements are presented separately in the statement of revenues, expenses, and changes in net assets.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(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) 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.

**(l) 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.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

The composition of the Association's investments during the year did not vary substantially from those at the prior year-end. 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, 2009 and 2008, the Association's portfolio of investments included the following:

		<b>2009</b>			
		<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Estimated fair value</u>
Certificates of deposit	\$	27,267,707	—	—	27,267,707
U.S. government agencies		11,642,043	237,193	(53,118)	11,826,118
	\$	<u>38,909,750</u>	<u>237,193</u>	<u>(53,118)</u>	<u>39,093,825</u>

  

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

As of June 30, 2009 and 2008, the Association had the following maturities on its investments:

		<b>2009</b>				
		<u>Investment maturities (in years)</u>				
<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>5 – 10</u>	<u>More than 10</u>	
Certificates of deposit	\$	27,267,707	9,171,843	18,095,864	—	—
U.S. government agencies		11,826,118	—	155,302	—	11,670,816
	\$	<u>39,093,825</u>	<u>9,171,843</u>	<u>18,251,166</u>	<u>—</u>	<u>11,670,816</u>

  

		<b>2008</b>				
		<u>Investment maturities (in years)</u>				
<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>5 – 10</u>	<u>More than 10</u>	
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
	\$	<u>33,296,277</u>	<u>10,162,848</u>	<u>11,259,736</u>	<u>1,003,750</u>	<u>10,869,943</u>

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

Investment income consisted of the following for the years ended June 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Interest income	\$ 1,769,774	2,036,442
Unrealized gains	1,817	591,808
Realized gains (losses)	149,073	(307,608)
	\$ 1,920,664	2,320,642

**(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, 2009, the Association had no investments in commercial paper. As of June 30, 2009 and 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 generally considered to represent a proxy for risk-free investments.

**(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, 2009 and 2008, management believes there is minimal custodial credit risk in the Association's investment portfolio, primarily because the investments should be insured by the Iowa sinking fund.

**(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, 2009, investments in the Government National Mortgage Association and the Federal National Mortgage Association represent 23.1% and 6.8%, respectively, of the Association's total investments. 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. Certificates of deposit from one institution represent 26.3% of the Association's total investments. No other issuer represents more than 5.0% of the Association's portfolio.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(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, 2009 and 2008. Effective July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation (Safety National). As of June 30, 2009 and 2008, 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, 2009 and 2008, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to \$1,258,307 and \$880,790, respectively.

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 2009 and 2008, investment gains from NLC were \$22,618 and \$80,213, respectively. The total expenditures made for the capital contributions and reinsurance premiums were historically competitively priced with reinsurance premiums charged by other reinsurers.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(4) Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2009 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets, at cost:				
Equipment	\$ 207,407	12,076	64,882	154,601
Software	199,215	5,591	8,703	196,103
Total capital assets, at cost	<u>406,622</u>	<u>17,667</u>	<u>73,585</u>	<u>350,704</u>
Less accumulated depreciation:				
Equipment	(173,910)	(17,320)	(59,437)	(131,793)
Software	(174,165)	(12,645)	(8,655)	(178,155)
Total accumulated depreciation	<u>(348,075)</u>	<u>(29,965)</u>	<u>(68,092)</u>	<u>(309,948)</u>
Capital assets, net	<u>\$ 58,547</u>	<u>(12,298)</u>	<u>5,493</u>	<u>40,756</u>

A summary of changes in capital assets for the year ended June 30, 2008 is as follows:

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

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

**(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, 2009 and 2008, management fees of \$1,242,000 and \$1,160,000, 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. 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, 2009 and 2008, fees of \$118,376 and \$117,214, 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, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Unpaid claims at beginning of year, net of reinsurance of \$880,790 and \$931,577 as of June 30, 2008 and 2007, respectively	\$ 16,403,132	16,664,108
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	10,798,331	9,253,373
Decrease in provision for insured events of prior years	(3,093)	(2,108,785)
Total incurred claims	10,795,238	7,144,588
Reinsurance recoveries received	95,006	50,770
Payments:		
Claims attributable to insured events of the current year	3,979,028	2,736,935
Claims attributable to insured events of prior years	4,715,823	4,719,399
Total payments	8,694,851	7,456,334
Unpaid claims at end of year, net of reinsurance recoverable of \$1,258,307 and \$880,790 as of June 30, 2009 and 2008, respectively	\$ 18,598,525	16,403,132

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2009 and 2008

During 2008, the Association experienced favorable development on prior year claims, which required a significant decrease in the provision for claim reserves for prior year claims. In 2009, the development of prior year claims was consistent with the overall claim reserves for that period, therefore no significant adjustment occurred.

**(7) Annuities**

During the year ended June 30, 2009, 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, 2009 and 2008, the amounts of \$2,075,882 and \$2,026,013, 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

June 30, 2009

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, 2009

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
1 Premiums and nonoperating revenue:										
Earned	\$ 6,061	6,797	7,329	10,557	12,400	15,450	16,305	15,637	16,751	17,858
Ceded	115	137	216	624	834	1,116	1,294	838	878	900
Net earned	\$ <u>5,946</u>	<u>6,660</u>	<u>7,113</u>	<u>9,933</u>	<u>11,566</u>	<u>14,334</u>	<u>15,011</u>	<u>14,799</u>	<u>15,873</u>	<u>16,958</u>
2 Unallocated expenses	\$ 1,296	2,431	1,718	2,136	2,426	2,793	2,817	2,898	3,107	3,624
3 Estimated incurred claims and expense, end of policy year (no cessions)	\$ 3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798
4 Net paid (cumulative) as of:										
End of policy year	\$ 1,248	1,585	1,645	2,770	2,140	3,021	2,562	2,898	2,737	3,979
One year later	3,070	3,225	3,176	5,231	4,085	5,121	4,535	5,058	5,391	—
Two years later	3,740	4,152	4,049	6,495	4,705	6,256	6,140	6,190	—	—
Three years later	3,996	4,614	4,319	6,909	5,165	6,812	6,521	—	—	—
Four years later	4,186	5,184	4,580	7,117	5,266	7,140	—	—	—	—
Five years later	4,446	5,539	5,194	7,206	5,304	—	—	—	—	—
Six years later	4,488	5,629	5,348	7,235	—	—	—	—	—	—
Seven years later	4,727	5,650	5,425	—	—	—	—	—	—	—
Eight years later	4,727	5,651	—	—	—	—	—	—	—	—
Nine years later	4,731	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:										
End of policy year	\$ 3,750	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798
One year later	4,200	5,800	5,300	9,110	7,097	9,745	9,425	8,575	9,482	—
Two years later	4,850	5,700	5,598	8,134	6,218	9,315	8,694	8,577	—	—
Three years later	4,566	6,315	5,494	8,170	6,205	8,714	8,572	—	—	—
Four years later	4,733	5,880	5,667	7,881	5,950	8,726	—	—	—	—
Five years later	4,839	5,715	5,812	7,797	5,862	—	—	—	—	—
Six years later	4,595	5,720	5,834	7,813	—	—	—	—	—	—
Seven years later	4,732	5,826	5,937	—	—	—	—	—	—	—
Eight years later	4,732	5,826	—	—	—	—	—	—	—	—
Nine years later	4,736	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	\$ 986	1,253	658	(708)	(3,231)	(1,329)	(665)	(797)	229	—

See accompanying independent auditors' report.



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

**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 years ended June 30, 2009 and 2008, and have issued our report thereon dated October 8, 2009. 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

KPMG LLP

Des Moines, Iowa  
October 8, 2009