

**THE IOWA COMMUNITIES ASSURANCE POOL**

**FINANCIAL STATEMENTS WITH REQUIRED  
SUPPLEMENTARY INFORMATION**

December 31, 2020 and 2019

THE IOWA COMMUNITIES ASSURANCE POOL

FINANCIAL STATEMENTS WITH REQUIRED  
SUPPLEMENTARY INFORMATION  
December 31, 2020 and 2019

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Iowa Communities Assurance Pool

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Iowa Communities Assurance Pool (the "Pool"), as of and for the years ended December 31, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

***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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Iowa Communities Assurance Pool as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, casualty claims development information, property claims development information, and reconciliation of claims and claim adjustment expense reserves by type of contract, as identified in the table of contents, 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, which 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 assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2021 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool'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 Pool's internal control over financial reporting and compliance.



Crowe LLP

Fort Lauderdale, Florida  
May 20, 2021

## Using This Annual Report

This annual report consists of the statements of net position, statements of revenue, expenses, and changes in net position, and statements of cash flows. Along with the notes to the basic financial statements, it provides detailed financial information concerning The Iowa Communities Assurance Pool (the "Pool" or "ICAP"). The management's discussion and analysis (the "MD&A") provides a review of the Pool's operating results for the years 2018 through 2020, as well as its financial condition at December 31, 2020, 2019 and 2018. The MD&A should be read in conjunction with the basic financial statements and notes thereto.

## Overview

ICAP is a local government risk pool that offers comprehensive liability and property coverage specifically tailored to meet the needs of Iowa public entities and provide them with an alternative to traditional insurance. ICAP differs philosophically from traditional insurance programs in that ICAP is owned by its members and serves only its members' interests.

Historically, the property and casualty insurance industry has been unable to provide the consistency of pricing and coverage needed by governmental authorities. The national insurance crisis of the late 1980s, in which public entities in the State of Iowa were unable to purchase affordable insurance, led to the formation of local government risk pools. The transition from insurance to pooling has been so successful that there are approximately 500 governmental entity pools currently operating in the United States of America. ICAP was formed in 1986 and has grown steadily to 787 members today.

The growth and success of pooling is often attributed to the availability of broad coverage and price stability, which ICAP has consistently delivered since its formation. In addition to those advantages enjoyed by many pools, ICAP stands out by providing responsive claims handling, coverage specific to Iowa public entities, and customized loss control services, proving that its service-oriented philosophy has been a successful long-term solution for its members. ICAP is endorsed by the Iowa League of Cities, the Iowa State Association of Counties, and the Association of Iowa Fairs.

More recently, ICAP has implemented a variety of new member services in response to emerging risks and exposures to Iowa municipalities. Members can obtain on-site IT risk control assessments, system evaluations and consultative services. ICAP members with police departments have access to several new tools to assist with law enforcement training, policies and procedures. Additionally, there is the ICAP Grant Program, which provides \$1,000 annually per member to help finance risk management initiatives.

ICAP's Annual Report provides members with detailed financial information about the Pool. Additionally, ICAP's website provides members with information on news and events and contains links to valuable resources including a comprehensive online loss control library that contains numerous risk management and training materials in a variety of convenient formats.

ICAP continues to build on its longstanding success by consistently providing customized coverage at a fair and stable price and being responsible, loyal, and responsive to its membership.

## Administration

Sedgwick ("Sedgwick" or "Management") functions as the administrator of the Pool and provides program management, underwriting, claims, loss control, risk management and reinsurance services for the Pool. Sedgwick's pool administration team includes certified public accountants, credentialed underwriters, attorneys who specialize in public entity claims and a host of other subject matter experts, who have decades of experience in the successful management of public entity pools.

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THE IOWA COMMUNITIES ASSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020, 2019 and 2018

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**Financial Overview and Highlights**

The analysis below presents a comparison of the Pool's current year financial position to prior years:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,667,388	\$ 4,110,469	\$ 2,334,665
Investments, at fair value	43,139,981	50,551,896	52,520,503
Member contributions to be billed in the future	30,485,119	25,906,388	21,505,523
Other assets	<u>6,821,567</u>	<u>1,321,268</u>	<u>1,514,178</u>
Total assets	83,114,055	81,890,021	77,874,869
<b>LIABILITIES</b>			
Claims and claim adjustment expense reserves	33,902,911	29,070,475	23,544,357
Unearned premium reserves	465,353	505,825	656,264
Other liabilities	<u>1,558,180</u>	<u>1,760,604</u>	<u>1,822,765</u>
Total liabilities	<u>35,926,444</u>	<u>31,336,904</u>	<u>26,023,386</u>
Net position - unrestricted	<u>\$ 47,187,611</u>	<u>\$ 50,553,117</u>	<u>\$ 51,851,483</u>

Approximately 55 percent in 2020, 67 percent in 2019 and 70 percent in 2018, of total assets consist of cash, cash equivalents, and investments.

During the year ended December 31, 2020, the Pool experienced net investment earnings totaling \$3,947,527 compared to net investment earnings of \$6,083,451 during the year ended December 31, 2019. The variance in the results was driven by realized and unrealized gains of \$2,658,429 in 2020, as compared to realized and unrealized gains of \$4,998,087 in 2019. The Pool's policy of structuring the investment portfolio so that securities mature to meet cash requirements of ongoing operations minimizes the need to sell securities in a volatile market. The Pool maintains a well-diversified investment portfolio, as detailed below:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Corporate bonds	19%	19%	17%
Mutual funds	22%	24%	30%
Common and preferred stock	32%	34%	31%
Alternative investments	<u>27%</u>	<u>23%</u>	<u>22%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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THE IOWA COMMUNITIES ASSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020, 2019 and 2018

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In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, member contributions, claims and claim adjustment expenses, and operating expenses are recognized in the statement of revenue, expenses, and changes in net position on an accrual basis of accounting. Pursuant to the Iowa risk management agreement signed by each member of the Pool, the budgetary funding requirement is based upon the estimated cash outflow of the Pool and surplus considerations on an annual basis. As a result of the long claim cycle for casualty claims, member contributions are collected from active members when the estimated claims and claim adjustment expenses are anticipated to be paid. These estimated amounts are accounted for in the statement of net position as "member contributions to be billed in the future." Changes to these estimates are reflected in the statement of revenue, expenses, and changes in net position, in a method similar to that of claim reserves, as detailed below. Because amounts are estimated in this manner, amounts will fluctuate from year to year due to changes in the estimate of the future cost of settling all existing claims.

