

2020 | ANNUAL REPORT

June 30, 2020 and 2019

Table of Contents

Letter from the President & Director 3

Independent Auditor’s Report4

Management’s Discussion and Analysis7

Financial Statements:

 Statements of Net Position..... 13

 Statements of Revenues, Expenses, and Changes in
 Net Position 14

 Statements of Cash Flows..... 15

Notes to Financial Statements 16

Required Supplementary Information:

 Ten Year Claims Development Information.....27

Independent Auditor’s 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*30

Board of Trustees.....32

Administrative Staff33

■ IOWA MUNICIPALITIES WORKERS' COMPENSATION ASSOCIATION



IMWCA’s goal is to help members keep employees safe through education and risk management. We are a risk-sharing pool committed to partnering with cities, counties and local government entities to provide a high-quality workers’ compensation program.

Letter from the President & Director

Dear Members:

In 1981 the Iowa Municipalities Workers' Compensation Association (IMWCA) was formed as a member owned, member governed risk sharing pool. Since inception it has grown to serve over 530 members. The pool's success is the members' success and Fiscal year 2020 was a year of continued success for IMWCA Members. We are pleased to present the Iowa Municipalities Workers' Compensation Association's Annual Report for the Fiscal Year ending June 30, 2020.

Frequency of claims decreased 7.3% from the previous year. The year ended with 1202 actual claims coming from the 1966 first reports of injury received. Claim severity increased for the year, with an average claim cost of \$6,801 per claim.

Member retention for FY 2020 once again remained high with over 99% of our member's choosing to renew their coverage with IMWCA. We also welcomed 6 new members to the pool generating \$255,995 in additional contribution to the pool for this fiscal year. In fiscal year 2020, NCCI filed for a rate decrease, while the IMWCA discounts remained steady. This resulted in an overall 3.3% decrease in premiums.

The combined ratio of 108.63 percent, although higher than normal for IMWCA, was offset by net investment income,

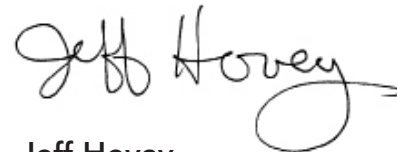
resulting in an increase in fund balance of just under \$900,000 from the previous year.

Your IMWCA Board of Trustees and Iowa League of Cities Administrative Staff continue to explore ways to help all members more effectively manage workers' compensation risks, contain claim costs and send employee's home safe at the end of each day.

Sincerely,



Kelly Hayworth
IMWCA Board President
Coralville City Administrator



Jeff Hovey
Director of Risk Services

Independent Auditor's Report

June 30, 2020 and 2019

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 statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those

standards 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 auditor's 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, 2020, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis on pages 7 through 12, Notes to Required Supplementary Information Ten-Year Claims Development Information on page 28, and Required Supplementary Information Ten-Year Claims Development Information on page 29 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 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 assur-

ance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The financial statements of Iowa Municipalities Workers' Compensation Association as of and for the year ended June 30 2019, were audited by other auditors, whose report, dated October 24, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2020, 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 solely 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 effectiveness of the Association's 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.

Des Moines, Iowa

October 9, 2020

Management's Discussion and Analysis

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, 2020 and 2019. 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, 2020

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2020 by \$70,509,599. Total net position increased by \$867,687 during fiscal year 2020.
- The Association's total assets increased by \$3,129,329 from 2019 to 2020.
- Additions to capital assets during fiscal year 2020 were \$26,560, with total depreciation expense of \$20,860.
- The ending unrestricted cash and cash equivalents balance was \$33,728,822 for the Association at June 30, 2020.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2020 totaled \$68,356,032, 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.
- With higher average investment balances, an increase in the fair value of investments as compared to the fair value in the prior year resulted in an increase in net investment income of

\$280,638 from 2019 to 2020. Interest earned on such investments reflects increased returns of public fund certificates.

Year ended June 30, 2019

- The total assets of the Association exceeded its liabilities at the close of fiscal year 2019 by \$69,641,912. Total net position increased by \$6,285,300 during fiscal year 2019.
- The Association's total assets increased by \$4,322,314 from 2018 to 2019.
- Additions to capital assets during fiscal year 2019 were \$16,300, with total depreciation expense of \$17,941.
- The ending unrestricted cash and cash equivalents balance was \$23,912,728 for the Association at June 30, 2019.
- The investments, both current and noncurrent, held by the Association at the end of fiscal year 2019 totaled \$74,521,110, 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.
- With higher investment balances, an increase in the fair value of investments as compared to the fair value in the prior year resulted in an increase in net investment income of \$770,362 from 2018 to 2019. Interest earned on such investments reflects increased returns of public fund certificates.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Association's 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 of the Association. This statement measures the Association's operations over the years presented 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, 2020, 2019, and 2018 is presented below:

Condensed Statements of Net Position

	2020	2019	2018
Current assets, investments and other assets	\$ 109,034,913	\$ 105,911,284	\$ 101,587,329
Capital assets, net	26,560	20,860	22,501
Total assets	<u>\$ 109,061,473</u>	<u>\$ 105,932,144</u>	<u>\$ 101,609,830</u>
Unpaid claims	\$ 34,775,553	\$ 32,828,756	\$ 34,789,825
Other liabilities	3,776,321	3,461,476	3,463,393
Total liabilities	<u>\$ 38,551,874</u>	<u>\$ 36,290,232</u>	<u>\$ 38,253,218</u>
Net investment in capital assets	\$ 26,560	\$ 20,860	\$ 22,501
Unrestricted net position	70,483,039	69,621,052	63,334,111
Total net position	<u>\$ 70,509,599</u>	<u>\$ 69,641,912</u>	<u>\$ 63,356,612</u>

The total assets of the Association at the 2020 fiscal year end were \$109,061,473, an increase of \$3,129,329 over the previous year. This is mostly attributable to an increase in unpaid claims whereby operating revenues supporting claims incurred but not yet paid have been invested in cash, cash equivalents, and investments. Total liabilities increased \$2,261,642 primarily due to an increase in claim liabilities. The Association experienced increased claim severity, yet lower claim frequency. The impact of the changes in assets and liabilities resulted in an increase to total net position of \$867,687 in 2020.

The total assets of the Association at the 2019 fiscal year end were \$105,932,144, an increase of \$4,322,314 over the previous year. This is due to the continued ability of the Association to generate operating revenues in excess of operating expenses. Total liabilities decreased \$1,962,986 primarily due

to a decrease in claim liabilities. The Association experienced both decreased claim severity and slightly decreased claim frequency. The impact of the changes in assets and liabilities resulted in an increase to total net position of \$6,285,300 in 2019.

Revenues, Expenses, and Changes in Net Position

A summary of the Association's condensed operations and changes in net position for years ended June 30, 2020, 2019, and 2018 is presented below:

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

	2020	2019	2018
Total operating revenues	\$ 16,721,708	\$ 17,418,857	\$ 16,919,139
Net claims	13,303,770	8,246,999	8,766,657
Other nonoperating expenses	4,940,079	4,985,169	4,637,155
Nonoperating revenues, net:			
Net investment income	2,374,579	2,093,941	1,323,579
Other income	15,249	4,670	4,263
Increase in net position	867,687	6,285,300	4,843,169
Total net position, beginning of year	69,641,912	63,356,612	58,513,443
Total net position, end of year	<u>\$ 70,509,599</u>	<u>\$ 69,641,912</u>	<u>\$ 63,356,612</u>

Revenues

During fiscal year 2020, the Association had a decrease in total operating revenues of \$697,149, approximately 4.0% lower than the prior year. This decrease resulted from the following items: (1) a 7.0% decrease in rates (or decrease in premium) in the state of Iowa by the National Council on Compensation Insurance (NCCI), (2) a 1.4% increase due to member growth, (3) a 6.4% increase due to changes in member payrolls and changes in experience modification factors, offset by (4) a 4.8% 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 2020, nonoperating revenues, net, increased by \$291,217 from the prior year as a result of higher investment income due to higher average investment balances. There were net unrealized gains in fiscal year 2020 of \$24,002 compared to net unrealized gains of \$78,595 in fiscal year 2019 on U.S. government agencies. The Association has worked 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. In fiscal year 2020, interest rates started out higher than in previous years, which caused returns to be higher, but toward the end of the fiscal year decreased rapidly as a result of the COVID-19 pandemic.

During fiscal year 2019, the Association had an increase in total operating revenues of \$499,717, approximately 3.0%

higher than the prior year. This increase resulted from the following items: (1) a 8.0% decrease in rates (or decrease in premium) in the state of Iowa by the NCCI, (2) a decrease of 2.4% in the good experience bonus program (or increase of premium) compared to the prior year, (3) a 0.2% increase due to member growth, (4) a 10.4% increase due to changes in member payrolls and changes in experience modification factors, offset by (5) a 2.0% 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 2019, nonoperating revenues, net increased by \$770,769 from the prior year as a result of higher investment income and unrealized gains, instead of unrealized losses, from the Association's investments in U.S. government agency securities. There were net unrealized gains in fiscal year 2019 of \$78,595 compared to net unrealized losses of \$96,283 in fiscal year 2018 on U.S. government agencies. The Association has worked 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. In fiscal year 2019, interest rates were higher than previously, causing returns to also be higher.

Expenses

During fiscal year 2020, the Association had larger net claims

due to increased claim and IBNR reserves. Total net claims during fiscal year 2020 were \$13,303,770 as compared to \$8,246,999 during the previous fiscal year. This was an increase of \$5,056,771 or 61.3%.

During fiscal year 2020, other operating expenses decreased 0.9% or \$45,090, over the previous fiscal year. This was due mainly to a lower administrative fee being due to the Iowa League of Cities.

During fiscal year 2019, the Association had lower net claims due to decreased claim and IBNR reserves that offset higher claims paid. Total net claims during fiscal year 2019 were \$8,246,999 as compared to \$8,766,657 during the previous fiscal year. This was a decrease of \$519,658 or 5.9%.

During fiscal year 2019, other operating expenses increased 7.5% or \$348,014, over the previous fiscal year. This was due mainly to higher medical bill review fees based on medical bills submitted, increased administrative fees for an additional claim examiner position, higher rent expenses, and the purchase of two replacement vehicles due to high mileage on older vehicles.

Capital Assets

As of June 30, 2020, 2019, and 2018, the Association owns mainly computer equipment and software for capital assets:

	2020	2019	2018
Equipment	\$ 344,818	\$ 330,758	\$ 314,458
Software	354,505	342,005	342,005
Total	699,323	672,763	656,463
Less:			
Accumulated depreciation—equipment	(328,675)	(309,898)	(291,957)
Accumulated depreciation—software	(344,088)	(342,005)	(342,005)
Capital assets, net	\$ 26,560	\$ 20,860	\$ 22,501

Capital asset purchases during fiscal years 2020 and 2019 were \$26,560 and \$16,300, respectively, which included new computers, monitors, software and software licenses. More detailed information and relevant disclosures on capital asset activity are found in Note 4 to the financial statements.

Requests 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.

Statements of Net Position

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,728,822	\$ 23,912,728
Restricted cash and cash equivalents	50,000	75,000
Investments	31,480,919	36,824,675
Receivables:		
Accrued interest	1,255,876	1,413,672
Reinsurance recoverable	3,093,923	3,880,976
Other	263,074	83,830
Prepaid expenses	364,102	393,638
Total current assets	70,236,716	66,584,519
Noncurrent assets:		
Investments	36,875,113	37,696,435
Capital assets, net	26,560	20,860
Other assets	1,923,084	1,630,330
Total noncurrent assets	38,824,757	39,347,625
Total assets	\$ 109,061,473	\$ 105,932,144
Liabilities and Net Position		
Current liabilities:		
Unpaid claims	\$ 34,775,553	\$ 32,828,756
Advanced premiums	3,256,997	3,303,230
Accounts payable and other accrued expenses	469,324	83,246
Deposit payable	50,000	75,000
Total current liabilities	38,551,874	36,290,232
Net position:		
Net investment in capital assets	26,560	20,860
Unrestricted	70,483,039	69,621,052
Total net position	70,509,599	69,641,912
Total liabilities and net position	\$ 109,061,473	\$ 105,932,144

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

	2020	2019
Operating revenues:		
Premiums written and earned	\$ 18,199,521	\$ 18,823,076
Less reinsurance premiums	(1,477,813)	(1,404,219)
Total operating revenues	16,721,708	17,418,857
Operating expenses:		
Claims paid	10,668,175	10,586,533
Increase (decrease) in gross unpaid claims	1,946,797	(1,961,069)
Reinsurance recoveries received	(98,255)	(182,413)
Increase (decrease) in ceded unpaid claims	787,053	(196,052)
Net claims	13,303,770	8,246,999
Direct expenses	1,970,337	2,029,860
Depreciation	20,860	17,941
General and administrative	2,948,882	2,937,368
Other operating expenses	4,940,079	4,985,169
Total operating expenses	18,243,849	13,232,168
Operating (loss) income	(1,522,141)	4,186,689
Nonoperating revenues, net:		
Net investment income	2,374,579	2,093,941
Other income	15,249	4,670
Total nonoperating revenues, net	2,389,828	2,098,611
Increase in net position	867,687	6,285,300
Total net position:		
Beginning of year	69,641,912	63,356,612
End of year	\$ 70,509,599	\$ 69,641,912

See accompanying notes to financial statements.

Statements of Cash Flows

	2020	2019
Cash flows from operating activities:		
Cash received from members for premiums	\$ 18,153,288	\$ 18,804,439
Cash received from reinsurers	98,255	182,413
Cash payments to reinsurers	(1,438,786)	(1,461,394)
Cash payments to suppliers for goods and services	(4,746,875)	(5,022,032)
Cash payments to claimants	(10,668,175)	(10,586,533)
Other cash receipts	15,249	4,660
Net cash provided by operating activities	1,412,956	1,921,553
Cash flows from capital and related financing activities:		
Purchases of capital assets	(26,560)	(16,300)
Net cash used in capital and related financing activities	(26,560)	(16,300)
Cash flows from investing activities:		
Proceeds from calls and maturities of investments	49,358,147	37,577,787
Purchases of investments	(43,169,067)	(38,242,079)
Interest received on investments	2,215,618	1,360,668
Net cash provided by investing activities	8,404,698	696,376
Increase in cash and cash equivalents	9,791,094	2,601,629
Cash and cash equivalents:		
Beginning of year	23,987,728	21,386,099
End of year	\$ 33,778,822	\$ 23,987,728
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (1,522,141)	\$ 4,186,689
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	20,860	17,941
Change in:		
Receivables	623,059	(248,051)
Prepaid expenses	29,536	(72,030)
Unpaid claims	1,946,797	(1,961,069)
Advanced premiums	(46,233)	(18,637)
Accounts payable and other accrued expenses and deposits payable	361,078	16,720
Net cash provided by operating activities	\$ 1,412,956	\$ 1,921,553

Noncash investing and financing activities:

During the years ended June 30, 2020 and 2019, the Association recognized a net unrealized gain (loss) on investments of \$24,002 and \$78,595, respectively.

During the years ended June 30, 2020 and 2019, the Association recognized its share of the net earnings on its investment in a mutual capital re-insurance company in the amounts of \$292,754 and \$228,609, respectively.

See accompanying notes to financial statements.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies**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 claim

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The Association consists of funds designated as the Standard Group (formerly, Group C), the Large Deductible Group (Group E) and the Chapter 411 Group (Group G). 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 and Large Deductible Group membership consisted of 365 cities, 80 counties and 93 Chapter 28E entities for 2020 (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.

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.

Restricted Cash and Cash Equivalents/Deposit Payable

The Association received a cash deposit from the cities of Marion and Ottumwa for third-party claims administration services for their Chapter 411 claims. Pursuant to an agreement between the Association and the cities of Marion and Ottumwa 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.

Investments

Securities issued by 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 statements 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.

Capital Assets

Capital assets, consisting primarily of computer equipment and software, are stated at cost less accumulated depreciation. The capitalization threshold for capital assets is \$500 or greater. 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.

Unpaid Claims

The Association provides liabilities for unpaid claims based upon the undiscounted aggregate case basis estimates for losses reported and estimates of unreported losses based upon past experience, modified for current trends. 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 as estimated by an independent actuary. 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, 2020 and 2019, reflect management's best estimate of the ultimate net losses and loss adjustment expenses. Since the provisions are necessarily based on estimates, the ultimate liability may be more or less than such provisions and could be material.

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.

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.

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.

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. GAAP requires 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, 2020 and 2019, 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assump-

tions 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.

Pending Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued several standards that are not yet effective for the Association. Management has reviewed the pending accounting standards and has determined that they either do not apply to the Association or do not impact the Association's financial statements.

Subsequent Events

The Association has evaluated the effects of events that have occurred subsequent to June 30, 2020 and through October 9, 2020, 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, except for the following event.

The rapidly developing COVID-19 global health crisis is having major impacts on health systems, businesses, governments and customer and consumer activities. The financial impact to the Association's business is primarily dependent upon the ultimate pacing, intensity and duration of the crisis, particularly in the state of Iowa, factors which the Association cannot fully predict at this time. Accordingly, management cannot presently estimate the overall operational and financial impact to

the Association, but such an impact could have a material adverse effect on the financial condition of the Association.

(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, 2020 and 2019, the Association's portfolio of investments included the following:

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	\$ 66,524,955	\$ -	\$ -	\$ 66,524,955
U.S. government agencies	1,798,069	33,008	-	1,831,077
	<u>\$ 68,323,024</u>	<u>\$ 33,008</u>	<u>\$ -</u>	<u>\$ 68,356,032</u>

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Certificates of deposit	\$ 72,453,582	\$ -	\$ -	\$ 72,453,582
U.S. government agencies	2,058,143	21,500	(12,115)	2,067,528
	<u>\$ 74,511,725</u>	<u>\$ 21,500</u>	<u>\$ (12,115)</u>	<u>\$ 74,521,110</u>

As of June 30, 2020, the Association had the following maturities on its investments based on contractual terms:

As of June 30, 2019, the Association had the following ma-

Investment Type	Fair Value	Investment maturities (in years)			
		Less than 1	1-5	5-10	More than 10
Certificates of deposit	\$ 66,524,955	\$ 31,480,919	\$ 35,044,036	\$ -	\$ -
U.S. government	1,831,077	-	-	-	1,831,077
	<u>\$ 68,356,032</u>	<u>\$ 31,480,919</u>	<u>\$ 35,044,036</u>	<u>\$ -</u>	<u>\$ 1,831,077</u>

turities on its investments based on contractual terms:
The Association had \$259,345 and \$733,909 in proceeds re-

Investment Type	Fair Value	Investment maturities (in years)			
		Less than 1	1-5	5-10	More than 10
Certificates of deposit	\$ 72,453,582	\$ 36,824,674	\$ 35,628,908	\$ -	\$ -
U.S. government	2,067,528	1,131	-	-	2,066,397
	<u>\$ 74,521,110</u>	<u>\$ 36,825,805</u>	<u>\$ 35,628,908</u>	<u>\$ -</u>	<u>\$ 2,066,397</u>

lated to the paydowns and calls of U.S. government agencies for the years ended June 30, 2020 and 2019, respectively.

