

Report of
Financial Examination

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

As of
December 31, 2016



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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August 10, 2017
St. Louis, MO

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Missouri United School Insurance Council

hereinafter referred to as "MUSIC" or as the "Company." The Company's main office is located at 12444 Powerscourt Drive, Suite 500; St. Louis, MO 63131; telephone number (314) 965-4346. Examination fieldwork began on June 26, 2017 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Missouri United School Insurance Council. The last examination was completed as of December 31, 2011. This examination covers the period of January 1, 2012 through December 31, 2016. This examination also included material transactions or events occurring subsequent to December 31, 2016.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the State of Missouri. Standard examination procedures were modified as necessary under the circumstances.

The examiners relied upon information and workpapers provided by the Company's independent auditor Conner Ash P.C. for its audit covering the period from January 1, 2016 through December 31, 2016.

SUMMARY OF SIGNIFICANT FINDINGS

Despite a reduction in members' fund balance, MUSIC remains in a sound position and continues to maintain a stable membership. From 2011 through 2014, management approved surplus allocation credits totaling \$36.2 million. This was the main factor in the overall reduction in the members' fund balance from \$59.4 million at the beginning of 2011 to \$27.1 million at the end of 2016. The Company experienced a large liability claim during the past year and has seen several weather related events that have impacted property losses. Excess coverage costs will be a major concern for the Company going forward.

COMPANY HISTORY

General

MUSIC was formed on December 4, 1985 under Chapter 537 RSMo to provide insurance and risk management services for its members. At year-end 2016, MUSIC's membership consisted of 465 public school districts, 8 community colleges, and 7 other education-related entities.

Corporate Documents

The Articles of Association and the Bylaws were reviewed. No amendments were made to either document during the current examination period. A restatement of the Articles of Association was made in 2015 for the stated purpose of a general update and to clarify language in various articles.

Meeting Minutes

The minutes from the annual meetings and the board of directors meetings were reviewed for the current examination period. The minutes adequately documented the deliberations of those meetings.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to its Articles of Association and Bylaws, a board of directors consisting of nine members manages the Company. The directors are elected annually for staggered three-year terms. Members serving at December 31, 2016, were:

Bernard DuBray, Chairman
Fort Zumwalt R-II School District

Phil Cook, Vice-Chairman
Carl Junction R-I School District

Blane Keel, Secretary
Oran R-III School District

Ron Orr, Treasurer
Pattonville R-III School District

William Nicely
Kearney R-I School District

Gabe Edgar
Marceline R-V School District

Patricia Thompson
Crawford County R-I School District

Tim Mattson
Savannah R-III School District

Mark James
Metropolitan Community College of
Kansas City

Officers

The officers appointed and serving as of December 31, 2016 were:

Mark Stockwell, Executive Director
Bernard DuBray, Chairman
Phil Cook, Vice-Chairman
Blane Keel, Secretary
Ron Orr, Treasurer

Conflict of Interest

Conflict of interest disclosure statements are executed annually by all board members and the Executive Director. A review of the conflict of interest disclosure statements for the period under current examination indicated the Company has procedures in place to ensure that potential conflicts are adequately disclosed and are taken into consideration when voting on and discussing issues where there may be a conflict of interest.

Holding Company, Subsidiaries and Affiliates

The Company was formed as a Chapter 537 RSMo entity and holding company statutes do not apply to those entities. No holding company would exist since the Company has no other affiliates.

Service Providers

All services for the Company are provided through contracts with third-parties. The major contracts are:

Arthur J. Gallagher Risk Management Services, Inc. This agreement provides for the overall management of operations including the procurement of excess coverages, customer service, and training. MUSIC paid \$1,584,000 under this contract during 2016.

Gallagher Bassett Services, Inc. The agreement with this entity provides for all claims administration services including case management for workers' compensation claims. The cost for this agreement in 2016 was \$3,476,000.

in2vate, llc This agreement provides the Company with website hosting and database management services. The contract cost \$20,125 in 2016.

Scenario Learning, LLC This contract covers the "Safe School" training program for loss prevention measures. The cost for this service was \$103,500 in 2016.

TERRITORY AND PLAN OF OPERATION

The Missouri United School District Council was formed on December 4, 1985 under Chapter 537 RSMo to provide comprehensive property and casualty insurance coverage to public school districts and community colleges in the State of Missouri. At year end 2016, membership consisted of 465 public school districts, 8 community colleges and 7 other education-related entities. This represents 90% of Missouri public schools and 67% of Missouri community colleges.

MUSIC provides coverage to its members through a blanket coverage policy called the "Plan Document" which provides coverage for property, liability, automobile, boiler and machinery, commercial crime and workers' compensation. Advertising is done on a limited basis. Under Chapter 537 RSMo, the Company is not required to submit its policy forms or premium rates to the Missouri Department of Insurance, Financial Institutions and Professional Registration.

REINSURANCE

The Company, as a risk pool, does not have reinsurance in the traditional use of the term. The Company carries excess coverages for all risks shared in the pool.

Assumed

The Company does not assume any business.

Ceded

The table below shows the Company's excess coverage limits for various types of insurance coverages. These coverages are subject to the Company's self-insured retention limits of \$500,000 for property and workers' compensation, \$1,000,000 for liability, and \$150,000 for crime.