The Pool's claims and claim adjustment expense reserves totaled \$33,902,911 in 2020, \$29,070,475 in 2019, and \$23,544,357 in 2018. For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, past claim experience, claim frequency and severity, and other economic factors. Because these estimates are impacted by complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claim reserves does not necessarily result in an exact amount. Consistent with industry practices, adjustments to claim reserves are charged to expense in the periods in which the adjustments are made. During the year ended December 31, 2020, the Pool increased its provision for claims incurred in prior years by \$2,722,552. The unfavorable claim development in prior years was driven by the emergence of several large casualty claims in the 2017, 2018, and 2019 accident years during 2020. Total claim payments increased by 4 percent, from \$20,554,824 in 2019 to \$21,324,563 in 2020.

Net position at December 31, 2020 decreased \$3,365,506 from December 31, 2019, as a result of the continued increase in claim activity and rising property reinsurance costs driven by current market conditions.

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THE IOWA COMMUNITIES ASSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020, 2019 and 2018

The following table shows the major components of income from operations for the current year compared to prior years:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Operating revenue</b>			
Member contributions	\$ 39,519,779	\$ 38,122,444	\$ 38,087,495
Reinsurance premiums ceded	(8,667,160)	(6,404,776)	(5,744,125)
Change in contributions that will be billed in the future to pay unpaid claims	<u>4,578,731</u>	<u>4,400,865</u>	<u>6,701,479</u>
Total operating revenue	35,431,350	36,118,533	39,044,849
<b>Operating expenses</b>			
Provision for claims	26,156,999	26,080,942	25,056,110
General and administrative expenses	<u>13,515,057</u>	<u>13,675,504</u>	<u>13,495,710</u>
Total operating expenses	<u>39,672,056</u>	<u>39,756,446</u>	<u>38,551,820</u>
Net operating income (loss)	(4,240,706)	(3,637,913)	493,029
<b>Nonoperating revenue (expense):</b>			
Investment earnings - interest and dividends	1,289,098	1,085,364	1,241,116
Net realized and unrealized gains (losses) on investments	2,658,429	4,998,087	(3,535,209)
Budgetary distributions	(2,763,612)	(3,496,245)	(3,683,293)
Cumulative reserve fund distributions	<u>(282,368)</u>	<u>(246,547)</u>	<u>(177,032)</u>
Total nonoperating revenue (expense)	901,547	2,340,659	(6,154,418)
Withdrawals - Member capital	<u>(26,347)</u>	<u>(1,112)</u>	<u>(16,160)</u>
Change in net position	(3,365,506)	(1,298,366)	(5,677,549)
Net position, beginning of year	<u>50,553,117</u>	<u>51,851,483</u>	<u>57,529,032</u>
Net position, end of year	<u>\$ 47,187,611</u>	<u>\$ 50,553,117</u>	<u>\$ 51,851,483</u>

The Pool's membership increased from 779 members in 2019 to 787 members in 2020. Member contributions increased 4 percent, from \$38,122,444 in 2019 to \$39,519,779 in 2020.

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THE IOWA COMMUNITIES ASSURANCE POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2020, 2019 and 2018

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The Pool uses reinsurance and excess risk sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of the Pool's claims from reinsurers and a risk sharing pool, although they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool ("APEEP"), which is also administered by Sedgwick. APEEP provides the Pool with an excess risk sharing program. Under this arrangement, the Pool retains risk up to an amount specified in the contracts (for 2019 and 2020, the Pool retained \$500,000 for casualty claims and \$250,000 for property claims). The Board of Directors and Sedgwick periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain. Reinsurance premiums ceded to APEEP and the Pool's excess reinsurers totaled approximately \$8,667,000 and \$6,405,000 for the years ended December 31, 2020 and 2019, respectively. In addition, amounts deducted from claims and claim expense reserves as of December 31, 2020 and 2019 for expected recoveries under the reinsurance and excess risk sharing agreements totaled approximately \$21,878,000 and \$13,006,000, respectively.

In accordance with generally accepted accounting principles, all investments maintained by the Pool must be reported at fair value (marked-to-market concept). As further detailed in Notes 1, 2 and 3 to the basic financial statements, approximately 54 percent of the investments maintained by the Pool have fair value determined using quoted prices in active markets. Alternative investments, representing approximately 27 percent of investments at December 31, 2020, require significant judgment to determine the fair value. ICAP's investment manager determines the fair values by applying the Pool's ownership percentage of each alternative investment to the overall estimated net asset value of the alternative investment, which is provided by the third-party administrators of each respective investment. Annual changes in these values are recognized in the statement of revenue, expenses, and changes in net position as unrealized gains or losses on investments.

Total operating expenses of the Pool in 2020 and 2019 were \$39,672,056 and \$39,756,446, respectively, or 100 percent and 104 percent, respectively, of member contributions. As a result of the Pool's historically favorable results in operating and investing activities, \$3,045,980 was distributed to members during 2020. The cumulative distributions to members since ICAP's inception is \$53,058,901 through the end of 2020.

### **Economic Facts and Next Year's Rates**

The rates charged by the Pool for member contributions for the next year are expected to increase due to rising severity from weather-related claims and the corresponding hardening of the property reinsurance market. General and administrative expenses are expected to remain consistent with amounts reported in 2020. The provision for claim payments is expected to be consistent with historical trends and Management is unaware of any new economic or legislative events including events associated with the COVID-19 pandemic that would have a significant impact on the operations of the Pool.

### **Contacting the Pool's Management**

This financial report is intended to provide ICAP members and regulators with a general overview of the accountability for the revenue ICAP receives. Additional information regarding the Pool is available on ICAP's website at [www.icapiowa.com](http://www.icapiowa.com). If you have questions about this report or need additional information, contact John W. Brockschmidt, President, Sedgwick at (248) 671-1742.

THE IOWA COMMUNITIES ASSURANCE POOL  
STATEMENTS OF NET POSITION  
December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,667,388	\$ 4,110,469
Investment securities - at fair value	21,792,876	27,434,475
Member contribution receivable	719,465	741,350
Reinsurance receivable on paid claims	5,990,966	367,287
Deductible receivable	56,010	116,942
Member contributions to be billed in the future	15,900,000	11,600,000
Accrued investment income	<u>55,126</u>	<u>95,689</u>
Total current assets	47,181,831	44,466,212
Noncurrent assets:		
Investment securities, at fair value	21,347,105	23,117,421
Member contributions to be billed in the future	<u>14,585,119</u>	<u>14,306,388</u>
Total noncurrent assets	<u>35,932,224</u>	<u>37,423,809</u>
Total assets	83,114,055	81,890,021
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses	765,576	1,086,193
Claims and claim adjustment expense reserves	19,317,792	14,764,087
Reinsurance premiums payable	<u>792,604</u>	<u>674,411</u>
Total current liabilities	20,875,972	16,524,691
Noncurrent liabilities:		
Claims and claim adjustment expense reserves	14,585,119	14,306,388
Unearned premium reserves	<u>465,353</u>	<u>505,825</u>
Total noncurrent liabilities	<u>15,050,472</u>	<u>14,812,213</u>
Total liabilities	<u>35,926,444</u>	<u>31,336,904</u>
Net position - unrestricted	<u>\$ 47,187,611</u>	<u>\$ 50,553,117</u>

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See Notes to Basic Financial Statements.

THE IOWA COMMUNITIES ASSURANCE POOL  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION  
Years Ended December 31, 2020 and 2019

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	<u>2020</u>	<u>2019</u>
Operating revenue:		
Member contributions	\$ 39,519,779	\$ 38,122,444
Less reinsurance premiums expense	(8,667,160)	(6,404,776)
Change in contributions that will be billed in the future to pay unpaid claims	<u>4,578,731</u>	<u>4,400,865</u>
Total operating revenue	35,431,350	36,118,533
Operating expenses:		
Claims and claim adjustment expenses	26,156,999	26,080,942
Marketing and administrator fees	11,277,551	10,817,150
Other	<u>2,237,506</u>	<u>2,858,354</u>
Total operating expenses	<u>39,672,056</u>	<u>39,756,446</u>
Operating loss	(4,240,706)	(3,637,913)
Nonoperating revenue (expense):		
Investment earnings - interest and dividends	1,289,098	1,085,364
Net realized and unrealized gains on investments	2,658,429	4,998,087
Budgetary distributions	(2,763,612)	(3,496,245)
Cumulative reserve fund distributions	<u>(282,368)</u>	<u>(246,547)</u>
Total nonoperating revenue	901,547	2,340,659
Withdrawals - Member capital	<u>(26,347)</u>	<u>(1,112)</u>
Change in net position	(3,365,506)	(1,298,366)
Net position, beginning of year	<u>50,553,117</u>	<u>51,851,483</u>
Net position, end of year	<u>\$ 47,187,611</u>	<u>\$ 50,553,117</u>

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See Notes to Basic Financial Statements.

THE IOWA COMMUNITIES ASSURANCE POOL  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Cash received from members	\$ 39,501,192	\$ 38,149,001
Cash received from reinsurance recoveries	6,434,697	7,139,333
Cash paid for claims	(33,322,007)	(27,682,915)
Cash paid for reinsurance premiums	(8,548,967)	(6,521,272)
Cash paid for administrative and general expenses	<u>(13,835,674)</u>	<u>(13,621,169)</u>
Net cash flows from operating activities	<u>(9,770,759)</u>	<u>(2,537,022)</u>
<b>Cash flows from investing activities</b>		
Investment income received	1,329,661	1,090,036
Purchase of investments	(19,582,166)	(16,959,352)
Proceeds from sales and maturities of investments	<u>29,652,510</u>	<u>23,926,046</u>
Net cash flows from investing activities	<u>11,400,005</u>	<u>8,056,730</u>
<b>Cash flows from noncapital financing activities</b>		
Payments for member withdrawals - capitalization	(26,347)	(1,112)
Payments for member budgetary distributions	(2,763,612)	(3,496,245)
Payments for member cumulative reserve fund distributions	<u>(282,368)</u>	<u>(246,547)</u>
Net cash flows from noncapital financing activities	<u>(3,072,327)</u>	<u>(3,743,904)</u>
 (Decrease) increase in cash and cash equivalents	 (1,443,081)	 1,775,804
Cash and cash equivalents, beginning of year	<u>4,110,469</u>	<u>2,334,665</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 2,667,388</u></b>	<b><u>\$ 4,110,469</u></b>

A reconciliation of operating loss to net cash provided by operating activities is as follows:

	<u>2020</u>	<u>2019</u>
Net operating loss	\$ (4,240,706)	\$ (3,637,913)
Changes in operating assets and liabilities:		
Member contributions receivable	21,885	176,996
Deductible receivable	60,932	47,827
Reinsurance receivable on paid claims	(5,623,679)	(36,585)
Member contributions to be billed in the future	(4,578,731)	(4,400,865)
Unearned premium reserves	(40,472)	(150,439)
Claims and claim adjustment expense reserves	4,832,436	5,526,118
Reinsurance premiums payable	118,193	(116,496)
Accounts payable and accrued expenses	<u>(320,617)</u>	<u>54,335</u>
Net cash flows from operating activities	<u>\$ (9,770,759)</u>	<u>\$ (2,537,022)</u>

See Notes to Basic Financial Statements.

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

The Pool was created in 1986 and organized under the laws of the State of Iowa as a local government risk pool. The Iowa League of Cities, the Iowa State Association of Counties, and the Association of Iowa Fairs endorse and promote the pool. A total of 787 cities, counties, and other public entities within the State of Iowa participate in the Pool. ICAP's primary objectives are to offer customized property and casualty coverage at a fair and stable price, provide a high level of service, and be responsive to the needs of its members.

Members entering the Pool agree to participate in the Pool for a period of not less than one year and provide capitalization contributions as defined in the agreement between the member and the Pool. Members electing to withdraw from the Pool may receive a partial refund of their capitalization contribution as defined by agreement, provided the member has given 60 days' written notice prior to its anniversary date. In addition, upon withdrawal, all payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal.

The accompanying basic financial statements are presented using the full accrual method of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities.

The Pool distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the Pool's principal ongoing operations. The principal operating revenue relates to member contributions. Operating expenses include claims and claim adjustment expenses and general and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating.

The Pool engages Sedgwick ("Sedgwick" or "Management") to serve as the administrator of the Pool. Sedgwick specializes in public entity risk pool management and provides a full spectrum of administrative services. As provided for in its administrative agreement, Sedgwick contracts with Bilbrey Insurance Services, Inc. ("BISI") to provide marketing services and with Public Entity Risk Services of Iowa ("PERSI") to perform claims and loss control services. PERSI is an affiliate of Sedgwick and BISI through common ownership. ICAP reimburses these organizations for their services pursuant to the terms of their respective agreements with Sedgwick.

Cash Equivalents: The Pool classifies certain securities with original maturity dates of three months or less from the date of purchase as cash equivalents. Cash equivalents are comprised of money market funds as of December 31, 2020 and 2019. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per bank. During the normal course of business, the Pool may maintain cash balances in excess of the FDIC insurance limit. It is the Pool's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis.

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments: The Pool accounts for its investments in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" (Statement No. 31). Statement No. 31 establishes fair value standards on accounting for all investments held by governmental external investment pools and governmental entities. All investment income, including changes in the fair value of investments, is recognized in the statement of revenues, expenses, and changes in net position. Realized gains and losses on the sale of investments are recognized on the specific identification basis to determine the costs of the investments sold. The amortized cost of debt securities are adjusted using the interest method for amortization of premiums and accretion of discounts. Such amortization and accretion is included in net investment income. Investment purchases are recognized on the settlement date. Investments are stated at fair value based on quoted market prices or through a recognized pricing service.

In accordance with GASB Statement No. 40, "Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3," certain disclosures regarding deposit and investment risks have been provided in Note 2.

Alternative investments consist of limited partnerships and other managed funds organized to provide investors with risk-adjusted capital appreciation over a long-term period through allocating funds to a number of money managers specializing in many market segments, including domestic and foreign equities, debt securities, and utilizing a broad range of investment hedging and trading strategies. ICAP's investment manager determines the fair values by applying the Pool's ownership percentage of each alternative investment to the overall estimated net asset value of the alternative investment, which is provided by the third-party administrators of each respective investment. Estimates are used in determining the fair value of the underlying assets and actual results could differ from those estimates. Alternative investments totaled \$11,507,984 and \$11,542,251, or 27 percent and 23 percent, of total investments at December 31, 2020 and 2019 respectively.

Member Contributions Receivable: Member contributions receivable represent amounts billed and due from members of the Pool and are considered collectible.

Bad Debts: The Pool uses the allowance method to record bad debts. The Pool records an allowance for doubtful accounts against its outstanding member contributions receivable, which is based on its estimation of bad debts in the near term. This estimate is based on the Pool's past experience with collecting its receivables from members and an analysis of current member contributions receivable. There was no allowance for doubtful accounts recorded as of December 31, 2020 and 2019. There was no bad debt expense recorded for the years ended December 31, 2020 and 2019.

Member Contributions to be Billed in the Future: Member contributions to be billed in the future represent the amounts recoverable from members that have not been billed as of December 31 and directly relate to current estimates of unpaid claims and claim adjustment expenses from prior certificate years. These amounts will be billed in the period when the estimated incurred claims, claim adjustment expenses, and related administrative expenses for each certificate year are anticipated to be paid.

Claims and Claim Adjustment Expense Reserves: Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claim expenses from reported claims and claims incurred but not reported. Expected recoveries under reinsurance and excess risk sharing agreements are deducted from claims and claim expense reserves. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net position.

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(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capitalization Contributions: Casualty capitalization contributions are accounted for under the provisions of GASB Interpretation No. 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools* (Interpretation No. 4). Under Interpretation No. 4, capitalization contributions to pools to which risk is transferred must be accounted for as revenue by initially recording such contributions as unearned premiums, then amortizing them into revenue over an appropriate period not to exceed 10 years. Unearned premium reserves resulting from the application of Interpretation No. 4 are being amortized pro rata over the funding period, the period over which a member makes casualty capitalization contributions. The amounts are reflected within member contributions in the basic financial statements.

Member Contributions: Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Member contributions reflect the amount to be contributed by members for estimated payment of claims and claim adjustment expenses, reinsurance expenses, related operating expenses and surplus maintenance for each certificate year, and are recognized when billed. Paid claims and claim adjustment expenses for the subsequent certificate year are estimated using a variety of actuarial and statistical techniques.

Budgetary Distributions: Budgetary distributions represent surplus funds maintained in the casualty or property budgetary funds that are authorized and approved by the Board of Directors to be paid to members. The amounts are reflected in the basic financial statements during the year of the distribution which coincides with the period of final approval.

Cumulative Reserve Fund Distributions: In accordance with the membership agreement, the Board of Directors may authorize distributions of cumulative reserve funds ("CRF") to members. Members must meet certain qualifications and their CRF account balance must exceed levels as determined by the Board of Directors. If the Board of Directors approves a CRF Distribution Plan, amounts to be distributed under this plan are determined annually based on a variety of factors including risk assumed by the Pool, operating results, changes in doctrines of legal liability, changes in damage awards, investment markets and other insurance industry developments. Amounts are reflected in the basic financial statements in the year the distribution is approved by the Board of Directors.

Use of Estimates: Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, as of the statement of net position date, and the amounts of revenue and expenses during the reporting period, in order to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Tax Status: The Pool's income is excludable from gross income under Section 115 of the Internal Revenue Code and is thus exempt from federal income taxes. Management believes that the Pool operates in a manner whereby it continues to be tax exempt.

Subsequent Events: Subsequent events have been evaluated through May 20, 2021, which is the date the financial statements were available to be issued.

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(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The Pool designated Wells Fargo Bank for the deposit of its funds and Morgan Stanley for the managing of its investments.

Deposits and investments are reported in the basic financial statements for December 31, 2020 as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investment Securities</u>
Deposits:		
Cash	\$ 2,034,606	\$ -
Money market funds	<u>632,782</u>	<u>-</u>
Total deposits	2,667,388	-
Investments:		
Corporate bonds	-	8,205,448
Common stock	-	13,486,914
Preferred stock	-	397,282
Mutual funds (debt)	-	5,996,758
Mutual funds (stock)	-	1,292,870
Mutual funds (U.S. Treasuries)	-	2,252,725
Alternative investments	<u>-</u>	<u>11,507,984</u>
Total investments	-	<u>43,139,981</u>
Total	<u>\$ 2,667,388</u>	<u>\$ 43,139,981</u>

Deposits and investments are reported in the basic financial statements for December 31, 2019 as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investment Securities</u>
Deposits:		
Cash	\$ 2,789,092	\$ -
Money market funds	<u>1,321,377</u>	<u>-</u>
Total deposits	4,110,469	-
Investments:		
Corporate bonds	-	9,689,240
Common stock	-	16,387,183
Preferred stock	-	909,177
Mutual funds (debt)	-	8,200,701
Mutual funds (stock)	-	400,659
Mutual funds (U.S. Treasuries)	-	3,422,685
Alternative investments	<u>-</u>	<u>11,542,251</u>
Total investments	-	<u>50,551,896</u>
Total	<u>\$ 4,110,469</u>	<u>\$ 50,551,896</u>

(Continued)



THE IOWA COMMUNITIES ASSURANCE POOL  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 December 31, 2020 and 2019

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**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

There are no limitations or restrictions on participant withdrawals for money market investment pools, which are recorded at amortized cost.

The Pool's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits: The Pool maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses. At December 31, 2020 and 2019, the Pool had \$3,871,723 and \$3,166,977, respectively, in bank deposits that were uninsured and uncollateralized.

Custodial credit risk is the risk that, in the event of a bank failure, the Pool's deposits may not be returned to it. The Pool's policy related to custodial credit risk of bank deposits is to evaluate each financial institution with which it deposits funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk: Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Pool's investment policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Pool's cash requirements.

At December 31, 2020 the weighted average maturities of debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Corporate bonds	\$ 8,205,448	3.70
Mutual funds (debt)	5,996,758	1.00
Mutual funds (U.S. Treasuries)	<u>2,252,725</u>	<u>1.00</u>
Total fair value	<u>\$ 16,454,931</u>	
Portfolio weighted average maturity		<u>2.35</u>

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(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

At December 31, 2019, the weighted average maturities of debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Corporate bonds	\$ 9,689,240	3.96
Mutual funds (debt)	8,200,701	1.00
Mutual funds (U.S. Treasuries)	<u>3,422,685</u>	<u>1.00</u>
 Total fair value	 <u>\$ 21,312,626</u>	
 Portfolio weighted average maturity		 <u>2.35</u>

Credit Risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligations. In accordance with the Pool's investment policy, the Pool may invest in U.S. government securities, corporate bonds, certain equity securities, collateralized mortgage obligations, asset-backed securities, alternative investments, and certain mutual funds.

At December 31, 2020 and 2019, the credit quality ratings of alternative investments and debt securities by investment type (other than the U.S. Treasury securities) are as follows:

<u>Investment Type - Rating</u>	<u>Fair Value 2020</u>	<u>Fair Value 2019</u>
Corporate bonds:		
Aa3	\$ -	\$ 96,869
Aa2	248,999	115,073
A1	226,007	291,940
A2	1,239,294	1,697,238
A3	1,844,765	1,612,511
Baa1	2,004,648	2,200,354
Baa2	1,756,836	2,124,241
Baa3	119,813	649,176
Ba1	61,710	99,572
Ba2	70,930	81,702
Ba3	23,376	54,360
B1	32,362	96,954
B2	56,379	-
B3	-	114,317
Not rated	<u>520,329</u>	<u>454,933</u>
Total	<u>\$ 8,205,448</u>	<u>\$ 9,689,240</u>
 Alternative investments - not rated	 <u>\$ 11,507,984</u>	 <u>\$ 11,542,251</u>

(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 2 - DEPOSITS AND INVESTMENTS** (Continued)

The rating organization used by the Pool to rate its investments was Moody's.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Pool places no limit on the amount it may invest in any one issuer.

At December 31, 2020, the Pool had an investment in an issuer (excluding U.S. Treasury securities, mutual funds, and money market investment pools) greater than 5 percent of total investments of \$3,208,246 in Pointer Offshore, LTD; this investment represented 7.4 percent of the Pool's total investments.

At December 31, 2019, the Pool had an investment in an issuer (excluding U.S. Treasury securities, mutual funds, and money market investment pools) greater than 5 percent of total investments of \$3,525,367 in Pointer Offshore, LTD; this investment represented 7.0 percent of the Pool's total investments.

Alternative Investments: Certain alternative investments held by the Pool are subject to various risk factors, including market, credit, and currency risk, and transact in short sales and various domestic and international derivatives, including forward foreign currency contracts, futures, and written and purchased options and swaps. These alternative investments may suffer losses if interest rates move in opposition to the investment manager's expectations. The risk of loss in certain derivative financial instruments is limited to the value of the respective investments at December 31, 2020 and 2019.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

Accounting standards require certain assets and liabilities be reported at fair value in the basic financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Pool has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

**NOTE 3 - FAIR VALUE MEASUREMENTS** (Continued)

The following tables present information about the Pool's assets measured at fair value on a recurring basis at December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Investments Measured at Net Asset Value (NAV)	<u>Total</u>
Corporate bonds	\$ -	\$ 8,205,448	\$ -	\$ -	\$ 8,205,448
Common stock	13,486,914	-	-	-	13,486,914
Preferred stock	397,282	-	-	-	397,282
Mutual funds (debt)	5,996,758	-	-	-	5,996,758
Mutual funds (stock)	1,292,870	-	-	-	1,292,870
Mutual funds (U.S. Treasuries)	2,252,725	-	-	-	2,252,725
Alternative investments	-	-	-	11,507,984	11,507,984
Total	<u>\$ 23,426,549</u>	<u>\$ 8,205,448</u>	<u>\$ -</u>	<u>\$ 11,507,984</u>	<u>\$ 43,139,981</u>

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Investments Measured at Net Asset Value (NAV)	<u>Total</u>
Corporate bonds	\$ -	\$ 9,689,240	\$ -	\$ -	\$ 9,689,240
Common stock	16,387,183	-	-	-	16,387,183
Preferred stock	909,177	-	-	-	909,177
Mutual funds (debt)	8,200,701	-	-	-	8,200,701
Mutual funds (stock)	400,659	-	-	-	400,659
Mutual funds (U.S. Treasuries)	3,422,685	-	-	-	3,422,685
Alternative investments	-	-	-	11,542,251	11,542,251
Total	<u>\$ 29,320,405</u>	<u>\$ 9,689,240</u>	<u>\$ -</u>	<u>\$ 11,542,251</u>	<u>\$ 50,551,896</u>

The following summarizes the valuation methodology used in determining fair value measurements of the significant classes of the Pool's financial instruments:

Level 1 Measurements: The fair values of common stock, preferred stock, and mutual funds were determined using prices quoted in active markets.

Level 2 Measurements: The Pool estimates the fair value of corporate bonds using other inputs such as quoted prices for identical or similar assets in markets that are not active, contractual cash flows, credit spreads, and interest rates and yield curves that are observable at commonly quoted intervals.

