IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements and Required Supplementary Information

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

IOWA MUNICIPALITIES WORKERS'
COMPENSATION ASSOCIATION

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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, 2012 and 2011, 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 and 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, 2012 and 2011, and the respective changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-8 and Ten-Year Claims Development Information on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

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accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

November 14, 2012

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Management's Discussion and Analysis

June 30, 2012 and 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, 2012 and 2011. 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, 2012

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2012 by $39,315,169. Total net assets increased by $7,608,682 during fiscal year 2012.
- The Association's total assets increased by $6,344,587 from 2011 to 2012.
- Additions to capital assets during fiscal year 2012 were $60,735, with total depreciation expense of $50,836.
- The ending unrestricted cash and cash equivalents balance was $38,576,485 for the Association at June 30, 2012.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2012 totaled $24,183,809 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 and fewer bids received for public funds, investment income decreased $356,831 from 2011 to 2012. This is a result of the current economic environment.

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.

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, 2012, 2011, and 2010 is presented below.

Condensed Balance Sheets

		2012	2011	2010
Current assets, investments and other assets	$	64,962,813	58,628,125	53,205,813
Capital assets		108,043	98,144	47,273
Total assets	$	65,070,856	58,726,269	53,253,086
Unpaid claims	$	21,978,335	23,758,358	22,798,210
Other liabilities		3,777,352	3,261,424	3,304,817
Total liabilities	$	25,755,687	27,019,782	26,103,027
Invested in capital assets	$	108,043	98,144	47,273
Unrestricted net assets		39,207,126	31,608,343	27,102,786
Total net assets	$	39,315,169	31,706,487	27,150,059

The total assets of the Association at the 2012 fiscal year-end were $65,070,856, an increase of $6,344,587 over the previous year. This is attributable to payroll and rate increases for member premiums and member growth in 2012 combined with a decrease of $1,264,095 in total liabilities due primarily to decreased claim severities the current year. The impact of the changes in assets and liabilities resulted in an increase to total net assets of $7,608,682.

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 combined with an increase of $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.

Revenues, Expenses, and Changes in Net Assets

A summary of the Association's condensed operations and net assets at June 30, 2012, 2011, and 2010 is presented below.

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

		2012	2011	2010
Net premium earned	$	17,817,031	16,452,594	15,239,480
Net claims		7,257,049	9,471,803	12,516,913
Total operating revenues, net		10,559,982	6,980,791	2,722,567
Total operating expenses		3,824,547	3,654,409	3,514,768
Total nonoperating revenues		873,247	1,230,046	1,560,465
Change in net assets		7,608,682	4,556,428	768,264
Total net assets, beginning of year		31,706,487	27,150,059	26,381,795
Total net assets, end of year	$	39,315,169	31,706,487	27,150,059

Revenues

During fiscal year 2012, the Association had an increase in earned premiums, net of reinsurance, of $1,364,437, approximately 8.0% above the prior year. This increase resulted from the following items: (1) a 6.5% increase in rates in the state of Iowa by the National Council on Compensation Insurance (NCCI), (2) a 0.5% increase due to member growth, (3) an increase of 3.5% due to changes in member payrolls made by the members, offset by (4) a 2.5% 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 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 2012, nonoperating revenues decreased by $356,799 from the prior year as a result of investment income. This decrease continues to be from lower investment income from the Association's investments in certificates of deposit and U.S. government backed paper due to the current low interest rate environment. The Association has worked extensively 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 2011, nonoperating revenues decreased by $330,419 from the prior year as a result of investment income. This decrease also resulted from lower investment income available from the Association's investments in certificates of deposit and U.S. government backed paper.

Expenses

During fiscal year 2012, the Association had lower net claims due to declines in claims reserves, including a decrease in IBNR reserves consistent with our third party actuarial analysis. Total net claims during fiscal year 2012 were $7,257,049, as compared to $9,471,803 during the previous fiscal year. This was a decrease of $2,214,754, or 23.4%.

