IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Financial Statements and Required Supplementary Information

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

IOWA MUNICIPALITIES WORKERS'
COMPENSATION ASSOCIATION

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Iowa Municipalities Workers' Compensation Association:

Report on the Financial Statements

We have audited the accompanying financial statements of Iowa Municipalities Workers' Compensation Association (the Association), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the Code of Iowa require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2014 and

2013, and the changes in net position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information Ten-Year Claims Development Information 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 accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

KPMG LLP

Des Moines, Iowa
October 17, 2014

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Management's Discussion and Analysis

June 30, 2014 and 2013

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, 2014 and 2013. 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, 2014

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2014 by $50,147,904 Total net position increased by $6,020,200 during fiscal year 2014.
- The Association's total assets increased by $7,171,701 from 2013 to 2014.
- Additions to capital assets during fiscal year 2014 were $20,490, with total depreciation expense of $70,590.
- The ending unrestricted cash and cash equivalents balance was $42,690,342 for the Association at June 30, 2014.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2014 totaled $33,709,918, 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.
- Higher investment balances, a decline in unrealized losses, and new investment opportunities resulted in an increase in investment income of $409,676 from 2013 to 2014. This is a result of using a new investment firm that is obtaining more and higher bids for certificates of deposit during the year.

Year Ended June 30, 2013

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2013 by $44,127,704. Total net position increased by $4,812,535 during fiscal year 2013.
- The Association's total assets increased by $6,766,001 from 2012 to 2013.
- Additions to capital assets during fiscal year 2013 were $134,232, with total depreciation expense of $60,734.
- The ending unrestricted cash and cash equivalents balance was $44,664,721 for the Association at June 30, 2013.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2013 totaled $25,223,671, 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 fewer bids received for public funds, investment income decreased $1,026,130 from 2012 to 2013. This is a result of the current economic environment, unrealized losses in the investment portfolio and a negative investment income balance at June 30, 2013.

(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 statements of net position; statements of revenues, expenses, and changes in net position; 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 statements of net position 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 position 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 position present the revenues and expenses. This statement measures the Association's operations over the past years and can be used to determine whether the Association is covering its costs through member premiums and 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, including a reconciliation of operating income to net cash provided by operating activities.

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 position 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 statements of net position and statements of revenues, expenses, and changes in net position report the net position 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 Position

A summary of the Association's condensed statements of net position at June 30, 2014, 2013, and 2012 is presented below:

Condensed Statements of Net Position

		2014	2013	2012
Current assets, investments and other assets	$	78,877,117	71,655,316	64,962,813
Capital assets, net		131,441	181,541	108,043
Total assets	$	79,008,558	71,836,857	65,070,856
Unpaid claims	$	24,833,019	23,936,644	21,978,335
Other liabilities		4,027,635	3,772,509	3,777,352
Total liabilities	$	28,860,654	27,709,153	25,755,687
Net investment in capital assets	$	131,441	181,541	108,043
Unrestricted net position		50,016,463	43,946,163	39,207,126
Total net position	$	50,147,904	44,127,704	39,315,169

The total assets of the Association at the 2014 fiscal year-end were $79,008,558, an increase of $7,171,701 over the previous year. This is attributable to growth in members and payrolls in 2014. In addition, consistent with Association policy there were some rate increases for member premiums largely due to increases in published National Council on Compensation Insurance (NCCI) rates. Total liabilities increased $1,151,501 over the previous year due primarily to increased claim severities, higher claim frequencies in the current year, and a change at year end to confidence levels used in the reserve setting process. The impact of the changes in assets and liabilities resulted in an increase to total net position of $6,020,200 in 2014.

The total assets of the Association at the 2013 fiscal year-end were $71,836,857, an increase of $6,766,001 over the previous year. This is attributable to payroll and NCCI rate increases for member premiums and member growth in 2013. Rate increases for member premiums is primarily a function of published NCCI rates. Total liabilities increased $1,953,466 over the previous year due primarily to increased claim severities and slightly increased claim frequencies in the current year. The impact of the changes in assets and liabilities resulted in an increase to total net position of $4,812,535 in 2013.