(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

**NOTE 3 - FAIR VALUE MEASUREMENTS** (Continued)

Investments in Entities that Calculate Net Asset Value per Share: The Pool holds shares or interests in alternative investments at year end where the fair value of the investments are measured on a recurring basis using net asset value (NAV) per share (or its equivalent) of the entities as a practical expedient. It is reasonably possible that these investments will be sold at an amount different than the calculated net asset value.

The fair value, unfunded commitments, and redemption rules of investments in entities that calculate net asset value per share are as follows at December 31, 2020 and 2019:

<u>December 31, 2020</u>	<u>Fair Value/ NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency If eligible</u>	<u>Redemption Notice Period</u>
			50 percent of capital;	
Hedge funds	\$ 7,479,157	\$ -	semi-annually	105 days
Private equity funds	2,221,837	895,757	Not permitted	Not permitted
Real estate	<u>1,806,990</u>	<u>8,728</u>	Annually	180 days
Total	<u>\$ 11,507,984</u>	<u>\$ 904,485</u>		

  

<u>December 31, 2019</u>	<u>Fair Value/ NAV</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency If eligible</u>	<u>Redemption Notice Period</u>
			50 percent of capital;	
Hedge funds	\$ 6,265,022	\$ -	semi-annually	105 days
Managed futures funds	929,174	-	Monthly	3 days
Private equity funds	2,121,052	1,187,488	Not permitted	Not permitted
Real estate	<u>2,227,003</u>	<u>46,453</u>	Annually	180 days
Total	<u>\$ 11,542,251</u>	<u>\$ 1,233,941</u>		

Multiple funds are sometimes held in each category. For reporting purposes, the redemption frequency and redemption notice period provided are the most restrictive of any of the funds in the category.

The hedge funds class includes investments in funds that achieve capital appreciation through multimanager and/or multistrategy investments. Within this group of funds, there is exposure to investment strategies including, but not limited to, credit, event-driven, equity, and relative value. The funds have the ability to invest across all markets and across all asset classes to implement their various strategies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

The managed futures strategy is designed to produce capital appreciation by capturing returns related to the commodity and financial markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2020 and 2019

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**NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)**

The private equity funds class includes investments in funds that invest predominantly in equity securities of both U.S. and non-U.S. companies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

The real estate funds investment objectives are to achieve attractive risk-adjusted returns and preserve investor capital by investing in a diversified portfolio of commercial real estate-related debt and preferred equity investments related to or secured by income-producing multifamily, commercial office, healthcare and selected other real estate assets in the United States. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

**NOTE 4 - CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES**

For known claims existing at December 31, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, past claim experience, claim frequency and severity, and other economic factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Because these estimates are impacted by complex factors such as jury decisions, court interpretations, changes in doctrines of legal liability, damage awards, inflation, and legislative changes, the process used in estimating claim reserves does not necessarily result in an exact amount, particularly for coverage such as third-party liability; therefore, it is reasonably possible that a material change in the estimate will occur within the near term and thus the actual claims paid may be substantially different than these estimates. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which the adjustments are made.

The following summarizes changes in claims and claim adjustment expense reserves for the years ended December 31, 2020, 2019 and 2018 :

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Claims and Claim Adjustment			
Expense Reserves, Beginning of year	\$ 29,070,475	\$ 23,544,357	\$ 16,678,995
Incurred:			
Current year	23,434,447	24,388,137	19,882,668
Prior years	<u>2,722,552</u>	<u>1,692,805</u>	<u>5,173,442</u>
Total incurred	26,156,999	26,080,942	25,056,110
Paid:			
Current year	(8,833,221)	(10,600,658)	(9,454,826)
Prior years	<u>(12,491,342)</u>	<u>(9,954,166)</u>	<u>(8,735,922)</u>
Total paid	<u>(21,324,563)</u>	<u>(20,554,824)</u>	<u>(18,190,748)</u>
Claims and Claim Adjustment			
Expense Reserves, End of year	<u>\$ 33,902,911</u>	<u>\$ 29,070,475</u>	<u>\$ 23,544,357</u>

(Continued)

THE IOWA COMMUNITIES ASSURANCE POOL  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 December 31, 2020 and 2019

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**NOTE 4 - CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES (Continued)**

Reserves for claims and claims adjustment expense attributable to covered events in prior years changed as a result of re-estimation of unpaid claims and claims adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. During the year ended December 31, 2020, the Pool increased its provision for claims incurred in prior years by \$2,722,552. The unfavorable claim development in prior years was driven by the emergence of several large casualty claims in the 2017, 2018, and 2019 accident years during 2020.

**NOTE 5 - REINSURANCE AND EXCESS RISK SHARING AGREEMENTS**

The Pool is a member of American Public Entity Excess Pool ("APEEP"), which is also administered by Sedgwick. APEEP provides reinsurance and excess risk sharing programs for its member pools, all of which are public entity risk pools.

The Pool uses these reinsurance and excess risk sharing agreements to reduce its exposure to large specific and aggregate losses. These agreements permit recovery of a portion of its claims from reinsurers and APEEP, although they do not discharge the Pool's primary liability for such payments. The Pool does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers or excess risk sharing agreements. Premiums ceded to reinsurance carriers and APEEP during the years ended December 31, 2020 and 2019 totaled \$8,667,160 and \$6,404,776, respectively, and the amounts deducted from claims and claim adjustment expense reserves as of December 31, 2020 and 2019 for reinsurance and excess risk sharing agreements totaled approximately \$21,878,000 and \$13,006,000, respectively.

**NOTE 6 - MEMBER DISTRIBUTIONS**

Members must make contributions to the CRF for the first six years of membership. Qualifying members may receive distributions from the CRF pursuant to the formulas currently established by the Pool. CRF distributions charged to operations for qualifying members totaled \$282,368 and \$246,547 during the years ended December 31, 2020 and 2019, respectively.

In 2020 and 2019, the Board of Directors approved budgetary cash distributions to members of \$2,800,000 and \$3,500,000, respectively. For the years ended December 31, 2020 and 2019, budgetary cash distributions paid to the members totaled \$2,763,612 and \$3,496,245, respectively.

**NOTE 7 - MEMBER CONTRIBUTIONS**

The following summarizes the components of member contributions for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Member contributions - Operating	\$ 38,902,858	\$ 37,459,851
Member contributions - Cumulative reserve fund	576,449	512,154
Change in unearned premium reserves	<u>40,472</u>	<u>150,439</u>
Total member contributions	<u>\$ 39,519,779</u>	<u>\$ 38,122,444</u>

(Continued)

**NOTE 8 - RISKS AND UNCERTAINTIES**

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. Since declaration, management has been monitoring the possible financial impacts to the Pool and any business interruptions that may result from government lockdowns or changes to state regulations. The extent to which coronavirus through these actions may impact the Pool's business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.