During fiscal year 2011, the Association had lower net claims due to claims paid decreasing and minimal increases in claim reserves. IBNR reserves 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 2012, operating expenses increased 4.7%, or $170,138, over the previous fiscal year due mainly to increased agent commissions and institutional value as a result of the higher premiums.

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

Capital Assets

As of June 30, 2012, 2011, and 2010, the Association owns mainly computer equipment and software for capital assets.

		2012	2011	2010
Equipment	$	182,744	186,687	168,182
Software		341,187	292,886	224,332
Total		523,931	479,573	392,514
Less:				
Accumulated depreciation-equipment		(163,990)	(165,645)	(148,272)
Accumulated depreciation-software		(251,898)	(215,784)	(196,969)
Capital assets, net	$	108,043	98,144	47,273

Capital asset purchases during fiscal year 2012 and 2011 were $60,735 and $87,059, respectively, which included new computers, monitors, 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, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	38,576,485	19,259,301
Restricted cash and cash equivalents		25,000	25,000
Investments		8,031,121	11,258,844
Receivables:			
Accrued interest		177,694	314,793
Reinsurance recoverable		1,372,660	1,501,578
Other		43,627	49,778
Total receivables		1,593,981	1,866,149
Prepaid expenses		33,715	47,532
Total current assets		48,260,302	32,456,826
Noncurrent assets:			
Investments		16,152,688	25,645,153
Capital assets, net		108,043	98,144
Other assets		549,823	526,146
Total noncurrent assets		16,810,554	26,269,443
Total assets	$	65,070,856	58,726,269
Liabilities and Net Assets			
Current liabilities:			
Unpaid claims	$	21,978,335	23,758,358
Advanced premiums		3,704,762	3,210,399
Accounts payable and other accrued expenses		47,590	26,025
Deposit payable		25,000	25,000
Total current liabilities		25,755,687	27,019,782
Net assets:			
Invested in capital assets		108,043	98,144
Unrestricted net assets		39,207,126	31,608,343
Total net assets		39,315,169	31,706,487
Total liabilities and net assets	$	65,070,856	58,726,269

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Premiums written and earned	$ 19,021,345	17,536,964
Less reinsurance premiums	1,204,314	1,084,370
Net premiums earned	17,817,031	16,452,594
Claims paid	9,654,089	9,122,891
(Decrease) increase in gross unpaid claims	(1,780,025)	960,148
Reinsurance recoveries received	(745,935)	(621,419)
Decrease in reinsurance recoveries netted to unpaid claims	128,920	10,183
Net claims	7,257,049	9,471,803
Total operating revenues, net of reinsurance	10,559,982	6,980,791
Operating expenses:		
Direct	1,462,930	1,481,646
Depreciation	50,836	36,188
General and administrative	2,310,781	2,136,575
Total operating expenses	3,824,547	3,654,409
Operating income	6,735,435	3,326,382
Nonoperating revenues:		
Investment income	870,704	1,227,535
Other income	2,543	2,511
Total nonoperating revenues	873,247	1,230,046
Change in net assets	7,608,682	4,556,428
Total net assets, beginning of year	31,706,487	27,150,059
Total net assets, end of year	$ 39,315,169	31,706,487

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Cash received from members for premiums	$	19,515,708	17,801,413
Cash received from reinsurers for reinsurance		745,935	621,419
Cash payments to reinsurers for reinsurance premiums		(1,190,380)	(1,088,042)
Cash payments to suppliers for goods and services		(3,746,111)	(3,711,221)
Cash payments to claimants		(9,654,089)	(9,122,891)
Other cash receipts		2,133	2,511
Net cash provided by operating activities		5,673,196	4,503,189
Cash flows from capital and related financing activity:			
Purchases of capital assets		(60,735)	(87,059)
Proceeds from sale of equipment		410	—
Net cash used in capital and related financing activity		(60,325)	(87,059)
Cash flows from investing activities:			
Proceeds from maturities of investments		22,786,124	24,121,603
Purchases of investments		(10,028,447)	(21,917,320)
Interest received on investments		961,387	1,694,596
Interest acquired		(14,751)	(28,204)
Net cash provided by investing activities		13,704,313	3,870,675
Increase in cash and cash equivalents		19,317,184	8,286,805
Cash and cash equivalents, beginning of year		19,284,301	10,997,496
Cash and cash equivalents, end of year	$	38,601,485	19,284,301
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	6,735,435	3,326,382
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		50,836	36,188
Change in:			
Receivables		137,203	(30,512)
Prepaid expenses		13,817	254,376
Unpaid claims		(1,780,023)	960,148
Advanced premiums		494,363	264,449
Accounts payable and other accrued expenses		21,565	(307,842)
Net cash provided by operating activities	$	5,673,196	4,503,189

Noncash investing and financing activities:

During the years ended June 30, 2012 and 2011, the Association recognized an unrealized gain (loss) on investments of $53,725 and $(11,910), respectively.

During the years ended June 30, 2012 and 2011, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of $23,677 and $25,055, 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 352 cities, 67 counties, and 78 Chapter 28E entities for 2012.

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 with a maturity date within one year of the balance sheet date 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. Equipment and software are depreciated over a three-year estimated useful life while furniture is depreciated over a 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, 2012 and 2011 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 statements of revenues, expenses, and changes in net assets. Amounts recoverable from reinsurance are presented on a gross basis on the balance sheets.

(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 do not include a 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) Subsequent Events

The Association has evaluated the effects of events that have occurred subsequent to June 30, 2012, and through November 14, 2012, which is the date its financial statements were available to be issued. During this period, there have been no material subsequent events that would require recognition in the Association's financial statements or disclosure in the footnotes to the 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, 2012 and 2011, the Association's portfolio of investments included the following:

	2012			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Certificates of deposit	$ 12,032,538	—	—	12,032,538
U.S. government agencies	12,113,781	166,307	(128,817)	12,151,271
	$ 24,146,319	166,307	(128,817)	24,183,809

	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

As of June 30, 2012, 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	$ 12,032,538	8,031,121	4,001,417	—	—
U.S. government agencies	12,151,271	—	—	83,449	12,067,822
	$ 24,183,809	8,031,121	4,001,417	83,449	12,067,822

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

Investment income consisted of the following for the years ended June 30, 2012 and 2011:

	2012	**2011**
Interest income	$ 841,501	1,246,554
Gross unrealized gains	166,307	197,740
Gross unrealized losses	(128,817)	(213,975)
Realized gains	15,253	12,726
Realized losses	(23,540)	(15,510)
	$ 870,704	1,227,535

(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, 2012 and 2011, the Association had no investments in commercial paper. As of June 30, 2012 and 2011, 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 significant 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, 2012 and 2011, 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, 2012, investments in the

Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA) represent 46.1% and 4.0%, respectively, of the Association's total investments. As of June 30, 2011, investments in GNMA and FNMA represent 43.9% and 4.0%, respectively, of the Association's total investments. As of June 30, 2012, certificates of deposit from two separate financial institutions represent 33.1% and 16.6% respectively, of the Association's total investments. As of June 30, 2011, certificates of deposit from the same two financial institutions represented 35.3% and 11.4% of the Associations total investments. No other issuer represents more than 10.0% of the Association's portfolio as of June 30, 2012 or 2011.

(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, 2012 and 2011. Effective July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation (Safety National). As of June 30, 2012 and 2011, 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, 2012 and 2011, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to $1,372,660 and $1,501,578, 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 2012 and 2011, investment gain from NLC was $23,677 and $25,055,

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, 2012 is as follows:

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, at cost:				
Equipment	$ 186,687	12,434	16,377	182,744
Software	292,886	48,301	—	341,187
Total capital assets, at cost	479,573	60,735	16,377	523,931
Less accumulated depreciation:				
Equipment	(165,645)	(14,722)	(16,377)	(163,990)
Software	(215,784)	(36,114)	—	(251,898)
Total accumulated depreciation	(381,429)	(50,836)	(16,377)	(415,888)
Capital assets, net	$ 98,144	9,899	—	108,043

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

(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, 2012 and 2011, management fees of $1,377,000 and $1,260,000, respectively 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, 2012 and 2011, fees of $143,827 and $124,017, 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 table represents changes in those aggregate liabilities for the Association during the years ended June 30, 2012 and 2011:

	2012	2011
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
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	9,635,270	10,665,445
Decrease in provision for insured events of prior years	(2,378,221)	(1,193,642)
Total incurred claims	7,257,049	9,471,803
Reinsurance recoveries received	745,935	621,419
Payments:		
Claims attributable to insured events of the current year	3,341,533	3,078,693
Claims attributable to insured events of prior years	6,312,556	6,044,198
Total payments	9,654,089	9,122,891
Unpaid claims at end of year, net of reinsurance recoverable of $1,372,660 and $1,501,578 as of June 30, 2012 and 2011, respectively	$ 20,605,675	22,256,780

The decrease in provision for insured events from prior years was caused mainly due to claims reserves decreasing including declines in the severity of claims.

(7) Annuities

During the year ended June 30, 2012, 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, 2012 and 2011, the amounts of $3,613,463 and $3,225,111, 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, 2012

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 (in thousands). 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, 2012

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1 Premiums and investment income:											
Earned	$	10,557	12,400	15,450	16,305	15,637	16,751	17,858	17,762	18,764	19,892
Ceded		624	834	1,116	1,294	838	878	900	965	1,084	1,204
Net earned	$	9,933	11,566	14,334	15,011	14,799	15,873	16,958	16,797	17,680	18,688
2 Unallocated expenses	$	2,136	2,426	2,793	2,817	2,898	3,107	3,624	3,515	3,654	3,825
3 Estimated incurred claims and expense, end of policy year (no cessions)	$	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903	10,665	9,635
4 Net paid (cumulative) as of:											
End of policy year	$	2,770	2,140	3,021	2,562	2,898	2,737	3,979	2,893	3,079	3,342
One year later		5,231	4,085	5,121	4,535	5,058	5,391	9,190	6,063	5,480	—
Two years later		6,495	4,705	6,256	6,140	6,190	6,567	10,692	7,602	—	—
Three years later		6,909	5,165	6,812	6,521	6,869	6,842	12,134	—	—	—
Four years later		7,117	5,266	7,140	7,121	7,231	6,900	—	—	—	—
Five years later		7,206	5,304	7,192	7,204	7,436	—	—	—	—	—
Six years later		7,235	5,408	7,314	7,483	—	—	—	—	—	—
Seven years later		7,510	5,421	7,492	—	—	—	—	—	—	—
Eight years later		7,810	5,424	—	—	—	—	—	—	—	—
Nine years later		7,841	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:											
End of policy year	$	8,521	9,093	10,055	9,237	9,374	9,253	10,798	8,903	10,665	9,635
One year later		9,110	7,097	9,745	9,425	8,575	9,482	14,820	9,911	9,448	—
Two years later		8,134	6,218	9,315	8,694	8,577	9,669	15,008	10,301	—	—
Three years later		8,170	6,205	8,714	8,572	9,349	8,694	15,237	—	—	—
Four years later		7,881	5,950	8,726	8,897	8,994	8,048	—	—	—	—
Five years later		7,797	5,862	8,890	8,834	8,957	—	—	—	—	—
Six years later		7,813	5,955	8,654	8,203	—	—	—	—	—	—
Seven years later		7,860	5,720	8,457	—	—	—	—	—	—	—
Eight years later		7,994	5,632	—	—	—	—	—	—	—	—
Nine years later		8,006	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	$	12	(88)	(197)	(631)	(37)	(646)	229	390	(1,217)	—

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, 2012, and have issued our report thereon dated November 14, 2012. 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

Management of the Association is responsible for establishing and maintaining effective 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, 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 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 previously.

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*.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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

November 14, 2012