Coverage	Limit
General liability <u>1/</u>	\$2,800,000 per occurrence
Auto liability (includes buses)	\$2,800,000 per occurrence
School board legal liability	\$2,800,000 per occurrence
Miscellaneous medical malpractice	\$2,800,000 per occurrence
Employment practices liability	\$2,800,000 per occurrence
Workers' compensation	Statutory limits
Employer's liability	\$1,000,000 per occurrence 100% replacement cost value less
Property <u>2/</u>	\$1,000,000,000 \$1,000 deductible per occurrence
Crime	\$2,000,000 per occurrence less \$1,000 deductible
Errors and omissions	\$2,800,000 per occurrence Actual cash value less \$1,000
Auto physical damage	deductible per occurrence
Boiler and machinery	\$100,000,000 per occurrence less \$1,000 deductible per occurrence and aggregate less
Terrorism	\$50,000,000 \$150,000 deductible per occurrence
Catastrophic violent acts	\$250,000 per occurrence
Treasurer's bond	\$50,000 per occurrence

1/ There is a sub-limit of \$500,000 per claim for liability claims involving asbestos.

2/ Property coverage has sub-limits of \$500,000,000 each for earthquake and flood claims.

Multiple insurers participate in various levels for the property coverage. There were fourteen insurers participating in the first layer which had a limit of \$100,000,000. Another ten insurers comprised the next layer which provided \$100,000,000 of coverage in excess of the first layer of \$100,000,000. Seven insurers provided the next \$100,000,000 of coverage in excess of the \$200,000,000 from the first two layers. There were six more layers, beyond the \$300,000,000 provided in the first three layers, to ultimately reach the \$1,000,000,000 in property protection.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, are based on the financial statements filed by the Company as of December 31, 2016. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

Balance Sheet
As of December 31, 2016

Cash and equivalents	\$ 71,526,413
Investments	95,269,921
Member assessments receivable	12,828,759
Accrued investment income	477,018
Reinsurance recoverable on paid claims	8,898,169
Prepaid expenses and other receivables	504,666
Total assets	<u>\$ 189,504,946</u>
Unearned member assessments	81,790,676
Claims and claim adjustment expense reserves - current	40,000,000
Accounts payable and accrued expenses	432,891
Advances from reinsurers	271,331
Liability for uncleared checks and drafts	1,300,835
Total current liabilities	<u>123,795,733</u>
Claims and claim adjustment expense reserves - long term	<u>38,644,227</u>
Total liabilities	<u>162,439,960</u>
Members' fund balance	<u>27,064,986</u>
Total liabilities and members' fund balance	<u>\$ 189,504,946</u>

Income Statement
For Year Ending December 31, 2016

Revenues	
Member assessments	\$77,670,567
Investment income, net	<u>3,113,900</u>
Total revenues	80,784,467
Expenses	
Incurred claims and claim adjustment expenses	57,465,881
Premiums for reinsurance coverage	22,675,839
Insurance services	5,555,418
General and administrative	549,072
Premium taxes	<u>2,144,638</u>
Total expenses	88,390,848
Net change in fair value of investments	<u>89,980</u>
Net increase (decrease) in members' fund balance	<u><u>(\$7,516,401)</u></u>

Reconciliation of Members' Fund Balance
Changes from December 31, 2011 to December 31, 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Beginning Fund Balance	\$49,115,120	\$46,797,170	\$38,442,990	\$31,551,443	\$34,581,387
Change in Fund Balance	<u>(2,317,950)</u>	<u>(8,354,180)</u>	<u>(6,891,547)</u>	<u>3,029,944</u>	<u>(7,516,401)</u>
Ending Fund Balance	<u><u>\$46,797,170</u></u>	<u><u>\$38,442,990</u></u>	<u><u>\$31,551,443</u></u>	<u><u>\$34,581,387</u></u>	<u><u>\$27,064,986</u></u>

EXAMINATION CHANGES

There are no changes in the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUBSEQUENT EVENTS

There are no significant subsequent events since the examination date.

SUMMARY OF RECOMMENDATIONS

The Company should continue to monitor its members' fund balance levels and its costs for excess coverage.

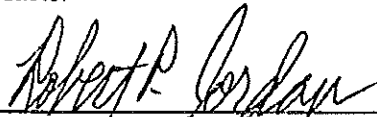
ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and staff of Missouri United School Insurance Council during the course of this examination is hereby acknowledged and appreciated.

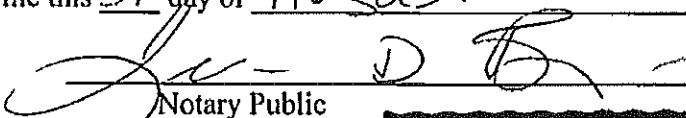
VERIFICATION

State of Missouri)
) ss
County of St. Louis)

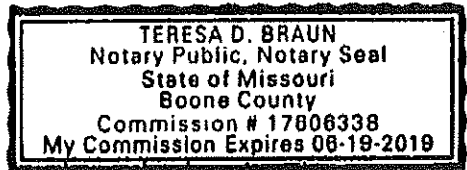
I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

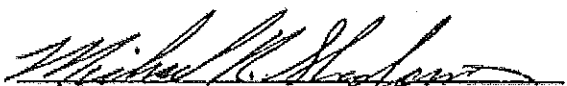
Sworn to and subscribed before me this 31st day of August
My commission expires: 6-19-19


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri has been confirmed.



Michael Shadowens, CFE
Assistant Chief Examiner, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration