IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements and Required Supplementary Information

June 30, 2011 and 2010

(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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, 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.

The management's discussion and analysis on pages 3 – 8 and required supplementary information on pages 22 – 23 are not a required part of the basic financial statements but are 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.

KPMG LLP

Des Moines, Iowa
October 21, 2011

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, 2011 and 2010. 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, 2011

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2011 by $31,706,487. Total net assets increased by $4,556,428 during fiscal year 2011.
- The Association's total assets increased by $5,473,183 from 2010 to 2011.
- Additions to capital assets during fiscal year 2011 were $87,059, with total depreciation expense of $36,188.
- The ending unrestricted cash and cash equivalents balance was $19,259,301 for the Association at June 30, 2011.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2011 totaled $36,903,997 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 $330,423 from 2010 to 2011. The economic environment has continued to result in lower interest rates and fewer bids received from financial institutions for public funds for the last several years.

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, with total 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 as a result of the economic environment creating lower interest rates and few bids for public funds.

(Continued)

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 policyholders and 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 flows 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.

Net Assets

A summary of the Association's condensed balance sheets at June 30, 2011, 2010, and 2009 is presented below.

Condensed Balance Sheets

		2011	2010	2009
Current assets, investments and other assets	$	58,628,125	53,205,813	48,967,557
Capital assets		98,144	47,273	40,756
Total assets	$	58,726,269	53,253,086	49,008,313
Unpaid claims	$	23,758,358	22,798,210	19,856,832
Other liabilities		3,261,424	3,304,817	2,769,686
Total liabilities	$	27,019,782	26,103,027	22,626,518
Invested in capital assets	$	98,144	47,273	40,756
Unrestricted net assets		31,608,343	27,102,786	26,341,039
Total net assets	$	31,706,487	27,150,059	26,381,795

The total assets of the Association at the 2011 fiscal year-end were $58,726,269, an increase of $5,473,183 over the previous year. This is attributable to payroll and rate increases for member premiums in 2011. Total liabilities increased by $916,755 due primarily to increased claim severity in recent years and rising medical costs. The impact of the changes in assets and liabilities resulted in an increase to total net assets of $4,556,428.

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.

(Continued)

Revenues, Expenses, and Changes in Net Assets

A summary of the Association's condensed operations and net assets at June 30, 2011, 2010, and 2009 is presented below.

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

		2011	2010	2009
Net premium earned	$	16,452,594	15,239,480	15,040,852
Net claims		9,471,803	12,516,913	10,795,238
Total operating revenues, net		6,980,791	2,722,567	4,245,614
Total operating expenses		3,654,409	3,514,768	3,623,619
Total nonoperating revenues		1,230,046	1,560,465	1,917,419
Change in net assets		4,556,428	768,264	2,539,414
Total net assets, beginning of year		27,150,059	26,381,795	23,842,381
Total net assets, end of year	$	31,706,487	27,150,059	26,381,795

Revenues

During fiscal year 2011, the Association had an increase in earned premiums, net of reinsurance, of $1,213,114, approximately 8.0% above the prior year. This increase resulted from the following items: (1) a 10.0% increase in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI), offset by (2) a 2% larger decrease compared to the prior year due to member discounts made by the Association. The premium was sufficient to cover claims for the year net of reinsurance recoveries.

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 2011, nonoperating revenues decreased by $330,419 from the prior year as a result of investment income. This decrease resulted from continued 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.

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 current economic environment has continued to result in difficulty investing public funds.

Expenses

During fiscal year 2011, the Association had lower net claims due to claims paid decreasing and minimal increases in claim reserves. IBNR reserves also increased minimally per the actuarial analysis. Total net claims during fiscal year 2011 were $9,471,803, as compared to $12,516,913 during the previous fiscal year. This was a decrease of $3,045,110, or 24.3%.

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 2011, operating expenses increased 4.0%, or $139,641, over the previous fiscal year due mainly to increased agent commissions as a result of the higher premiums.

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.

Capital Assets

As of June 30, 2011, 2010, and 2009, the Association owns mainly computer equipment and software for capital assets.

		2011	2010	2009
Equipment	$	186,687	168,182	154,601
Software		292,886	224,332	196,103
Total		479,573	392,514	350,704
Less accumulated depreciation-equipment		(165,645)	(148,272)	(131,793)
Less accumulated depreciation-software		(215,784)	(196,969)	(178,155)
Capital assets, net	$	98,144	47,273	40,756

Capital asset purchases during fiscal year 2011 and 2010 were $87,059 and $41,810, 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, 2011 and 2010

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	19,259,301	10,972,496
Restricted cash and cash equivalents		25,000	25,000
Investments		11,258,844	15,219,922
Receivables:			
Accrued interest		314,793	762,470
Reinsurance recoverable		1,501,578	1,511,761
Other		49,778	6,572
Total receivables		1,866,149	2,280,803
Prepaid expenses		47,532	301,908
Total current assets		32,456,826	28,800,129
Noncurrent assets:			
Investments		25,645,153	23,904,592
Capital assets, net		98,144	47,273
Other assets		526,146	501,092
Total noncurrent assets		26,269,443	24,452,957
Total assets	$	58,726,269	53,253,086
Liabilities and Net Assets			
Current liabilities:			
Unpaid claims	$	23,758,358	22,798,210
Advanced premiums		3,210,399	2,945,950
Accounts payable and other accrued expenses		26,025	68,430
Reinsurance payable		—	265,437
Deposit payable		25,000	25,000
Total current liabilities		27,019,782	26,103,027
Net assets:			
Invested in capital assets		98,144	47,273
Unrestricted net assets		31,608,343	27,102,786
Total net assets		31,706,487	27,150,059
Total liabilities and net assets	$	58,726,269	53,253,086

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

		2011	2010
Operating revenues:			
Premiums written and earned	$	17,536,964	16,204,245
Less reinsurance premiums		1,084,370	964,765
Net premiums earned		16,452,594	15,239,480
Claims paid		9,122,891	11,185,564
Increase in gross unpaid claims		960,148	2,941,378
Reinsurance recoveries received		(621,419)	(1,356,575)
Decrease (increase) in reinsurance recoveries netted to unpaid claims		10,183	(253,454)
Net claims		9,471,803	12,516,913
Total operating revenues, net		6,980,791	2,722,567
Operating expenses:			
Direct		1,481,646	1,384,699
Depreciation		36,188	35,293
General and administrative		2,136,575	2,094,776
Total operating expenses		3,654,409	3,514,768
Operating income (loss)		3,326,382	(792,201)
Nonoperating revenues:			
Investment income		1,227,535	1,557,958
Other income		2,511	2,507
Total nonoperating revenues		1,230,046	1,560,465
Change in net assets		4,556,428	768,264
Total net assets, beginning of year		27,150,059	26,381,795
Total net assets, end of year	$	31,706,487	27,150,059

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS'
COMPENSATION ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Cash received from members for premiums	$	17,801,413	16,465,405
Cash received from reinsurers for reinsurance		621,419	1,356,575
Cash payments to reinsurers for reinsurance premiums		(1,088,042)	(923,622)
Cash payments to suppliers for goods and services		(3,711,221)	(3,234,239)
Cash payments to claimants		(9,122,891)	(11,185,564)
Other cash receipts		2,511	2,507
Net cash provided by operating activities		4,503,189	2,481,062
Cash flows from capital and related financing activity:			
Purchases of capital assets		(87,059)	(41,810)
Cash flows from investing activities:			
Proceeds from maturities of investments		24,121,603	16,243,438
Purchases of investments		(21,917,320)	(16,278,451)
Interest received on investments		1,694,596	1,409,531
Interest acquired		(28,204)	(46,937)
Net cash provided by investing activities		3,870,675	1,327,581
Increase in cash and cash equivalents		8,286,805	3,766,833
Cash and cash equivalents, beginning of year		10,997,496	7,230,663
Cash and cash equivalents, end of year	$	19,284,301	10,997,496
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$	3,326,382	(792,201)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		36,188	35,293
Change in:			
Receivables		(30,512)	(246,923)
Prepaid expenses		254,376	8,384
Unpaid claims		960,148	2,941,378
Advanced premiums		264,449	261,160
Accounts payable and other accrued expenses		(307,842)	273,971
Net cash provided by operating activities	$	4,503,189	2,481,062

Noncash investing and financing activities:

During the years ended June 30, 2011 and 2010, the Association recognized an unrealized (loss) on investments of $(16,235) and $(4,325), respectively.

During the years ended June 30, 2011 and 2010, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of $25,055 and $26,123, respectively.

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Organization

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

Membership in the Association is limited to Iowa cities, counties, Chapter 28E entities, and other political subdivisions subject to approval in writing by the Board of Trustees or their designee; a member may withdraw from the Association at any time by complying with the rules of the Association. Annual premiums are determined by using applicable standard rates for the exposure to risk and applicable experience modification factors of the National Council on Compensation Insurance. Each member may be subject to additional premiums to pay its pro rata share of claims, when they 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 354 cities, 67 counties, and 75 Chapter 28E entities for 2011.

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.

(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 comparable 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, 2011 and 2010 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. Amounts recoverable from reinsurance are presented on a gross basis on the balance sheets.

(Continued)

(i) Advanced Premiums

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

(j) Premium and Income Recognition

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

(k) 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.

(m) Reclassifications

Certain reclassifications have been made to prior period financial statements to present them on a basis comparable to the current period's financial statements.

(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.

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, 2011 and 2010, the Association's portfolio of investments included the following:

	2011			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Certificates of deposit	$ 19,223,483	—	—	19,223,483
U.S. government agencies	17,696,749	197,740	(213,975)	17,680,514
	$ 36,920,232	197,740	(213,975)	36,903,997

	2010			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Certificates of deposit	$ 21,341,035	—	—	21,341,035
U.S. government agencies	17,787,804	124,712	(129,037)	17,783,479
	$ 39,128,839	124,712	(129,037)	39,124,514

As of June 30, 2011, the Association had the following maturities on its investments based on contractual terms:

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**5 – 10**	**More than 10**
Certificates of deposit	$ 19,223,483	11,207,350	8,016,133	—	—
U.S. government agencies	17,680,514	51,494	—	166,001	17,463,019
	$ 36,903,997	11,258,844	8,016,133	166,001	17,463,019

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

		Investment maturities (in years)			
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**5 – 10**	**More than 10**
Certificates of deposit	$ 21,341,035	15,219,923	6,121,112	—	—
U.S. government agencies	17,783,479	—	105,289	214,148	17,464,042
	$ 39,124,514	15,219,923	6,226,401	214,148	17,464,042

Investment income consisted of the following for the years ended June 30, 2011 and 2010:

	2011	**2010**
Interest income	$ 1,246,554	1,580,476
Unrealized losses	(16,235)	(4,325)
Realized losses	(2,784)	(18,193)
	$ 1,227,535	1,557,958

(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, 2011 and 2010, the Association had no investments in commercial paper. As of June 30, 2011 and 2010, obligations of U.S. government agencies were rated AAA by Standard & Poor's and by Moody's Investors Services. On August 5, 2011, U.S. government agencies were downgraded to AA+ by Standard & Poor's. 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, 2011 and 2010, 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, 2011, investments in the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA) represent 43.9% and 4.0%, respectively, of the Association's total investments. As of June 30, 2010, investments in GNMA and FNMA represent 40.2% and 5.0%, respectively, of the Association's total investments. As of June 30, 2011, certificates of deposit from two separate financial institutions represent 35.3% and 11.4% respectively, of the Association's total investments. As of June 30, 2010, certificates of deposit from the same two financial institutions represented 7.7% and 18.8% of the Associations total investments. No other issuer represents more than 10.0% of the Association's portfolio as of June 30, 2011 or 2010.

(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, 2011 and 2010. Effective July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation (Safety National). As of June 30, 2011 and 2010, 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, 2011 and 2010, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to $1,501,578 and $1,511,761, 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 2011 and 2010, investment gain from NLC was $25,055 and $26,123, respectively. The total expenditures made for the capital contributions and reinsurance premiums were historically competitively priced with reinsurance premiums charged by other reinsurers.

(4) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

		Beginning balance	Additions	Deletions	Ending balance
Capital assets, at cost:					
Equipment	$	168,182	18,505	—	186,687
Software		224,332	68,554	—	292,886
Total capital assets, at cost		392,514	87,059	—	479,573
Less accumulated depreciation:					
Equipment		(148,272)	(17,373)	—	(165,645)
Software		(196,969)	(18,815)	—	(215,784)
Total accumulated depreciation		(345,241)	(36,188)	—	(381,429)
Capital assets, net	$	47,273	50,871	—	98,144

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

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

(5) Management Agreement with Affiliate

The Association has a management agreement with the Iowa League of Cities (the League), an affiliate. 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, 2011 and 2010, management fees of $1,260,000 were incurred and reported as a component of general and administrative expenses.

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, 2011 and 2010, fees of $124,017 and $131,411, respectively, were paid to the League.

(Continued)

(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, 2011 and 2010:

		2011	2010
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	$	21,286,449	18,598,525
Incurred claims, net of reinsurance:			
Provision for insured events of the current year		10,665,445	8,903,466
(Decrease) increase in provision for insured events of prior years		(1,193,642)	3,613,447
Total incurred claims		9,471,803	12,516,913
Reinsurance recoveries received		621,419	1,356,575
Payments:			
Claims attributable to insured events of the current year		3,078,693	2,892,706
Claims attributable to insured events of prior years		6,044,198	8,292,858
Total payments		9,122,891	11,185,564
Unpaid claims at end of year, net of reinsurance recoverable of $1,501,578 and $1,511,761 as of June 30, 2011 and 2010, respectively	$	22,256,780	21,286,449

The increase in provision for insured events in prior years was caused mainly due to claims in fiscal year 2008-2009, which included three deaths and one catastrophic claim for which reserves were increased significantly in fiscal year 2009-2010.

(7) Annuities

During the year ended June 30, 2011, one annuity was purchased in a claimant's name to fund future payments to such claimant. In prior years, the Association purchased several annuities in claimants' names to fund future payments to these claimants. 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, 2011 and 2010, the amounts of $3,225,111 and $2,827,717, 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, 2011

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 and expense amount to the prior period's reestimated net incurred claims and expense and shows whether this latest estimate of claims cost is greater or less than previously 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, 2011

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1 Premiums and investment income:											
Earned	$	7,329	10,557	12,400	15,450	16,305	15,637	16,751	17,858	17,762	18,764
Ceded		216	624	834	1,116	1,294	838	878	900	965	1,084
Net earned	$	7,113	9,933	11,566	14,334	15,011	14,799	15,873	16,958	16,797	17,680
2 Unallocated expenses	$	1,718	2,136	2,426	2,793	2,817	2,898	3,107	3,624	3,515	3,654
3 Estimated incurred claims and expense, end of policy year (no cessions)	$	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903	10,665
4 Net paid (cumulative) as of:											
End of policy year	$	1,645	2,770	2,140	3,021	2,562	2,898	2,737	3,979	2,893	3,079
One year later		3,176	5,231	4,085	5,121	4,535	5,058	5,391	9,190	6,063	—
Two years later		4,049	6,495	4,705	6,256	6,140	6,190	6,567	10,692	—	—
Three years later		4,319	6,909	5,165	6,812	6,521	6,869	6,842	—	—	—
Four years later		4,580	7,117	5,266	7,140	7,121	7,231	—	—	—	—
Five years later		5,194	7,206	5,304	7,192	7,204	—	—	—	—	—
Six years later		5,348	7,235	5,408	7,314	—	—	—	—	—	—
Seven years later		5,425	7,510	5,421	—	—	—	—	—	—	—
Eight years later		5,451	7,810	—	—	—	—	—	—	—	—
Nine years later		5,637	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:											
End of policy year	$	5,279	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903	10,665
One year later		5,300	9,110	7,097	9,745	9,425	8,575	9,482	14,820	9,911	—
Two years later		5,598	8,134	6,218	9,315	8,694	8,577	9,669	15,008	—	—
Three years later		5,494	8,170	6,205	8,714	8,572	9,349	8,694	—	—	—
Four years later		5,667	7,881	5,950	8,726	8,897	8,994	—	—	—	—
Five years later		5,812	7,797	5,862	8,890	8,834	—	—	—	—	—
Six years later		5,834	7,813	5,955	8,654	—	—	—	—	—	—
Seven years later		5,937	7,860	5,720	—	—	—	—	—	—	—
Eight years later		5,947	7,994	—	—	—	—	—	—	—	—
Nine years later		6,025	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	$	78	134	(235)	(236)	(63)	(355)	(975)	188	1,008	—

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, 2011, and have issued our report thereon dated October 21, 2011. 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 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 21, 2011