Revenues, Expenses, and Changes in Net Position

A summary of the Association's condensed operations and changes net position for years ended June 30, 2014, 2013, and 2012 is presented below:

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

	2014	2013	2012
Net premium earned	$ 17,743,095	18,678,738	17,817,031
Net claims	7,508,789	9,459,877	7,257,049
Total operating revenues, net	10,234,306	9,218,861	10,559,982
Total operating expenses	4,473,084	4,256,529	3,824,547
Total nonoperating revenues (loss), net	258,978	(149,797)	873,247
Change in net position	6,020,200	4,812,535	7,608,682
Total net position, beginning of year	44,127,704	39,315,169	31,706,487
Total net position, end of year	$ 50,147,904	44,127,704	39,315,169

Revenues

During fiscal year 2014, the Association had a decrease in earned premiums, net of reinsurance, of $935,643, approximately 5% lower than the prior year. This decrease resulted from the following items: (1) a 10.1% increase in rates in the state of Iowa by the NCCI, (2) a 3.0% increase due to member growth, offset by (3) a decrease of 7.4% due to changes in member payrolls and changes in experience modification factors, (4) an increase of 6.7% in the good experience bonus program (or reduction of premium) compared to the prior year, and (5) a 4.0% increase in discounts (or reduction of premium) compared to the prior year. The premium was sufficient to cover claims for the year, net of reinsurance recoveries.

During fiscal year 2013, the Association had an increase in earned premiums, net of reinsurance, of $861,707, approximately 4.8% above the prior year. This increase resulted from the following items: (1) a 7.6% increase in rates in the state of Iowa by the NCCI, (2) a 3.6% increase due to member growth, offset by (3) a decrease of 0.2% due to changes in member payrolls and changes in experience modification factors, (4) an increase of 1.2% in the good experience bonus program (or reduction of premium) compared to the prior year, and (5) a 5.0% increase in discounts (or reduction of premium) compared to the prior year. The premium was sufficient to cover claims for the year net of reinsurance recoveries.

During fiscal year 2014, nonoperating revenues (loss), net increased by $408,775 from the prior year as a result of higher investment income from the Association's investments in certificates of deposit and U.S. government agency securities. This is due to using a new investment firm able to obtain more certificates of deposit at higher rates. In addition, there was an decline in net unrealized losses from $550,009 in fiscal year 2013 to $299,578 in fiscal year 2014 on U.S. government agencies. 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. It remains difficult to find attractive returns for public funds in the current environment.

During fiscal year 2013, nonoperating revenues (loss), net decreased by $1,023,044 from the prior year as a result of lower investment income from the Association's investments in certificates of deposit and U.S. government agency securities due to the current low interest rate environment. A slight increase in rates in

(Continued)

the later part of fiscal year 2013 caused unrealized losses in the investment portfolio which resulted in a negative investment income at June 30, 2013. 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.

Expenses

During fiscal year 2014, the Association had lower net claims due to an increase in reinsurance recovery amounts (or a decrease in claims paid) and a reduction in Incurred but Not Reported (IBNR) based on the actuarial analysis. Total net claims during fiscal year 2014 were $7,508,789 as compared to $9,459,877 during the previous fiscal year. This was a decrease of $1,951,088, or 20.6%.

During fiscal year 2013, the Association had higher net claims due to increases in claims reserves, including an increase in IBNR reserves consistent with the third-party actuarial analysis. Total net claims during fiscal year 2013 were $9,459,877 as compared to $7,257,049 during the previous fiscal year. This was an increase of $2,202,828, or 30.4%.

During fiscal year 2014, operating expenses increased 5.1%, or $216,555, over the previous fiscal year. This was due mainly to a large increase in medical bill review fees which are calculated based on the percentage of savings of medical bills received.

During fiscal year 2013, operating expenses increased 11.3%, or $431,982, over the previous fiscal year. This was due mainly to increased agent commissions and institutional value as a result of the higher premiums and a large increase in medical bill review fees, which are calculated based on the percentage of savings of medical bills received. There were also increases in consultant fees for a claims audit, telephonic reporting fees due to increased claims, and the administrative fee for the deputy director position for one year.

Capital Assets

As of June 30, 2014, 2013, and 2012, the Association owns mainly computer equipment and software for capital assets:

		2014	2013	2012
Equipment	$	267,460	264,501	182,744
Software		348,005	341,187	341,187
Total		615,465	605,688	523,931
Less:				
Accumulated depreciation-equipment		(155,603)	(130,104)	(163,990)
Accumulated depreciation-software		(328,421)	(294,043)	(251,898)
Capital assets, net	$	131,441	181,541	108,043

(Continued)

Capital asset purchases during fiscal year 2014 and 2013 were $20,490 and $134,232, 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, 500 SW 7th Street, Suite 101, Des Moines, IA 50309.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Net Position

June 30, 2014 and 2013

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	42,690,342	44,664,721
Restricted cash and cash equivalents		50,000	50,000
Investments		10,010,349	4,010,119
Receivables:			
Accrued interest		108,323	86,827
Reinsurance recoverable		1,586,199	917,518
Other		35,530	41,053
Total receivables		1,730,052	1,045,398
Prepaid expenses		94,046	99,105
Total current assets		54,574,789	49,869,343
Noncurrent assets:			
Investments		23,699,569	21,213,552
Capital assets, net		131,441	181,541
Other assets		602,759	572,421
Total noncurrent assets		24,433,769	21,967,514
Total assets	$	79,008,558	71,836,857
Liabilities and Net Position			
Current liabilities:			
Unpaid claims	$	24,833,019	23,936,644
Advanced premiums		3,872,898	3,527,787
Accounts payable and other accrued expenses		104,737	194,722
Deposit payable		50,000	50,000
Total current liabilities		28,860,654	27,709,153
Net position:			
Net investment in capital assets		131,441	181,541
Unrestricted net position		50,016,463	43,946,163
Total net position		50,147,904	44,127,704
Total liabilities and net position	$	79,008,558	71,836,857

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Premiums written and earned	$ 19,047,659	20,069,732
Less reinsurance premiums	1,304,564	1,390,994
Net premiums earned	17,743,095	18,678,738
Claims paid	7,373,325	7,481,882
Increase in gross unpaid claims	896,375	1,958,309
Reinsurance recoveries received	(92,230)	(435,456)
(Decrease) increase in ceded unpaid claims	(668,681)	455,142
Net claims	7,508,789	9,459,877
Total operating revenues, net of reinsurance	10,234,306	9,218,861
Operating expenses:		
Direct	1,957,987	1,717,634
Depreciation	70,590	60,734
General and administrative	2,444,507	2,478,161
Total operating expenses	4,473,084	4,256,529
Operating income	5,761,222	4,962,332
Nonoperating revenues (loss):		
Net investment income (loss)	254,250	(155,426)
Other income	4,728	5,629
Total nonoperating revenues (loss), net	258,978	(149,797)
Increase in net position	6,020,200	4,812,535
Total net position, beginning of year	44,127,704	39,315,169
Total net position, end of year	$ 50,147,904	44,127,704

See accompanying notes to financial statements.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Statements of Cash Flows

Years ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Cash received from members for premiums	$	19,392,770	19,892,757
Cash received from reinsurers		92,230	435,456
Cash payments to reinsurers		(1,310,173)	(1,408,933)
Cash payments to suppliers for goods and services		(4,476,316)	(4,068,568)
Cash payments to claimants		(7,373,325)	(7,481,882)
Other cash receipts		4,754	5,665
Net cash provided by operating activities		6,329,940	7,374,495
Cash flows from capital and related financing activities:			
Purchases of capital assets		(20,490)	(134,232)
Net cash used in capital and related financing activities		(20,490)	(134,232)
Cash flows from investing activities:			
Proceeds from maturities of investments		8,173,534	16,515,004
Purchases of investments		(16,958,948)	(18,117,799)
Interest received on investments		507,073	498,854
Interest acquired		(5,488)	(23,086)
Net cash used in investing activities		(8,283,829)	(1,127,027)
(Decrease) increase in cash and cash equivalents		(1,974,379)	6,113,236
Cash and cash equivalents, beginning of year		44,714,721	38,601,485
Cash and cash equivalents, end of year	$	42,740,342	44,714,721
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	5,761,222	4,962,332
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		70,590	60,734
Change in:			
Receivables		(658,432)	463,353
Prepaid expenses		5,059	(65,390)
Unpaid claims		896,375	1,958,309
Advanced premiums		345,111	(176,975)
Accounts payable and other accrued expenses and deposits payable		(89,985)	172,132
Net cash provided by operating activities	$	6,329,940	7,374,495

Noncash investing and financing activities:

During the years ended June 30, 2014 and 2013, the Association recognized an unrealized loss on investments of $(299,578) and $(550,009), respectively.

During the years ended June 30, 2014 and 2013, the Association recognized its share of the net earnings on its investment in a mutual capital reinsurance company in the amounts of $30,338 and $22,598, 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 NCCI. Each member may be subject to additional premiums to pay its pro rata share of claims, when they exceed 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.

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 365 cities, 72 counties, and 83 Chapter 28E entities for 2014 (unaudited).

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 cities of Ottumwa and Urbandale for third-party claims administration services for their Chapter 411 claims. Pursuant to an agreement between the Association and the cities of Ottumwa and Urbandale, the cash will be returned when the term of the agreement expires. These agreements are renewed annually, and these funds are not available for unrestricted use by the Association.

(e) Investments

U.S. government agencies are reported at fair value, which is based on comparable market prices in active markets as available. Certificates of deposit are carried at cost and held to maturity. Investments with a maturity date within one year of the statement of net position date are reported as current in the statement of net position. 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 net 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 (equipment) 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, 2014 and 2013 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 position. Amounts recoverable from reinsurance are presented on a gross basis on the statements of net position.

(i) Advanced Premiums

Advanced premiums represent amounts received in advance from members for the upcoming year's policies. The Association's policy coverage period coincides with its fiscal year, and as such, these amounts reflected on the statements of net position 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. 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 statement of net position 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.

U.S. generally accepted accounting principles require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require a recognition of a liability or disclosure in the financial statements.

(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, 2014 and through October 17, 2014, 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 notes 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, 2014 and 2013, the Association's portfolio of investments included the following:

	2014			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Certificates of deposit	$ 21,011,697	—	—	21,011,697
U.S. government agencies	13,343,111	111,305	(756,195)	12,698,221
	$ 34,354,808	111,305	(756,195)	33,709,918

	2013			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Certificates of deposit	$ 10,012,713	—	—	10,012,713
U.S. government agencies	15,556,270	164,258	(509,570)	15,210,958
	$ 25,568,983	164,258	(509,570)	25,223,671

As of June 30, 2014, 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	$ 21,011,697	10,010,349	11,001,348	—	—
U.S. government agencies	12,698,221	—	—	33,777	12,664,444
	$ 33,709,918	10,010,349	11,001,348	33,777	12,664,444

As of June 30, 2013, 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	$ 10,012,713	4,010,119	6,002,594	—	—
U.S. government agencies	15,210,958	—	—	57,850	15,153,108
	$ 25,223,671	4,010,119	6,002,594	57,850	15,153,108

Investment income (loss) consisted of the following for the years ended June 30, 2014 and 2013:

	2014	**2013**
Interest income	$ 559,166	474,117
Change in gross unrealized gains	(52,953)	(45,637)
Change in gross unrealized losses	(246,625)	(504,372)
Realized gains	161	510
Realized losses	(5,499)	(80,044)
	$ 254,250	(155,426)

(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, 2014 and 2013, the Association had no investments in commercial paper. As of June 30, 2014 and 2013, obligations of U.S. government agencies were rated AAA by Standard & Poor's and by Moody's Investors Services. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have 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, 2014 and 2013, management believes that there is minimal custodial credit risk in the Association's investment portfolio.

The carrying amount of the Association's bank balances (cash deposits) at June 30, 2014, totaling $42,740,342, and certificates of deposit, totaling $21,011,697, are covered entirely by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the *Code of*

Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The carrying amount of the Association's bank balances (cash deposits) at June 30, 2013, totaling $44,714,721, and certificates of deposit, totaling $10,012,713, are covered entirely by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the *Code of Iowa*. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

(c) Concentration of Credit Risk Disclosure

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, 2014 and 2013, the fair value of the Association's investments with the following issuers represented 5% or more of the total investments held:

		2014	2013
U.S. Government Agency Securities:			
Ginnie Mae (GNR)	$	7,395,501	13,298,601
Government National Mortgage Association (GNMA)		4,921,488	*
Certificates of deposit:			
Northwest Bank		10,000,000	*
Veridian CU		5,011,697	4,012,713
Wells Fargo		4,000,000	6,000,000
First National Bank of Fontanelle		2,000,000	*

* Investment did not exceed 5% of the total investments held, at fair value, for the year indicated.

(d) Interest Rate Risk Disclosure

While the Association attempts to mitigate risk to credit exposures by monitoring our investment portfolio and investing in high quality securities and limiting concentrations with financial institutions, interest rate risk exists. Increases and decreases in market interest rates can affect the fair value of our investments. In general, the yield realized on new investments generally increases or decreases in direct relationship with interest rate changes while the fair value of our fixed income portfolio generally increases when interest rates decline and decreases when interest rates rise. The Association attempts to mitigate this risk by maintaining a portfolio duration that matches our expected cash flows when considered in combination with our overall underwriting philosophy.

(3) Reinsurance

The Association has maintained reinsurance agreements for the years ended June 30, 2014 and 2013. Effective July 1, 2012, the Association entered into reinsurance agreements with two carriers, Safety National Casualty Corporation (Safety National) and NLC Mutual Insurance Company (NLC), with each carrier taking a layer of reinsurance. As of June 30, 2014 and 2013, the specific limit of indemnity was unlimited per occurrence in excess of $850,000, subject to a $2,000,000 per occurrence sublimit for employers' liability for the members. NLC covers the first $650,000 in excess of $850,000 with Safety National taking the remaining risk per occurrence. As of July 1, 2006, the Association entered into a reinsurance agreement with Safety National Casualty Corporation with a specific limit of indemnity unlimited per occurrence in excess of $750,000, subject to a $2,000,000 per occurrence sublimit for employers' liability. Prior to July 1, 2006, the Association retained a reinsurance agreement with 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, 2014 and 2013, the Association had a recoverable from reinsurer on paid and unpaid claims amounting to $1,586,199 and $917,518, respectively.

The accompanying financial statements reflect the Association's changes in net position 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. The Association attempts to mitigate reinsurance risk by checking the creditworthiness and rating of the reinsurers, if available. Also, in fiscal year 2013-2014 IMWCA used a layered approach to reinsurance using two reinsurers to each take separate layers of the specific limits.

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 statements of net position. The Association has elected to maintain the capital contribution with NLC whether or not there is a reinsurance agreement. For 2014 and 2013, investment gain from NLC was $30,338 and $22,598, 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, 2014 is as follows:

		Beginning balance	Additions	Deletions	Ending balance
Capital assets, at cost:					
Equipment	$	264,501	13,672	10,713	267,460
Software		341,187	6,818	—	348,005
Total capital assets, at cost		605,688	20,490	10,713	615,465
Less accumulated depreciation:					
Equipment		(130,104)	(36,212)	(10,713)	(155,603)
Software		(294,043)	(34,378)	—	(328,421)
Total accumulated depreciation		(424,147)	(70,590)	(10,713)	(484,024)
Capital assets, net	$	181,541	(50,100)	—	131,441

A summary of changes in capital assets for the year ended June 30, 2013 is as follows:

		Beginning balance	Additions	Deletions	Ending balance
Capital assets, at cost:					
Equipment	$	182,744	134,232	52,475	264,501
Software		341,187	—	—	341,187
Total capital assets, at cost		523,931	134,232	52,475	605,688
Less accumulated depreciation:					
Equipment		(163,990)	(18,589)	(52,475)	(130,104)
Software		(251,898)	(42,145)	—	(294,043)
Total accumulated depreciation		(415,888)	(60,734)	(52,475)	(424,147)
Capital assets, net	$	108,043	73,498	—	181,541

(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.

(Continued)

During the years ended June 30, 2014 and 2013, management fees of $1,446,000 and $1,548,000, 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, 2014 and 2013, fees of $143,604 and $149,532, respectively, were incurred and reported as a component of general and administrative expenses.

(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, 2014 and 2013:

	2014	2013
Unpaid claims at end of year, net of reinsurance recoverable of $917,518 and $1,372,660 as of June 30, 2013 and 2012, respectively	$ 23,019,126	20,605,675
Incurred claims, net of reinsurance:		
Provision for insured events of the current year	10,020,154	10,349,395
Decrease in provision for insured events of prior years	(2,511,365)	(889,518)
Total incurred claims	7,508,789	9,459,877
Reinsurance recoveries received	92,230	435,456
Payments:		
Claims attributable to insured events of the current year	3,282,998	2,430,085
Claims attributable to insured events of prior years	4,090,327	5,051,797
Total payments	7,373,325	7,481,882
Unpaid claims at end of year, net of reinsurance recoverable of $1,586,199 and $917,518 as of June 30, 2014 and 2013, respectively	$ 23,246,820	23,019,126

The decrease in provision for insured events from prior years was caused mainly due to decreases in the IBNR reserves consistent with the third-party actuarial analysis. Additionally, there was a change in the confidence level used in the current year reserving which resulted in a decrease of $1.7 million in the unpaid claims liability.

(7) Annuities

During the year ended June 30, 2014, there was one annuity 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 that there is no material contingent liability related to these annuities. Accordingly, as of June 30, 2014 and 2013, the amounts of $3,488,685 and $3,246,356, respectively, have not been reported as assets or as liabilities on the statements of net position.

(8) Fair Value Measurements

The framework for measuring fair value establishes a fair value hierarchy that prioritizes the inputs used in the valuation techniques to measure fair value. An asset's or liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Level 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access at the measurement date.

Level 2 – Valuations derived from techniques that utilize observable inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly, such as:

(a) Quoted prices for similar assets or liabilities in active markets.

(b) Quoted prices for identical or similar assets or liabilities in markets that are not active.

(c) Inputs other than quoted prices that are observable.

(d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Valuations derived from techniques in which the significant inputs are unobservable. Level 3 fair values reflect the Association's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

The Association has analyzed the valuation techniques and related inputs, evaluated its assets and liabilities reported at fair value, and determined an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs.

The following table presents the carrying value and estimated fair value of the Association's significant financial instruments at June 30, 2014 and 2013:

		2014			
		Total fair value	**Level 1**	**Level 2**	**Level 3**
Certificates of deposit	$	21,011,697	21,011,697	—	—
U.S. government agencies		12,698,221	—	12,698,221	—
	$	33,709,918	21,011,697	12,698,221	—

		2013			
		Total fair value	**Level 1**	**Level 2**	**Level 3**
Certificates of deposit	$	10,012,713	10,012,713	—	—
U.S. government agencies		15,210,958	—	15,210,958	—
	$	25,223,671	10,012,713	15,210,958	—

The fair values of certificates of deposits approximate their carrying values. The fair values of U.S. government agencies are based on prices from a third-party pricing service. There were no transfers between fair value levels during the years ended June 30, 2014 and 2013.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2014 and 2013. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Required Supplemental Ten-Year Claims Development Information

(In thousands)

June 30, 2014

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1 Premiums and net investment income:											
Earned	$	15,450	16,305	15,637	16,751	17,858	17,762	18,764	19,892	19,914	19,302
Ceded		1,116	1,294	838	878	900	965	1,084	1,204	1,391	1,305
Net earned	$	14,334	15,011	14,799	15,873	16,958	16,797	17,680	18,688	18,523	17,997
2 Unallocated expenses	$	2,793	2,817	2,898	3,107	3,624	3,515	3,654	3,825	4,257	4,473
3 Estimated net incurred claims and expense, end of policy year (no cessions)	$	10,055	9,237	9,374	9,253	10,798	8,903	10,665	9,635	10,349	11,737
4 Net paid (cumulative) as of:											
End of policy year	$	3,021	2,562	2,898	2,737	3,979	2,893	3,079	3,342	2,430	3,283
One year later		5,121	4,535	5,058	5,391	9,190	6,063	5,480	5,421	4,308	—
Two years later		6,256	6,140	6,190	6,567	10,692	7,602	6,408	6,524	—	—
Three years later		6,812	6,521	6,869	6,842	12,134	8,221	6,594	—	—	—
Four years later		7,140	7,121	7,231	6,900	12,874	8,664	—	—	—	—
Five years later		7,192	7,204	7,436	6,965	13,209	—	—	—	—	—
Six years later		7,314	7,483	7,780	7,029	—	—	—	—	—	—
Seven years later		7,492	7,493	7,815	—	—	—	—	—	—	—
Eight years later		7,623	7,506	—	—	—	—	—	—	—	—
Nine years later		7,670	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:											
End of policy year	$	10,055	9,237	9,374	9,253	10,798	8,903	10,665	9,635	10,349	11,737
One year later		9,745	9,425	8,575	9,482	14,820	9,911	9,448	10,403	9,383	—
Two years later		9,315	8,694	8,577	9,669	15,008	10,301	8,954	9,990	—	—
Three years later		8,714	8,572	9,349	8,694	15,237	10,094	8,755	—	—	—
Four years later		8,726	8,897	8,994	8,048	15,189	9,982	—	—	—	—
Five years later		8,890	8,834	8,957	7,823	14,985	—	—	—	—	—
Six years later		8,654	8,203	8,893	7,662	—	—	—	—	—	—
Seven years later		8,457	8,062	8,737	—	—	—	—	—	—	—
Eight years later		8,247	7,934	—	—	—	—	—	—	—	—
Nine years later		8,924	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	$	677	(128)	(156)	(161)	(204)	(112)	(199)	(413)	(966)	—

See accompanying independent auditors' report.

IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION

Required Supplemental Ten-Year Claims Development Information

June 30, 2014

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 and reported net investment income, amounts of premiums ceded, and net earned premiums (net of reinsurance) and net 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).

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.

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Iowa Municipalities Workers' Compensation Association:

We have audited, in accordance with the auditing standards generally accepted in the United States of America, Chapter II 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, the financial statements of Iowa Municipalities Workers' Compensation Association (the Association), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control 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 a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from 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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Des Moines, Iowa
October 17, 2014