Net investment income consisted of the following for the years ended June 30, 2020 and 2019:

Credit Risk

	2020	2019
Interest income	\$ 2,353,425	\$ 2,020,872
Change in gross unrealized gains	11,508	(3,027)
Change in gross unrealized losses	12,115	80,990
Realized gains	1,510	536
Realized losses	(3,979)	(5,430)
	<u>\$ 2,374,579</u>	<u>\$ 2,093,941</u>

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, 2020 and 2019, the Association had no investments in commercial paper. As of June 30, 2020 and 2019, obligations of U.S. government agencies were rated AAA by Standard & Poor's and by Moody's Investors Services. Obliga-

tions of the U.S. government or obligations explicitly or implicitly guaranteed by the U.S. government are not considered to have significant credit risk.

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, 2020 and 2019, management believes that there is minimal custodial credit risk in the Association's investment portfolio.

The Association's bank balances (cash deposits) at June 30, 2020, totaling \$33,778,822 and certificates of deposit, totaling \$66,524,955, 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 Association's bank balances (cash deposits) at June 30, 2019, totaling \$23,987,728 and certificates of deposit, total-

ing \$72,453,582, 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.

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, 2020 and 2019, the fair value of the Association's investments with the following issuers represented 99.9% or more of the total investments held:

Interest Rate Risk Disclosure

	2020	2019
U.S. government agency securities:		
Ginnie Mae (GNR)	\$ 739,940	\$ 946,518
Government National Mortgage Association (GNMA)	1,027,716	1,034,969
Federal National Mortgage Association (FNMA)	63,421	84,910
Certificates of deposit:		
Bank Iowa	11,372,806	8,280,108
Northwest Bank	11,113,502	8,800,818
Luana Savings Bank	7,147,775	7,685,712
United Bank of Iowa	6,288,270	7,113,923
US Bank	6,283,690	-
Veridian Credit Union	6,204,709	10,305,940
Lincoln Savings Bank	3,217,642	3,073,202
First National Bank of Fontanelle	3,117,091	3,117,091
Community Bank of Oelwein	3,064,043	3,061,814
Collins Community Credit Union	2,578,199	2,578,199
First American Bank	2,058,220	-
University of Iowa Credit Union	2,043,008	-
NXT Bank	1,036,000	-
Raccoon Valley Bank	1,000,000	-
Community State Bank	-	9,296,998
Premier Bank	-	3,072,894
Grundy National Bank	-	2,023,875

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 fi-

ancial 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, 2020 and 2019. 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, 2020 and 2019, 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, 2020 and 2019, the Association had estimated recoverables from reinsurers on paid and unpaid claims amounting to \$3,093,923 and \$3,880,976, 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, during the years ended 2020 and 2019, the Association 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 2020 and 2019, investment gain from NLC was \$292,754 and \$228,609, respectively and has been included as a component of interest income (see Note 2).

(4) Capital Assets

A summary of changes in capital assets for the year ended June 30, 2020 is as follows:

A summary of changes in capital assets for the year ended

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, at cost:				
Equipment	\$ 330,758	\$ 14,060	\$ -	\$ 344,818
Software	342,005	12,500	-	354,505
Total capital assets, at cost	672,763	26,560	-	699,323
Less accumulated depreciation:				
Equipment	(309,898)	(18,777)	-	(328,675)
Software	(342,005)	(2,083)	-	(344,088)
Total accumulated depreciation	(651,903)	(20,860)	-	(672,763)
Capital assets, net	\$ 20,860	\$ 5,700	\$ -	\$ 26,560

June 30, 2019 is as follows:

(5) Management Agreement with Affiliate

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, at cost:				
Equipment	\$ 314,458	\$ 16,300	\$ -	\$ 330,758
Software	342,005	-	-	342,005
Total capital assets, at cost	656,463	16,300	-	672,763
Less accumulated depreciation:				
Equipment	(291,957)	(17,941)	-	(309,898)
Software	(342,005)	-	-	(342,005)
Total accumulated depreciation	(633,962)	(17,941)	-	(651,903)
Capital assets, net	\$ 22,501	\$ (1,641)	\$ -	\$ 20,860

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, 2020 and 2019, management fees of \$1,834,800 and \$1,866,600, respectively, were incurred and reported as a component of general and administrative expenses. As of June 30, 2020 and 2019, fees of \$15,537 and \$5,930, respectively, were due to related parties and were included in accounts payable and other accrued expenses on the statements of net position.

The Association has an additional management agreement with the League that provides for an institutional value fee. 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, 2020 and 2019, fees of \$156,025 and \$154,810, 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, 2020, 2019 and 2018:

	2020	2019	2018
Unpaid claims at beginning of year, net of reinsurance recoverable of \$3,880,976 and \$3,684,925 as of June 30, 2019 and 2018	\$ 28,947,780	\$ 31,104,900	\$ 31,372,400
Incurred claims, net of reinsurance:			
Provision for insured events of the current year	12,414,025	10,442,274	11,927,129
Increase (decrease) in provision for insured events of prior years	889,745	(2,195,275)	(3,160,472)
Total incurred claims	13,303,770	8,246,999	8,766,657
Reinsurance recoveries received	98,255	182,413	29,610
Payments:			
Claims attributable to insured events of the current year	(3,223,604)	(3,325,156)	(2,718,193)
Claims attributable to insured events of prior years	(7,444,571)	(7,261,376)	(6,345,574)
Total payments	(10,668,175)	(10,586,532)	(9,063,767)
Unpaid claims at end of year, net of reinsurance recoverable of \$3,093,923 and \$3,880,976 as of June 30, 2020 and 2019	\$ 31,681,630	\$ 28,947,780	\$ 31,104,900

During the year ended June 30, 2020, the increase in provision for insured events from prior year was due to an increase in the IBNR reserves as well as an increase in the case reserves due to unfavorable development in fiscal year 2020, mainly attributable to increased claim severity for the 2018-19 policy year.

During the year ended June 30, 2019, the decrease in provision for insured events from prior year was primarily due to a decrease in the IBNR reserves as well as a decrease in the case reserves due to favorable development in fiscal year 2019.

(7) Annuities

During the year ended June 30, 2020 and 2019, there were no annuities 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, 2020 and 2019, the outstanding value of the annuity settlements of \$3,332,090 and \$3,124,437, respectively, have not been reported as assets or as liabilities on the statements of net position.

(8) Fair Value Measurements

The Association categorizes financial instruments into three levels of fair value hierarchy based on the priority of inputs

used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are the Association's assumptions about what a market participant would use in determining fair value such as estimated future cash flows. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. The Association categorizes financial assets and liabilities recorded at fair value in the statements of net position as follows:

Level 1: Quoted prices are available in active markets for identical financial instruments as of the reporting date. The Association does not adjust the quoted price for these financial instruments, even in situations where the Association holds a large position and a sale could reasonably impact the quoted price.

Level 2: Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3: Models and other valuation methodologies using significant inputs that are unobservable for financial instruments and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in Level 3 are securities for which no market activity or data exists and for which the Association used discounted expected future cash flows with the Association's assumptions about what a market participant would use in determining fair value.

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 tables present the carrying value and estimated fair value of the Association's financial instruments at June 30, 2020 and 2019:

	2020			
	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 66,524,955	\$ 66,524,955	\$ -	\$ -
U.S. government agencies	1,831,077	-	1,831,077	-
	<u>\$ 68,356,032</u>	<u>\$ 66,524,955</u>	<u>\$ 1,831,077</u>	<u>\$ -</u>

	2019			
	Total Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 72,453,582	\$ 72,453,582	\$ -	\$ -
U.S. government agencies	2,067,528	-	2,067,528	-
	<u>\$ 74,521,110</u>	<u>\$ 72,453,582</u>	<u>\$ 2,067,528</u>	<u>\$ -</u>

The fair values of certificates of deposit approximate their carrying values. The fair values of U.S. government agencies are based on prices from a third-party pricing service based on market observable information such as market quotes for similar assets, as well as normal market pricing considerations such as duration, interest rates, and prepayment assumptions. There were no transfers between fair value levels during the years ended June 30, 2020 and 2019.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2020 and 2019. 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.

Notes to Required Supplementary Information Ten Year Claims Development Information

The 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 (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 Supplementary Information Ten-Year Claims Development Information (Unaudited)

June 30, 2020

(In thousands)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Premiums and net investment income:										
Earned	\$ 18,764	19,892	19,914	19,302	19,898	19,662	20,474	19,610	20,917	20,574
Ceded	1,084	1,204	1,391	1,305	1,382	1,292	1,467	1,367	1,404	1,478
Net earned	\$ 17,680	18,688	18,523	17,997	18,516	18,370	19,007	18,243	19,513	19,096
2 Unallocated expenses	\$ 3,654	3,825	4,257	4,473	4,353	4,260	4,516	4,637	4,985	4,940
3 Estimated net incurred claims and expense, end of policy year (no cessions)	\$ 10,665	9,635	10,349	10,020	13,895	10,616	14,272	11,927	10,442	12,734
4 Net paid (cumulative) as of:										
End of policy year	\$ 3,079	3,342	2,430	3,283	2,881	2,613	2,664	2,718	3,325	3,224
One year later	5,480	5,421	4,308	5,930	6,142	4,994	5,166	5,745	6,347	—
Two years later	6,408	6,524	5,195	7,102	8,124	6,290	7,098	7,263	—	—
Three years later	6,594	7,481	5,929	8,007	9,038	7,235	8,744	—	—	—
Four years later	6,851	7,825	6,274	8,740	9,216	7,687	—	—	—	—
Five years later	7,128	8,035	6,700	9,159	9,467	—	—	—	—	—
Six years later	7,190	8,086	7,142	9,209	—	—	—	—	—	—
Seven years later	7,428	8,113	7,316	—	—	—	—	—	—	—
Eight years later	7,501	8,120	—	—	—	—	—	—	—	—
Nine years later	7,644	—	—	—	—	—	—	—	—	—
5 Reestimated net incurred claims and expense:										
End of policy year	\$ 10,665	9,635	10,349	10,020	13,895	10,616	14,272	11,927	10,442	12,414
One year later	9,448	10,403	9,383	9,593	14,280	10,852	13,677	11,557	12,815	—
Two years later	8,954	9,990	7,950	10,191	14,199	10,405	13,819	11,081	—	—
Three years later	8,755	9,320	8,045	10,368	13,277	9,775	13,617	—	—	—
Four years later	8,684	9,222	8,138	10,195	12,463	9,880	—	—	—	—
Five years later	8,627	9,180	8,065	10,323	11,969	—	—	—	—	—
Six years later	8,954	8,906	8,096	10,194	—	—	—	—	—	—
Seven years later	8,340	8,734	8,098	—	—	—	—	—	—	—
Eight years later	8,191	8,610	—	—	—	—	—	—	—	—
Nine years later	8,097	—	—	—	—	—	—	—	—	—
6 Increase (decrease) in estimated net incurred claims and expense from end of policy year	\$ (94)	(124)	2	(129)	(494)	105	(202)	(496)	2,373	—

See accompanying independent auditor's report and notes to required supplementary information ten-year claims development information (unaudited).

**Independent Auditor's 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***

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 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 statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2020.

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 oper-

ation 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 disclosed no instances of noncompliance or other matters that are required to be reported 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

Des Moines, Iowa
October 9, 2020



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Kelly Hayworth
Coralville
City Administrator



Vice President
Wanda Hemesath
Decorah
City Clerk, Treasurer



Eric Van Lancker
Clinton County
Auditor



Ty Wheeler
Osceola
City Administrator



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Fort Dodge
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