**REQUIRED SUPPLEMENTARY INFORMATION**

**THE IOWA COMMUNITIES ASSURANCE POOL**  
**CASUALTY CLAIMS DEVELOPMENT INFORMATION**  
Year Ended December 31, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Required contributions and investment income:										
Earned	\$ 16,965,969	\$ 16,946,993	\$ 18,498,279	\$ 19,465,878	\$ 19,040,760	\$ 18,854,447	\$ 21,009,826	\$ 22,015,752	\$ 20,951,974	\$ 20,462,715
Ceded	<u>1,706,585</u>	<u>1,850,262</u>	<u>1,739,405</u>	<u>1,881,623</u>	<u>2,086,252</u>	<u>2,237,311</u>	<u>2,309,453</u>	<u>2,510,758</u>	<u>2,621,922</u>	<u>2,667,551</u>
Net	15,259,384	15,096,731	16,758,874	17,584,255	16,954,508	16,617,136	18,700,373	19,504,994	18,330,052	17,795,164
2. Expenses other than allocated claim adjustment expenses	4,550,651	4,649,979	4,773,942	4,830,653	5,225,725	5,724,028	6,028,535	6,165,871	6,343,573	6,155,276
3. Estimated claims and allocated claims adjustment expenses - End of policy year:										
Incurred	8,590,218	10,245,668	7,446,403	8,342,738	8,662,201	8,980,958	13,009,031	15,516,494	17,111,723	18,498,633
Ceded	<u>687,304</u>	<u>3,716,277</u>	<u>428,926</u>	<u>445,600</u>	<u>505,209</u>	<u>888,817</u>	<u>3,379,440</u>	<u>3,904,984</u>	<u>3,354,375</u>	<u>4,114,723</u>
Net	7,902,914	6,529,391	7,017,477	7,897,138	8,156,992	8,092,141	9,629,591	11,611,510	13,757,348	14,383,910
4. Cumulative net paid and allocated claims adjustment expenses as of:										
End of policy year	1,978,908	1,457,442	1,682,585	2,132,468	2,459,894	1,947,990	2,764,958	2,898,803	2,882,479	2,742,621
One year later	3,211,184	2,458,386	3,354,181	3,323,280	3,932,374	4,007,277	5,321,283	5,184,702	6,021,300	-
Two years later	4,788,318	3,682,929	5,202,212	5,401,587	6,046,292	6,719,397	8,141,255	8,448,988	-	-
Three years later	5,559,980	4,540,365	6,471,083	6,665,187	7,121,108	9,420,718	10,994,294	-	-	-
Four years later	6,936,597	4,954,282	6,939,702	7,140,482	7,633,637	10,592,435	-	-	-	-
Five years later	7,194,515	5,436,299	6,967,196	7,414,373	7,756,837	-	-	-	-	-
Six years later	7,506,138	5,436,790	7,023,886	7,506,741	-	-	-	-	-	-
Seven years later	7,506,138	5,436,790	7,023,886	-	-	-	-	-	-	-
Eight years later	7,506,138	5,436,790	-	-	-	-	-	-	-	-
Nine years later	7,506,138	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	733,030	4,479,249	3,987,561	179,807	3,072,366	1,192,308	1,120,860	4,575,927	1,701,206	4,114,723
6. Reestimated net incurred claims and allocated claims adjustment expenses:										
End of policy year	7,902,914	6,529,391	7,017,477	7,897,138	8,156,992	8,092,141	9,629,591	11,611,510	13,757,348	14,383,910
One year later	7,342,171	6,053,194	6,750,628	7,638,511	8,107,617	8,217,004	11,314,348	13,683,699	14,900,659	-
Two years later	6,913,220	5,482,105	7,301,101	7,977,950	8,603,187	11,357,624	11,973,814	14,346,517	-	-
Three years later	6,750,402	5,283,396	7,177,814	7,284,301	8,326,195	11,541,352	14,104,012	-	-	-
Four years later	7,260,738	5,383,622	7,292,721	7,771,134	8,065,092	11,319,722	-	-	-	-
Five years later	7,410,111	5,517,739	7,177,752	7,552,336	7,967,719	-	-	-	-	-
Six years later	7,506,138	5,436,790	7,023,886	7,515,756	-	-	-	-	-	-
Seven years later	7,506,138	5,436,790	7,033,926	-	-	-	-	-	-	-
Eight years later	7,506,138	5,436,790	-	-	-	-	-	-	-	-
Nine years later	7,506,138	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ (396,776)</u>	<u>\$ (1,092,601)</u>	<u>\$ 16,449</u>	<u>\$ (381,382)</u>	<u>\$ (189,273)</u>	<u>\$ 3,227,581</u>	<u>\$ 4,474,421</u>	<u>\$ 2,735,007</u>	<u>\$ 1,143,311</u>	<u>\$ -</u>

**THE IOWA COMMUNITIES ASSURANCE POOL**  
**PROPERTY CLAIMS DEVELOPMENT INFORMATION**  
Year Ended December 31, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1. Required contributions and investment income:										
Earned	\$ 12,538,244	\$ 13,300,435	\$ 14,570,000	\$ 15,591,287	\$ 16,708,560	\$ 17,681,847	\$ 18,901,329	\$ 19,048,328	\$ 18,695,679	\$ 19,749,486
Ceded	<u>2,908,034</u>	<u>2,584,380</u>	<u>2,314,114</u>	<u>2,437,263</u>	<u>2,915,041</u>	<u>3,330,930</u>	<u>3,690,063</u>	<u>3,233,367</u>	<u>3,898,772</u>	<u>5,999,609</u>
Net	9,630,210	10,716,055	12,255,886	13,154,024	13,793,519	14,350,917	15,211,266	15,814,961	14,796,907	13,749,877
2. Expenses other than allocated claim adjustment expenses	4,291,534	4,711,030	5,074,933	5,424,338	6,205,124	7,331,149	7,308,827	7,329,836	7,331,931	7,359,781
3. Estimated claims and allocated claims adjustment expenses - End of policy year:										
Incurred	12,095,718	4,799,574	7,950,331	10,229,023	5,880,713	6,003,780	10,177,743	18,085,292	16,224,910	25,643,750
Ceded	<u>5,744,810</u>	<u>535,322</u>	<u>2,890,735</u>	<u>3,188,403</u>	<u>360,864</u>	<u>575,190</u>	<u>1,747,550</u>	<u>9,754,190</u>	<u>5,634,063</u>	<u>16,593,213</u>
Net	6,350,908	4,264,252	5,059,596	7,040,620	5,519,849	5,428,590	8,430,193	8,331,102	10,590,847	9,050,537
4. Cumulative net paid and allocated claims adjustment expenses as of:										
End of policy year	5,614,357	3,687,927	3,884,852	5,832,037	4,548,579	4,405,254	6,617,596	6,615,968	7,678,237	6,090,600
One year later	6,347,709	4,267,019	4,928,891	6,511,602	5,552,316	5,028,124	8,480,117	8,156,536	9,274,710	-
Two years later	6,469,813	4,296,339	4,918,430	6,753,135	5,389,277	5,061,417	8,453,001	8,267,420	-	-
Three years later	6,467,365	4,309,201	4,833,844	6,808,924	5,389,084	4,889,182	8,492,585	-	-	-
Four years later	6,467,707	4,282,084	4,832,266	6,804,309	5,374,702	4,993,007	-	-	-	-
Five years later	6,477,731	4,282,050	4,829,622	6,802,766	5,374,747	-	-	-	-	-
Six years later	6,625,869	4,283,109	4,828,272	6,801,099	-	-	-	-	-	-
Seven years later	6,620,803	4,283,109	4,826,922	-	-	-	-	-	-	-
Eight years later	6,616,503	4,283,109	-	-	-	-	-	-	-	-
Nine years later	6,613,743	-	-	-	-	-	-	-	-	-
5. Reestimated ceded claims and expenses	4,074,935	260,852	2,175,523	2,741,523	296,692	234,260	1,153,730	8,808,822	5,692,701	16,593,213
6. Reestimated net incurred claims and allocated claims adjustment expenses:										
End of policy year	6,350,908	4,264,252	5,059,596	7,040,620	5,519,849	5,428,590	8,430,193	8,331,102	10,590,847	9,050,537
One year later	6,519,842	4,427,167	5,010,327	6,639,780	5,736,537	5,025,485	8,641,361	8,181,485	9,579,498	-
Two years later	6,505,445	4,348,390	4,924,669	6,767,762	5,418,676	5,164,030	8,567,444	8,221,649	-	-
Three years later	6,472,963	4,312,254	4,842,546	6,828,755	5,421,694	4,982,266	8,669,825	-	-	-
Four years later	6,618,713	4,284,192	4,836,886	6,819,695	5,375,472	5,000,271	-	-	-	-
Five years later	6,628,737	4,283,241	4,833,511	6,809,150	5,374,747	-	-	-	-	-
Six years later	6,632,217	4,283,109	4,832,161	6,807,305	-	-	-	-	-	-
Seven years later	6,625,042	4,283,109	4,830,811	-	-	-	-	-	-	-
Eight years later	6,620,742	4,283,109	-	-	-	-	-	-	-	-
Nine years later	6,617,982	-	-	-	-	-	-	-	-	-
7. (Decrease) increase in estimated net incurred claims and allocated claim adjustment expenses subsequent to initial policy year end	<u>\$ 267,074</u>	<u>\$ 18,857</u>	<u>\$ (228,785)</u>	<u>\$ (233,315)</u>	<u>\$ (145,102)</u>	<u>\$ (428,319)</u>	<u>\$ 239,632</u>	<u>\$ (109,453)</u>	<u>\$ (1,011,349)</u>	<u>\$ -</u>

THE IOWA COMMUNITIES ASSURANCE POOL  
RECONCILIATION OF CLAIMS AND CLAIMS ADJUSTMENT EXPENSE RESERVES BY TYPE OF CONTRACT  
Years Ended December 31, 2020 and 2019

	<u>Fiscal and Policy Years Ended December 31</u>					
	<u>2020</u>			<u>2019</u>		
	<u>Casualty</u>	<u>Property</u>	<u>Total</u>	<u>Casualty</u>	<u>Property</u>	<u>Total</u>
<b>Claims and Claim Adjustment Expense Reserves -</b>						
Beginning of year	\$ 25,906,388	\$ 3,164,087	\$ 29,070,475	\$ 21,505,523	\$ 2,038,834	\$ 23,544,357
<b>Incurred Claims and Claim Adjustment Expenses</b>						
Provision for claims incurred in current year	14,383,910	9,050,537	23,434,447	13,798,010	10,590,127	24,388,137
Change in provision for claims incurred in prior years expenses	<u>3,585,023</u>	<u>(862,471)</u>	<u>2,722,552</u>	<u>2,161,454</u>	<u>(468,649)</u>	<u>1,692,805</u>
	17,968,933	8,188,066	26,156,999	15,959,464	10,121,478	26,080,942
<b>Payments</b>						
Claims and claim adjustment expenses paid for claims incurred in current year	(2,742,621)	(6,090,600)	(8,833,221)	(2,923,141)	(7,677,517)	(10,600,658)
Claims and claim adjustment expenses paid for claims incurred in prior years	<u>(10,647,581)</u>	<u>(1,843,761)</u>	<u>(12,491,342)</u>	<u>(8,635,458)</u>	<u>(1,318,708)</u>	<u>(9,954,166)</u>
Total payments	<u>(13,390,202)</u>	<u>(7,934,361)</u>	<u>(21,324,563)</u>	<u>(11,558,599)</u>	<u>(8,996,225)</u>	<u>(20,554,824)</u>
<b>Claims and Claim Adjustment Expense Reserves -</b>						
End of year	<u>\$ 30,485,119</u>	<u>\$ 3,417,792</u>	<u>\$ 33,902,911</u>	<u>\$ 25,906,388</u>	<u>\$ 3,164,087</u>	<u>\$ 29,070,475</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
The Iowa Communities Assurance Pool

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 basic financial statements of The Iowa Communities Assurance Pool (the "Pool"), which comprise the statement of net position as of December 31, 2020, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and related notes to the basic financial statements, and have issued our report thereon dated May 20, 2021.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Pool'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool'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 Pool's basic 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.

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(Continued)

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Iowa Communities Assurance Pool's basic 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CROWE LLP". The letters are in all caps and have a slightly cursive, professional appearance.

Crowe LLP

Fort Lauderdale, Florida  
May 20, 2021