



**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Financial Statements and Required Supplementary Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

**IOWA MUNICIPALITIES WORKERS’  
COMPENSATION ASSOCIATION**

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KPMG LLP  
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## 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, 2010 and 2009, 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, 2010 and 2009, 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 audit was conducted for the purpose of forming an opinion on the basic financial statements of the Association taken as a whole. The supplemental information 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, 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  
October 22, 2010

# IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

## Management's Discussion and Analysis

June 30, 2010 and 2009

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, 2010 and 2009. 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, 2010*

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2010 by \$27,150,059. Total net assets increased by \$768,264 during fiscal year 2010.
- The Association's total assets increased by \$4,244,773 from 2009 to 2010.
- Additions to capital assets during fiscal year 2010 were \$41,810, and depreciation expense of \$35,293.
- The ending unrestricted cash and cash equivalents balance was \$10,972,496 for the Association at June 30, 2010.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2010 totaled \$39,124,514 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 lower interest rates and investment balances, investment income decreased \$362,706 from 2009 to 2010. The economic environment has continued to result in lower interest rates and fewer bids for public funds.

#### *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 even with higher investment balances.

# **IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2010 and 2009

## **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 statements of cash flow 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 for which the cash was used, and the change in cash balances during the reporting periods.

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, 2010 and 2009

**Net Assets**

A summary of the Association's condensed balance sheets at June 30, 2010, 2009, and 2008 is presented below.

***Condensed Balance Sheets***

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets, investments and other assets	\$ 53,205,813	48,967,557	43,916,688
Capital assets	47,273	40,756	58,547
Total assets	<u>\$ 53,253,086</u>	<u>49,008,313</u>	<u>43,975,235</u>
Unpaid claims	\$ 22,798,210	19,856,832	17,283,922
Other liabilities	3,304,817	2,769,686	2,848,932
Total liabilities	<u>\$ 26,103,027</u>	<u>22,626,518</u>	<u>20,132,854</u>
Invested in capital assets	\$ 47,273	40,756	58,547
Unrestricted net assets	27,102,786	26,341,039	23,783,834
Total net assets	<u>\$ 27,150,059</u>	<u>26,381,795</u>	<u>23,842,381</u>

The total assets of the Association at the 2010 fiscal year-end were \$53,253,086, an increase of \$4,244,773 over the previous year. This is attributable to payroll and rate increases for member premiums in 2010 and larger audit premiums owed by members. Total liabilities increased by \$3,476,509 due primarily to increased claim severity in recent years and the impact on claim development trends. The impact of the changes in assets and liabilities resulted in an increase to total net assets of \$768,264.

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 attributable to payroll and rate increases for member premiums in 2009. Total liabilities increased by \$2,493,664 due primarily to unpaid claims (claims reserves) increasing due to significant claims in the fiscal 2009 accident year. The impact of the changes in assets and liabilities resulted in an increase to total net assets of \$2,539,414.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Management's Discussion and Analysis

June 30, 2010 and 2009

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

A summary of the Association's condensed operations and net assets at June 30, 2010, 2009, and 2008 is presented below.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net premium earned	\$ 15,239,480	15,040,852	13,545,543
Net claims	12,516,913	10,795,238	7,144,588
Total operating revenues, net	2,722,567	4,245,614	6,400,955
Total operating expenses	3,514,768	3,623,619	3,056,377
Total nonoperating revenues	1,560,465	1,917,419	2,326,585
Change in net assets	768,264	2,539,414	5,671,163
Total net assets, beginning of year	26,381,795	23,842,381	18,171,218
Total net assets, end of year	\$ 27,150,059	26,381,795	23,842,381

***Revenues***

During fiscal year 2010, the Association had an increase in earned premiums, net of reinsurance, of \$198,628, approximately 1.0% above the prior year. This increase resulted from the following items: (1) an increase of 3.0% due to changes in member payrolls made by the members, (2) an increase of 1.0% due to member growth, (3) a 4.0% increase in audit premiums owed by members, offset by (4) a 4.0% decrease due to member discounts made by the Association and (5) a 3.0% decrease in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI). The premium was sufficient to cover claims for the year net of reinsurance recoveries.

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 member discounts made by the Association. The premium was sufficient to cover net claims for the year net of reinsurance recoveries.

During fiscal year 2010, nonoperating revenues decreased by \$356,954 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 four 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. However, in the current environment, it is difficult to invest public funds.

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Management's Discussion and Analysis

June 30, 2010 and 2009

During fiscal year 2009, nonoperating revenues decreased by \$409,166 from the prior year as a result of investment income. This decrease resulted 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.

***Expenses***

During fiscal year 2010, the Association increased net claims due to claims paid increasing and increases in claim and IBNR reserves per the actuarial analysis. In fiscal year 2010 payments were made on several large prior year claims including one that reached the reinsurance level. Total net claims during fiscal year 2010 were \$12,516,913, as compared to \$10,795,238 during the previous fiscal year. This was an increase of \$1,721,675, or 15.9%.

During fiscal year 2009, the Association increased net claims due to claims paid increasing and increases in claim and IBNR reserves per the actuarial analysis. In fiscal year 2009 there were several large claims including one that reached the reinsurance level. 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 2010, operating expenses decreased 3.0%, or \$108,851, over the previous fiscal year due mainly to a change in the method for calculating medical bill review fees using a line charge fee instead of a percentage of savings.

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.

***Net Assets***

At June 30, 2010, the Association's net assets showed a \$768,264 increase from the previous fiscal year, ending up at \$27,150,059.

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.

**IOWA MUNICIPALITIES WORKERS'  
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Management's Discussion and Analysis

June 30, 2010 and 2009

**Capital Assets**

As of June 30, 2010, 2009, and 2008, the Association owns mainly computer equipment and software for capital assets.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Equipment	\$ 168,182	154,601	207,407
Software	224,332	196,103	199,215
Total	392,514	350,704	406,622
Less accumulated depreciation-equipment	(148,272)	(131,793)	(173,910)
Less accumulated depreciation-software	(196,969)	(178,155)	(174,165)
Capital assets, net	\$ <u>47,273</u>	<u>40,756</u>	<u>58,547</u>

Capital asset purchases during fiscal year 2010 and 2009 were \$41,810 and \$17,667, respectively, which included new computers, monitors, printers, software and software licenses.

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, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and cash equivalents	\$ 10,972,496	7,205,664
Restricted cash and cash equivalents	25,000	25,000
Investments	15,219,922	9,171,844
Receivables:		
Accrued interest	762,470	588,905
Reinsurance recoverable	1,511,761	1,258,307
Other	6,572	10,596
Total receivables	2,280,803	1,857,808
Prepaid expenses	301,908	310,292
Total current assets	28,800,129	18,570,608
Noncurrent assets:		
Investments	23,904,592	29,921,981
Capital assets, net	47,273	40,756
Other assets	501,092	474,968
Total noncurrent assets	24,452,957	30,437,705
Total assets	\$ 53,253,086	49,008,313
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Unpaid claims	\$ 22,798,210	19,856,832
Advanced premiums	2,945,950	2,684,790
Accounts payable and other accrued expenses	68,430	59,896
Reinsurance payable	265,437	—
Deposit payable	25,000	25,000
Total current liabilities	26,103,027	22,626,518
Net assets:		
Invested in capital assets	47,273	40,756
Unrestricted net assets	27,102,786	26,341,039
Total net assets	27,150,059	26,381,795
Total liabilities and net assets	\$ 53,253,086	49,008,313

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Operating revenues:		
Premiums written and earned	\$ 16,204,245	15,940,392
Less reinsurance premiums	964,765	899,540
Net premiums earned	15,239,480	15,040,852
Claims paid	11,185,564	8,694,850
Increase in gross unpaid claims	2,941,378	2,572,911
Reinsurance recoveries received	(1,356,575)	(95,006)
Increase in reinsurance recoveries netted to unpaid claims	(253,454)	(377,517)
Net claims	12,516,913	10,795,238
Total operating revenues, net	2,722,567	4,245,614
Operating expenses:		
Direct expenses	1,384,699	1,513,955
Depreciation expense	35,293	29,972
General and administrative expenses	2,094,776	2,079,692
Total operating expenses	3,514,768	3,623,619
Operating (loss) income	(792,201)	621,995
Nonoperating revenues:		
Investment income	1,557,958	1,920,664
Other income (loss)	2,507	(3,245)
Total nonoperating revenues	1,560,465	1,917,419
Change in net assets	768,264	2,539,414
Total net assets, beginning of year	26,381,795	23,842,381
Total net assets, end of year	\$ 27,150,059	26,381,795

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Cash received from members for premiums	\$ 16,465,405	15,846,809
Cash received from reinsurers for reinsurance	1,356,575	95,006
Cash payments to reinsurers for reinsurance premiums	(923,622)	(925,662)
Cash payments to suppliers for goods and services	(3,234,239)	(3,822,187)
Cash payments to claimants	(11,185,564)	(8,694,850)
Other cash receipts	2,507	2,250
Net cash provided by operating activities	2,481,062	2,501,366
Cash flows from capital and related financing activity:		
Purchases of capital assets	(41,810)	(17,667)
Net cash used for financing activity	(41,810)	(17,667)
Cash flows from investing activities:		
Proceeds from maturities of investments	16,243,438	25,624,937
Purchases of investments	(16,278,451)	(31,263,770)
Interest received on investments	1,409,531	1,885,412
Interest acquired	(46,937)	(35,549)
Net cash provided by (used in) investing activities	1,327,581	(3,788,970)
Increase (decrease) in cash and cash equivalents	3,766,833	(1,305,271)
Cash and cash equivalents, beginning of year	7,230,664	8,535,935
Cash and cash equivalents, end of year	\$ 10,997,497	7,230,664
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ (792,201)	621,995
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	35,293	29,972
Change in:		
Receivables	(246,923)	(378,256)
Prepaid expenses	8,384	(266,009)
Unpaid claims	2,941,378	2,572,910
Advanced premiums	261,160	(93,583)
Accounts payable and other accrued expenses	273,971	14,337
Net cash provided by operating activities	\$ 2,481,062	2,501,366

Noncash investing and financing activities:

During the years ended June 30, 2010 and 2009, the Association recognized an unrealized gain (loss) on investments of \$(4,325) and \$158,725, respectively.

During the years ended June 30, 2010 and 2009, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of \$26,123 and \$22,618, respectively.

See accompanying notes to financial statements.

**IOWA MUNICIPALITIES WORKERS'  
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Notes to Financial Statements

June 30, 2010 and 2009

**(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.

**(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 351 cities, 67 counties, and 68 Chapter 28E entities for 2010.

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.

**(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, 2010 and 2009

**(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 are carried at fair value, which is based on quoted market prices in active markets as available. Certificates of deposit are carried at cost, which approximates fair value. 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 unpaid claims 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, 2010 and 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 are presented separately in the statement of revenues, expenses, and changes in net assets.

**IOWA MUNICIPALITIES WORKERS'  
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Notes to Financial Statements

June 30, 2010 and 2009

**(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. As such, the financial statements make no provision for federal or state 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'  
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Notes to Financial Statements

June 30, 2010 and 2009

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. All of the Association's certificates of deposit are covered by the Iowa Sinking Fund.

As of June 30, 2010 and 2009, the Association's portfolio of investments included the following:

<b>2010</b>				
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Certificates of deposit	\$ 21,341,035	—	—	21,341,035
U.S. government agencies	17,783,353	124,712	(124,586)	17,783,479
	\$ 39,124,388	124,712	(124,586)	39,124,514
<b>2009</b>				
	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Estimated fair value</b>
Certificates of deposit	\$ 27,267,707	—	—	27,267,707
U.S. government agencies	11,642,043	237,193	(53,118)	11,826,118
	\$ 38,909,750	237,193	(53,118)	39,093,825

As of June 30, 2010, the Association had the following maturities on its investments based on contractual terms:

<b>Investment type</b>	<b>Fair value</b>	<b>Investment maturities (in years)</b>			
		<b>Less than 1</b>	<b>1 – 5</b>	<b>5 – 10</b>	<b>More than 10</b>
Certificates of deposit	\$ 21,341,033	15,219,922	6,121,111	—	—
U.S. government agencies	17,783,479	—	105,289	214,148	17,464,042
	\$ 39,124,512	15,219,922	6,226,400	214,148	17,464,042

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2010 and 2009

Investment income consisted of the following for the years ended June 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
Interest income	\$ 1,580,476	1,769,774
Unrealized gains (losses)	(4,325)	158,725
Realized losses	(18,193)	(7,835)
	\$ 1,557,958	1,920,664

**(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, 2010 and 2009, the Association had no investments in commercial paper. As of June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010, investments in the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA) represent 40.2% and 5.0%, respectively, of the Association's total investments. As of June 30, 2009, investments in GNMA and FNMA represent 23.1% and 6.8%, respectively, of the Association's total investments. As of June 30, 2010 and 2009, certificates of deposit from one financial institution represent 18.8% and 26.3%, respectively, of the Association's total investments. No other issuer represents more than 5.0% of the Association's portfolio as of June 30, 2010 or 2009.

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2010 and 2009

**(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, 2010 and 2009. Effective July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation (Safety National). As of June 30, 2010 and 2009, 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, 2010 and 2009, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to \$1,511,761 and \$1,258,307, respectively.

The accompanying financial statements reflect the Association's 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 2010 and 2009, investment gain (loss) from NLC was \$26,123 and \$22,618, 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'  
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Notes to Financial Statements

June 30, 2010 and 2009

**(4) Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Capital assets, at cost:				
Equipment	\$ 154,601	13,581	—	168,182
Software	196,103	28,229	—	224,332
Total capital assets, at cost	<u>350,704</u>	<u>41,810</u>	<u>—</u>	<u>392,514</u>
Less accumulated depreciation:				
Equipment	(131,793)	(16,479)	—	(148,272)
Software	(178,155)	(18,814)	—	(196,969)
Total accumulated depreciation	<u>(309,948)</u>	<u>(35,293)</u>	<u>—</u>	<u>(345,241)</u>
Capital assets, net	<u>\$ 40,756</u>	<u>6,517</u>	<u>—</u>	<u>47,273</u>

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)	(17,327)	(59,444)	(131,793)
Software	(174,165)	(12,645)	(8,655)	(178,155)
Total accumulated depreciation	<u>(348,075)</u>	<u>(29,972)</u>	<u>(68,099)</u>	<u>(309,948)</u>
Capital assets, net	<u>\$ 58,547</u>	<u>(12,305)</u>	<u>5,486</u>	<u>40,756</u>

**IOWA MUNICIPALITIES WORKERS'  
COMPENSATION ASSOCIATION**

Notes to Financial Statements

June 30, 2010 and 2009

**(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, 2010 and 2009, management fees of \$1,260,000 and \$1,242,000, 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, 2010 and 2009, fees of \$131,411 and \$118,376, 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unpaid claims at beginning of year, net of reinsurance of \$1,258,307 and \$880,790 as of June 30, 2009 and 2008, respectively	\$ 18,598,525	16,403,132
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	8,903,466	10,798,331
Increase (decrease) in provision for insured events of prior years	<u>3,613,447</u>	<u>(3,093)</u>
Total incurred claims	<u>12,516,913</u>	<u>10,795,238</u>
Reinsurance recoveries received	1,356,575	95,006
Payments:		
Claims attributable to insured events of the current year	2,892,706	3,979,028
Claims attributable to insured events of prior years	<u>8,292,858</u>	<u>4,715,823</u>
Total payments	<u>11,185,564</u>	<u>8,694,851</u>
Unpaid claims at end of year, net of reinsurance recoverable of \$1,511,761 and \$1,258,307 as of June 30, 2010 and 2009, respectively	<u>\$ 21,286,449</u>	<u>18,598,525</u>

**IOWA MUNICIPALITIES WORKERS'  
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Notes to Financial Statements

June 30, 2010 and 2009

The increase in provision for insured events in prior years was caused mainly due to claims in the most recent prior year. Fiscal year 2008-2009 claims included three deaths and one catastrophic claim for which reserves were increased significantly.

**(7) Annuities**

During the year ended June 30, 2010, three annuities were purchased in a claimant's name to fund future payments to such claimant. No annuities were purchased during 2009. 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, 2010 and 2009, the amounts of \$2,827,717 and \$2,075,882, 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, 2010

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

(in thousands)

June 30, 2010

		<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>	<u>2010</u>
1 Premiums and investment income:											
Earned	\$	6,797	7,329	10,557	12,400	15,450	16,305	15,637	16,751	17,858	17,762
Ceded		137	216	624	834	1,116	1,294	838	878	900	965
Net earned	\$	<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>	<u>16,797</u>
2 Unallocated expenses	\$	2,431	1,718	2,136	2,426	2,793	2,817	2,898	3,107	3,624	3,515
3 Estimated incurred claims and expense, end of policy year (no cessions)	\$	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903
4 Net paid (cumulative) as of:											
End of policy year	\$	1,585	1,645	2,770	2,140	3,021	2,562	2,898	2,737	3,979	2,893
One year later		3,225	3,176	5,231	4,085	5,121	4,535	5,058	5,391	9,190	—
Two years later		4,152	4,049	6,495	4,705	6,256	6,140	6,190	6,567	—	—
Three years later		4,614	4,319	6,909	5,165	6,812	6,521	6,869	—	—	—
Four years later		5,184	4,580	7,117	5,266	7,140	7,121	—	—	—	—
Five years later		5,539	5,194	7,206	5,304	7,192	—	—	—	—	—
Six years later		5,629	5,348	7,235	5,408	—	—	—	—	—	—
Seven years later		5,650	5,425	7,510	—	—	—	—	—	—	—
Eight years later		5,651	5,451	—	—	—	—	—	—	—	—
Nine years later		5,675	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:											
End of policy year	\$	4,573	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903
One year later		5,800	5,300	9,110	7,097	9,745	9,425	8,575	9,482	14,820	—
Two years later		5,700	5,598	8,134	6,218	9,315	8,694	8,577	9,669	—	—
Three years later		6,315	5,494	8,170	6,205	8,714	8,572	9,349	—	—	—
Four years later		5,880	5,667	7,881	5,950	8,726	8,897	—	—	—	—
Five years later		5,715	5,812	7,797	5,862	8,890	—	—	—	—	—
Six years later		5,720	5,834	7,813	5,955	—	—	—	—	—	—
Seven years later		5,826	5,937	7,860	—	—	—	—	—	—	—
Eight years later		5,826	5,947	—	—	—	—	—	—	—	—
Nine years later		5,848	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	\$	1,275	668	(661)	(3,138)	(1,165)	(340)	(25)	416	4,022	—

See accompanying independent auditors' report.



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**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, 2010, and have issued our report thereon dated October 22, 2010. 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 entity'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 the 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 22, 2010