MISSOURI UNITED SCHOOL INSURANCE COUNCIL

DECEMBER 31, 2017

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Overview of the financial statements

The Missouri United School Insurance Council (MUSIC) is a not-for-profit, self-insurance pooling program designed exclusively for the public school districts and public community colleges of the state of Missouri. It was formed on December 31, 1985 and organized under Missouri's public entity pooling statute, RSMo 537.620. It is governed by a nine-member Board of Directors consisting of member representatives elected by the membership at large. The program provides comprehensive property and casualty coverage tailored to the needs of the public education community. MUSIC operates in a manner similar to any other public entity risk pool, more specifically an enterprise fund, to account for its activities.

Financial statements. The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

Balance sheets – These statements present information reflecting MUSIC's assets, liabilities and fund equity. Fund equity represents the amount of total assets less total liabilities. The balance sheet is categorized as to current and noncurrent assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within twelve months of the statement date.

Statements of revenues, expenses and changes in members' fund balance – These statements reflect MUSIC's operating revenues and expenses, as well as non-operating revenues and expenses during the fiscal year. The major source of operating revenues is assessment income, with the major type of expense being property and casualty claims. The change in members' fund balance for an enterprise fund is similar to net profit or loss for an insurance company.

Statements of cash flows – These statements of cash flows are presented on the direct method of reporting which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in these statements to arrive at the net increase or decrease in cash for the fiscal year.

Notes to basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning loss development.

Summary of financial position

The following table summarizes MUSIC's financial position and results of its operations as of December 31, 2017 and December 31, 2016. This summary should be read in conjunction with the audited financial statements, which includes the auditor's opinion letter, footnotes and supplementary information.

BALANCE SHEETS

	2017		2016	
	Amount	**Percent**	Amount	Percent
ASSETS				
CURRENT ASSETS				
Cash and equivalents	**$ 68,540,410**	**30.9**	$ 71,526,413	31.7
Investments	**97,006,537**	**43.8**	95,269,921	42.2
Member assessments receivable	**15,781,520**	**7.1**	12,828,759	5.7
Accrued investment income	**483,130**	**.2**	477,018	.2
Reinsurance recoverable on paid claims	**13,824,276**	**6.2**	8,898,169	3.9
Prepaid expenses and other receivables	**268,298**	**.1**	504,666	.2
TOTAL CURRENT ASSETS	**195,904,171**	**88.4**	189,504,946	83.9
OTHER ASSETS				
Reinsurance recoverable on unpaid claims	**25,651,815**	**11.6**	33,543,047	16.1
	$ 221,555,986	**100.0**	$ 223,047,993	100.0
LIABILITIES AND MEMBERS' FUND BALANCE				
CURRENT LIABILITIES				
Unearned member assessments	**$ 85,494,472**	**38.6**	$ 81,790,676	36.3
Claims and claim adjustment expense reserves	**40,000,000**	**18.0**	40,000,000	17.7
Accounts payable and accrued expenses	**3,605,647**	**1.6**	432,891	.2
Advances from reinsurers	**-**	**-**	271,331	.1
Liability for uncleared checks and drafts	**5,254,680**	**2.4**	1,300,835	.6
TOTAL CURRENT LIABILITIES	**134,354,799**	**60.6**	123,795,733	54.9
CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES	**63,990,790**	**28.9**	72,187,274	30.1
MEMBERS' FUND BALANCE	**23,210,397**	**10.5**	27,064,986	15.0
	$ 221,555,986	**100.0**	$ 223,047,993	100.0

REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE

	2017		2016	
	Amount	**Percent**	Amount	Percent
REVENUES				
Members assessments	**$ 80,503,416**	**96.6**	$ 77,670,567	96.1
Investment income, net	**2,830,140**	**3.4**	3,113,900	3.9
TOTAL REVENUES	**83,333,556**	**100.0**	80,784,467	100.0
EXPENSES				
Incurred claims and claim adjustment expenses	**55,805,171**	**67.0**	57,465,881	71.1
Premiums for reinsurance coverage	**20,990,318**	**25.2**	22,675,839	28.0
Insurance services	**5,438,478**	**6.5**	5,555,418	6.9
General and administrative	**608,609**	**.7**	549,072	.7
Premium taxes	**5,184,211**	**6.2**	2,144,638	2.7
TOTAL EXPENSES	**88,026,787**	**105.6**	88,390,848	109.4
NET CHANGE IN FAIR VALUE OF INVESTMENTS	**838,642**	**1.0**	89,980	.1
NET DECREASE IN MEMBERS' FUND BALANCE	**(3,854,589)**	**(4.6)**	(7,516,401)	(9.3)
MEMBERS' FUND BALANCE, beginning of the year	**27,064,986**		34,581,387	
MEMBERS' FUND BALANCE, end of the year	**$23,210,397**		$27,064,986	

Introductory comments

MUSIC continues to prosper with stable membership, healthy surplus, and consistent delivery of value to its members. Membership at the beginning of 2017 consisted of 465 public school districts, 8 community colleges, and 7 other education-related entities. These numbers represented a 90% share of Missouri public school districts and 67% of community colleges.

MUSIC's eight organizational objectives include:

1. Remain the preeminent source for property and casualty coverages and risk management services for Missouri's public school districts, community colleges, and other qualified entities.

2. Make sure every member and prospective member understands the value of the organization's non-profit, member-owned, risk-sharing model.

3. Preserve the long-term financial integrity of the program.

4. Continually strive to reduce the organization's total cost of risk through optimal risk financing design, loss control, and claim cost containment in order to keep member assessments as low as possible.

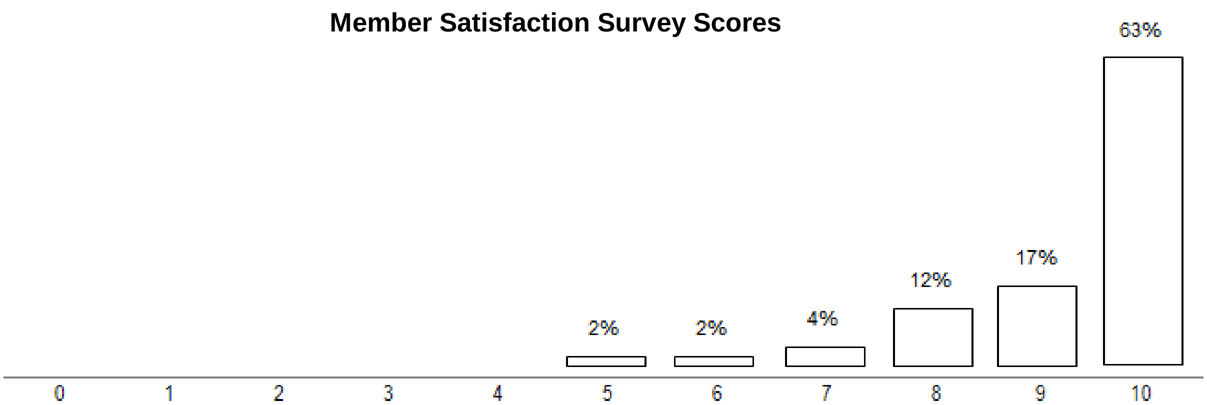
5. Protect and grow the organization's reputation for exceptional customer service, claims adjudication excellence, and risk management solutions that allow members to minimize local staffing.

6. Remain our members' strongest voice in the Missouri Legislature for education risk management issues.

7. Enhance our ability to drive decisions through data and evaluate every area of the operation using analytical findings.

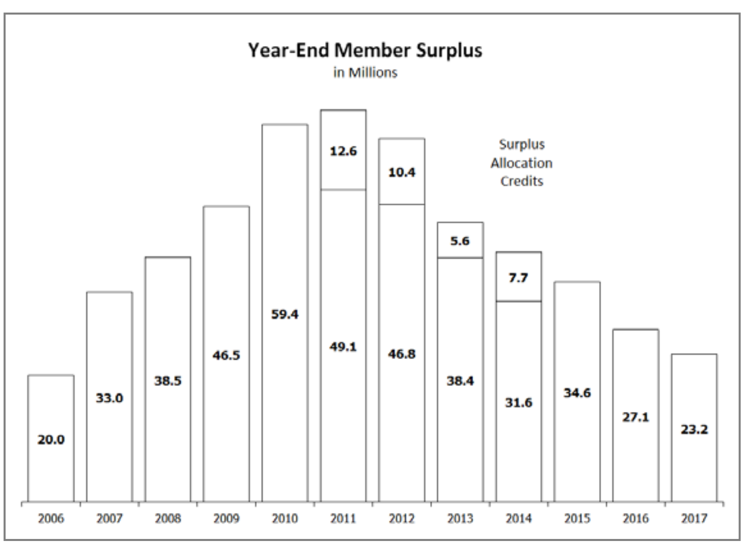
8. Provide excellent and innovative risk management programs and training to the members, utilizing technology where feasible and appropriate.

MUSIC surveyed its members on a variety of items including customer service in 2017. On a scale of 0-10, members were asked, "How likely is it that you would recommend the MUSIC program to a friend or colleague?" Out of 281 respondents, the scores were:



96% of members rated the program with a score of 7 or higher, and it achieved a Net Promoter Score (NPS) of 75. Any NPS score above 50 is considered to be "excellent" and above 70 is "world class." MUSIC's score of 75 compares very favorably with the benchmark score of 30 for insurance operations.

Member assessment revenue was up 3.6% from $77.7 million in 2016 to $80.5 million in 2017. The increase consisted of a modest increase in renewal underwriting exposures and the addition of three new members.



In response to a siginificant rise in member surplus since 2004, the Board of Directors decided to return what was expected to be a one-time surplus allocation credit of $12.6 million in 2011. The next three years also proved to add more surplus than necessary to the program and in total, $36.3 million was returned from 2011 through 2014. The Board believes the member surplus is now at a level providing the right balance of stability to the organization and not unnecesarily holding member funds.

The $3.9 million decrease in member surplus from $27.1 million in 2016 to $23.2 million at the end of 2017 is the combined result of three factors: 1) a $1.5 million drop from normal operational results, 2) a $0.8 million positive change in the fair value of investments, and 3) an unexpected workers' compensation tax and second injury fund assessment recalculation (decribed below in further detail) of $3.2 million.

Comparison of 2017 results with original budget

For 2017, the original budget adopted by the Board was designed to fund a loss of $2.9 million. The actual loss of $3.9 million, or $1.0 million differential from the original budget, is attributable to the following:

	(in millions)		
	Original Budget	2017 Actual	Variance Better/(Worse)
REVENUES			
Member assessments – Higher than expected from the addition of three new members and slightly higher member renewal exposures.	$79.8	$80.5	$0.7
Investment income and change in fair value of investments – Both were softer than expected in 2017.	5.0	3.7	(1.3)
	$84.8	$84.2	($0.6)
EXPENSES			
Reinsurance – MUSIC had a slightly tougher reinsurance renewal than anticipated given worse than expected property losses.	20.7	21.0	(0.3)
Workers' compensation tax and second injury fund assessments – During 2017, the State of Missouri claimed that MUSIC had been calculating its workers' compensation taxes and second injury fund payments improperly, although strictly according to the Division of Workers' Compensation's instructions. An additional $3.2 million was accrued in 2017 to pay the difference. MUSIC has formally requested repayment of the funds and is now awaiting adjudication of those requests. In the meantime, MUSIC filed bills with the 2018 Legislature to clarify the method of calculation. Senate Bill 981 passed the Senate by a vote of 31-0 and the House by a vote of 143-1. The bill was awaiting the Governor's signature at the time this audit was finalized. The impact of the bill will be to return the rate calculations to the former method.	2.1	5.2	(3.1)
Loss projections – The year-end actuarial projection for 2017 claims was $59.8 million versus an original projection of $59.3 million, or a negative variance of $0.5 million. All years combined prior to 2017 saw favorable development of $4.0 million versus year-beginning projections.	59.3	55.8	3.5
Other expense items – All other expense items in combination showed a $0.5 million negative variance.	5.6	6.1	(0.5)
	$87.7	$88.1	($0.4)
REVENUES MINUS EXPENSES	($2.9)	($3.9)	($1.0)

Excess insurance program

MUSIC is a “protected” self-insurance pooling program. This means that excess insurance or reinsurance is purchased above certain self-insured retentions to partially shelter the assets of the pool from very large losses. For 2017, the program retained the first $1,000,000 of every property loss, $150,000 for crime losses, $2,800,000 for liability, and $500,000 for workers’ compensation.

All reinsurers are rated at least A- by A.M. Best and management utilized 33 carriers to provide the capacity needed. Total member exposures are significant and it takes a large number of insurance and reinsurance companies to cover what is needed. When MUSIC goes to the insurance marketplace with $22.9 billion in property values, 650,000 students, 10,200 vehicles, and $4.0 billion of payroll, the members also take with them great market clout. However, no one insurer is willing to take all the risk and it is therefore divided among many carriers.

The insurance marketplace had been in a softening cycle from 2014 through most of 2017, but MUSIC saw increased reinsurance pricing in the property area due to adverse large loss experience the previous two years. Reinsurance property premiums were up 3.9% even with increasing the program retention from $500,000 to $1,000,000. In the casualty area, the MUSIC Board decided to retain the primary layer but purchase annual aggregate protection so one year could not have a major impact on surplus. This change saved $2.8 million in premium. Premiums in the other lines were roughly flat. Management believes that the soft market cycle has come to end with record-setting industry catastrophic events in 2017, but it is not anticipating a significant impact on results.

Investment philosophy and objectives

Management invests the funds of the program according to the investment policy established by the Board and monies are invested in a manner that seeks safety, liquidity and yield, in that order. The preservation of capital is always of the utmost importance. Therefore, safety from both credit risk and interest rate risk is sought. After safety, liquidity is the primary focus in order to meet the ongoing cash needs of the claims activity. It is the intention of MUSIC to provide this cash flow without the sale of investments prior to maturity. If the primary objectives of safety and liquidity can be met, MUSIC looks for investments in which there is a market rate of return.

In early 2016, management began investing a portion of its fund balance in equities and other marketable securities with greater yield potential, but with greater risk. The initial amount invested in these securities was $10 million and had grown to $12.9 million at the end of 2017.

2017 loss control activities

As is always the case, management and staff continue to analyze claim trends and explore new opportunities to reduce losses. Significant loss control activities worth noting include:

1. In 2004, MUSIC rolled out a very comprehensive and far-reaching loss control program directed at preventing sexual abuse claims. The program is called “Smarter Adults-Safer Children” and is aimed at teaching the educational community the behaviors of a perpetrator in the early stages of interaction with a potential victim. Updated versions were rolled out in 2010, 2013, and 2017.

2. MUSIC made a significant investment in member training with the addition of an experienced training coordinator in 2015. This position has retooled the program's offerings and the Board entered into a new relationship with the SafeSchools Company for training content and the provision of a comprehensive learning management system for use by the members. In addition, during 2015, MUSIC added four hours of bus driver training content from the School Bus Safety Company.

3. The website is consistently updated with loss control information on a variety of topics and authored by experts in various disciplines. The MUSIC staff has also overseen a new web look and improved structure.

4. Containment of medical costs under the workers' compensation program has been a major push since 2010. New programs were established for diagnostic tests, physical therapy and pharmacy expenses and all three have been showing significant results.

5. MUSIC completed an extensive predictive modeling project focusing on the control of workers' compensation claims and a comprehensive member benchmark report was implemented in 2015. The report covers overall costs as a percentage of payroll and then digs deep into eight claim characteristics, highlighting variances from MUSIC averages in seven job categories in order to help direct loss control efforts.

6. Regional training sessions and webinars continue to be offered to educate members on workers' compensation cost containment strategies, with a specific push for return-to-work. In addition, a nine-part workers' compensation toolkit was developed to provide easy-to-use resources for members to strengthen their cost containment programs. MUSIC's strong, long-term emphasis on cutting workers' compensation costs has resulted in a loss rate reduction of 25.0% since 2003.

7. Overall loss rates for all lines of coverage combined are down 23.2% from 2003 levels which is resulting in an annual expense savings of $18.0 million. The reduction in loss rates was the driving factor in building the program's surpluses and resultant member surplus allocation credits totaling $36.3 million in 2011 through 2014.

8. The staff and Board of Directors has been implementing an Enterprise Risk Management (ERM) program following the ISO 31000 model, identifying and analyzing the risks and opportunities the organization has in meeting its objectives. The initial risk assessment process is complete and risk treatment plans are implemented.

Summary

Major continual goals for the program include:

1. Keep daily member service and member satisfaction a very high priority
2. Maintain a healthy but reasonable member fund balance
3. Continue analyzing claim trends looking for savings opportunities
4. Continue adding loss control programs to target savings opportunities
5. Plan for consistency in rates in the long-term

Management's intent is to continue operating MUSIC as a comprehensive, stable, long-term risk management alternative for the school districts and community colleges of Missouri.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri United School Insurance Council
St. Louis, Missouri

We have audited the accompanying financial statements of Missouri United School Insurance Council, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses and change in members' fund balance and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Missouri United School Insurance Council as of December 31, 2017 and 2016, and the results of its revenue and expenses, changes in members' fund balance and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Conner Ash P.C.

St. Louis, Missouri
May 16, 2018

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

BALANCE SHEETS

December 31,	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and equivalents	**$ 68,540,410**	$ 71,526,413
Investments	**97,006,537**	95,269,921
Member assessments receivable	**15,781,520**	12,828,759
Accrued investment income	**483,130**	477,018
Reinsurance recoverable on paid claims	**13,824,276**	8,898,169
Prepaid expenses and other receivables	**268,298**	504,666
	$ 195,904,171	$ 189,504,946
LIABILITIES AND MEMBERS' FUND BALANCE		
CURRENT LIABILITIES		
Unearned member assessments	**$ 85,494,472**	$ 81,790,676
Claims and claim adjustment expense reserves	**40,000,000**	40,000,000
Accounts payable and accrued expenses	**3,605,647**	432,891
Advances from reinsurers	**-**	271,331
Liability for uncleared checks and drafts	**5,254,680**	1,300,835
TOTAL CURRENT LIABILITIES	**134,354,799**	123,795,733
CLAIMS AND CLAIM ADJUSTMENT EXPENSE RESERVES	**38,338,975**	38,644,227
MEMBERS' FUND BALANCE	**23,210,397**	27,064,986
	$ 195,904,171	$ 189,504,946

See auditors' report and accompanying notes.

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE SHEET

Years Ended December 31,	2017	2016
REVENUES		
Member assessments	$ 80,503,416	$ 77,670,567
Investment income, net	2,830,140	3,113,900
TOTAL REVENUES	83,333,556	80,784,467
EXPENSES		
Incurred claims and claim adjustment expenses	55,805,171	57,465,881
Premiums for reinsurance coverage	20,990,318	22,675,839
Insurance services	5,438,478	5,555,418
General and administrative	608,609	549,072
Premium taxes	5,184,211	2,144,638
TOTAL EXPENSES	88,026,787	88,390,848
NET CHANGE IN FAIR VALUE OF INVESTMENTS	838,642	89,980
NET DECREASE IN MEMBERS' FUND BALANCE	(3,854,589)	(7,516,401)
MEMBERS' FUND BALANCE, beginning of the year	27,064,986	34,581,387
MEMBERS' FUND BALANCE, end of the year	$ 23,210,397	$ 27,064,986

See auditors' report and accompanying notes.

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2017	2016
OPERATING ACTIVITIES		
Assessments collected	$ 81,254,452	$ 72,568,492
Loss and loss adjustment expenses paid	(62,449,354)	(48,738,579)
Payments to service providers and reinsurers	(24,858,647)	(31,538,153)
Investment income received	3,378,066	3,389,042
Deductible recoveries collected	1,141,493	997,638
Net cash used by operating activities	(1,533,990)	(3,321,560)
INVESTING ACTIVITIES		
Proceeds from maturities of investments	33,009,038	38,548,237
Purchases of investments	(34,461,051)	(39,948,354)
Net cash used by investing activities	(1,452,013)	(1,400,117)
NET DECREASE IN CASH AND EQUIVALENTS	(2,986,003)	(4,721,677)
BEGINNING CASH AND EQUIVALENTS	71,526,413	76,248,090
ENDING CASH AND EQUIVALENTS	$ 68,540,410	$ 71,526,413

RECONCILIATION OF REVENUES UNDER EXPENSES TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

	2017	2016
Net expenses over revenues	$ (3,854,589)	$ (7,516,401)
Adjustments to reconcile revenues under expenses to net cash (used) provided by operating activities:		
Investment amortization	554,039	125,367
Effects of changes in:		
Fair value of investments	(838,642)	(89,979)
Member assessments receivable	(2,952,761)	(7,615,574)
Accrued investment income	(6,112)	149,777
Reinsurance recoverable on paid claims, net of advances	(5,197,438)	(90,712)
Prepaid expenses	236,368	(65,459)
Unearned member assessments	3,703,796	2,513,498
Claims and claim adjustment expense reserves	(305,252)	9,815,651
Accounts payable and accrued expenses	3,172,756	27,178
Liability for uncleared checks and drafts	3,953,845	(574,906)
Net cash used by operating activities	$ (1,533,990)	$ (3,321,560)

See auditors' report and accompanying notes.

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

1. GENERAL

Missouri United School Insurance Council ("MUSIC") is a not-for-profit association formed by public school districts and community colleges of the State of Missouri and organized to operate as a group self-insured risk pool. The purpose of MUSIC is to seek the prevention or lessening of casualty and property losses to member school districts and injuries to persons or employees which might result in claims being made against such districts. In addition to insurance protection, the program provides risk management services, with emphasis on loss control, claims administration, and management information services.

As of December 31, 2017, MUSIC has 480 member participants which fund it. Members file claims with Gallagher Bassett Services, Inc., which has been contracted to perform claims adjustment and other insurance services for MUSIC.

MUSIC is a public entity risk pool and follows the accounting principles promulgated by the Governmental Accounting Standards Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The accompanying financial statements have been prepared on the accrual method of accounting and in conformity with accounting principles generally accepted in the United States of America.

Cash and equivalents

For purposes of the statement of cash flows, MUSIC considers all liquid investments with original maturities of three months or less to be cash equivalents. All bank accounts and money market accounts were fully collateralized at December 31, 2017 and 2016.

Investments and investment income

Investments are classified in accordance with the provisions of Statement No. 72 of the Governmental Accounting Standards Board, *Fair value measurement and application,* which requires governmental entities to report investments at fair value and categorize its fair value measurements within a fair value hierarchy. Changes in fair value are reported in the Statements of Revenues, Expenses and Changes in Members' Fund Balance.

Interest income is recorded when earned. Realized and unrealized gains and losses on investments are determined on the specific identification method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reinsurance recoverable on paid claims

Reinsurance recoverable on paid claims represents the estimated amount of claims and claims adjustment expense payments that will be recovered from excess carriers due to claims exceeding MUSIC's retention limits as claims and claims adjustment expense reserves are paid.

Claims and claim adjustment expense reserves

Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates for reported unpaid claims including claim adjustment expenses, plus a provision for claims incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and adjustments are reflected in earnings currently.

MUSIC discounted its workers' compensation claims reserves at an annual rate for 2017 and 2016 of 2.7 percent (see Note 4).

Federal income taxes

MUSIC has received notification from the Internal Revenue Service that its income is excludable from gross income for federal income taxes under Section 115 of the Internal Revenue Code. Consequently, the financial statements do not contain a provision for taxes.

Member assessments receivable

Annual member assessments are established by the Board of Directors and are billed in advance and recognized as revenue in the period for which insurance protection is provided. The assessment is calculated based on members' school bus fleet, property valuation, and payroll data. Member assessments receivable represents premiums billed prior to the end of the fiscal year which have yet to be collected. These amounts also increase unearned member assessments as they apply to the succeeding year.

Supplemental assessments related to any annual period may be declared by the Board of Directors, and apply to all members participating during that year. In January 1996, the Board of Directors approved the transfer of up to $400,000 of interest income from 1996 to 1995, if necessary. No transfer has been made to date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 these estimates.

3. CASH AND INVESTMENTS

MUSIC maintains an interest bearing deposit account to handle the cash receipts, disbursements and idle cash balances. MUSIC's articles of incorporation and bylaws contain no provision regarding deposits or the type of investments that may be purchased.

Cash on deposit in excess of FDIC limits and investments not explicitly guaranteed by the U.S. Government were collateralized with securities pledged and held by the financial institution and total approximately $47,000,000 and $44,000,000 as of December 31, 2017 and 2016.

The amortized cost and estimated fair value of investments at December 31, 2017 and 2016, is as follows:

	2017			
	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Estimated market value
State general obligation bonds	**$19,848,658**	**$123,420**	**$(108,053)**	**$19,864,025**
Federal agency bonds	**39,286,152**	**108,446**	**(282,246)**	**39,112,352**
Mortgage backed pool bonds	**7,653,698**	**35,863**	**(49,943)**	**7,639,618**
Corporate bonds	**14,815,099**	**126,077**	**(30,716)**	**14,910,460**
Mutual funds	**10,421,972**	**2,215,031**	**-**	**12,637,003**
Certificate of deposits	**2,847,000**	**908**	**(4,829)**	**2,843,079**
	$94,872,579	**$2,609,745**	**$(475,787)**	**$97,006,537**

3. CASH AND INVESTMENTS – CONTINUED

	2016			
	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Estimated market value
State general obligation bonds	$22,375,423	$148,423	$(209,718)	$22,314,128
Federal agency bonds	33,965,256	493,333	(270,564)	34,188,025
Mortgage backed pool bonds	9,884,138	109,631	(71,375)	9,922,394
Corporate bonds	12,619,534	156,982	(58,352)	12,718,164
Mutual funds	14,603,253	994,672	-	15,597,925
Certificate of deposits	529,285	-	-	529,285
	$93,976,889	$1,903,041	$(610,009)	$95,269,921

The amortized cost and estimated market value of investments in debt securities at December 31, 2017, by contractual maturity, are shown below:

	Amortized cost	**Estimated market value**
Due in one year or less	**$25,248,827**	**$27,540,853**
Due after one year through five years	**42,358,565**	**42,193,524**
Due after five years through ten years	**24,037,856**	**24,084,481**
Due after ten years	**3,227,331**	**3,187,679**
	$94,872,579	**$97,006,537**

Interest rate risk

Investment maturities are limited as follows:

	Maximum investment	
Maturity	**2017**	2016
Less than one year	**28%**	8%
One to five years	**44%**	60%
Six to ten years	**24%**	27%
After ten years	**3%**	5%

3. CASH AND INVESTMENTS – CONTINUED

Custodial credit risk

Investments are subject to custodial credit risk because none are collateralized by the financial institution acting as custodian.

Credit risk

MUSIC's Board-approved investment policy sets forth the asset classes among which MUSIC's investments shall be allocated. The investment policy further defines the components of the fixed income portfolio and provides that the allocation to these components is to be determined by the Board. MUSIC manages its exposure to credit risk through limits on credit quality ratings within each component of the fixed income portfolio, as set forth in the Board-approved investment policy.

MUSIC's policy is to invest in a diversified portfolio of U.S. dollar-denominated debt securities issued by the U.S. government, treasury, agencies, U.S. domiciled companies, commercial paper, and state general obligation bonds. Generally, MUSIC may not invest in more than 20% to 30% of the portfolio in the outstanding securities of one security type or issuer, except for U.S. government, treasury, and agency securities. It is MUSIC's policy to invest in debt securities that have a minimum quality rating of A at the time of purchase.

Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk and are considered AAA rated bonds in the tables below.

The credit risk profile as listed by Moody's or S&P for fixed income securities are as follows:

	2017				
	AAA	**AA**	**A**	**Unrated**	**Total**
Federal agency bonds	**$39,112,352**	**$ -**	**$ -**	**$ -**	**$39,112,352**
Mortgage backed pool bonds	**7,639,618**	**-**	**-**	**-**	**7,639,618**
State general obligation bonds	**2,189,884**	**14,655,687**	**2,705,732**	**312,722**	**19,864,025**
Corporate bonds	**1,505,000**	**2,525,990**	**10,879,470**	**-**	**14,910,460**
Bond mutual funds	**-**	**-**	**-**	**4,071,154**	**4,071,154**
Subtotal fixed income securities	**50,446,854**	**17,181,677**	**13,585,202**	**4,383,876**	**85,597,609**
Certificate of deposits	**2,843,079**	**-**	**-**	**-**	**2,843,079**
Equity mutual funds	**-**	**-**	**-**	**8,565,849**	**8,565,849**
	$53,289,933	**$17,181,677**	**$13,585,202**	**$12,949,725**	**$97,006,537**

3. CASH AND INVESTMENTS – CONTINUED

	2016				
	AAA	AA	A	Unrated	Total
Federal agency bonds	$34,188,025	$ -	$ -	$ -	$34,188,025
Mortgage backed pool bonds	9,922,394	-	-	-	9,922,394
State general obligation bonds	1,518,945	17,778,292	2,288,271	728,621	22,314,129
Corporate bonds	1,002,290	1,011,540	10,704,333	-	12,718,163
Mutual funds	-	-	-	8,154,483	8,154,483
Subtotal fixed income securities	46,631,654	18,789,832	12,992,604	8,883,104	87,297,194
Certificate of deposits	529,285	-	-	-	529,285
Mutual funds	-	-	-	7,443,442	7,443,442
	$47,160,939	$18,789,832	$12,992,604	$16,326,546	$95,269,921

Fair value measurement and application

MUSIC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles pursuant to GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

MUSIC has the following recurring fair value measurements as of December 31, 2017:

Government bonds of $58.9 million are valued using a market approach to measuring fair value prices that considers relevant information generated by market transactions involving identical or similar assets or groups of assets. (Level 2 inputs).

Corporate bonds of $14.9 million are valued using a market approach to measuring fair value prices that considers quoted prices in active markets involving identical assets. (Level 1 inputs).

Mutual funds of $12.6 million are valued using a market approach to measuring fair value prices that considers quoted prices in active markets involving identical assets. (Level 1 inputs).

Certificate of deposits of $2.8 million are valued using a market approach to measuring fair value prices that considers relevant information generated by market transactions involving identical or similar assets or groups of assets. (Level 2 inputs).

4. CLAIMS RESERVES

Activity in the liability for claims and claim adjustment expense is summarized as follows:

	2017	2016
Balance, January 1	**$112,187,000**	$89,440,000
Less reinsurance recoverables on unpaid claims	**33,543,000**	20,611,000
Claims and claim adjustment expense reserves, net of excess insurance, at beginning of the year	**78,644,000**	68,829,000
Incurred claims and claim adjustment expenses, net of excess insurance:		
Provision for insured events of the current fiscal year	**59,800,000**	54,040,000
Increase (decrease) in provision for insured events of prior fiscal years	**(3,995,000)**	3,426,000
Total incurred claims and claim adjustment expenses, net of excess insurance	**55,805,000**	57,466,000
Payments, net of excess insurance:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	**22,433,000**	19,913,000
Claims and claim adjustment expenses attributable to insured events of the prior fiscal years	**33,676,000**	27,737,000
Total payments, net of excess insurance	**56,109,000**	47,650,000
Claims and claim adjustment expense reserves, net of reinsurance, December 31	**78,340,000**	78,644,000
Plus reinsurance recoverable on unpaid claims	**25,651,000**	33,543,000
Total claims and claim adjustment expense reserves, at end of period	**$103,991,000**	$112,187,000

Reinsurance recoveries received on incurred claims amounted to approximately $25,503,000 and $9,741,000 for the years ended December 31, 2017 and 2016, respectively.

Approximately $39,649,000 and $37,275,000 of unpaid claims and claim adjustment expenses relating to workers' compensation are presented at their net present value of approximately $37,235,000 and $34,936,000 for December 31, 2017 and 2016, respectively. These claims reserves are discounted at an annual interest rate for 2017 and 2016 of 2.7 percent.

5. REINSURANCE

MUSIC maintains excess aggregate and stop loss insurance contracts with several commercial insurance carriers which provide various limits of coverage over MUSIC's retention limits.

MUSIC's retention limits for 2017 and 2016 are as follows:

	2017	2016
Property	**$1,000,000**	$500,000
Liability	**$1,000,000**	$1,000,000
Workers' compensation	**$500,000**	$500,000
Crime	**$150,000**	$150,000

Excess insurance 2017 coverage limits, including the above retention limits, are as follows:

General liability*	$ 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 claims	
Employer's liability	$ 1,000,000	per occurrence
Property*	$1,000,000,000	100% replacement cost value less $1,000 deductible per occurrence
Crime	$ 2,000,000	per occurrence less $1,000 deductible
Errors and omissions	$ 2,800,000	per occurrence less $1,000 deductible
Auto physical damage		Actual cash value less $1,000 deductible per occurrence
Boiler and machinery	$ 100,000,000	per occurrence less $1,000 deductible per occurrence
Terrorism	$ 50,000,000	Per occurrence and aggregate less $150,000 deductible per occurrence.
Catastrophic violent acts	$ 250,000	limit
Treasurer's bond	$ 50,000	limit

*General liability coverage has sub-limits of $500,000 per claim for asbestos. Property coverage has sub-limits of $500,000,000 for earthquake claims and $500,000,000 for flood claims.

MUSIC's standard program does not provide coverage in excess of the limits noted above; but members can purchase additional liability coverage through a voluntary umbrella program and/or a cyber policy. These additional policies are written directly with other carriers. Premiums for the umbrella program and cyber coverage are not included in the financial statements. MUSIC believes that the reinsurers will pay all amounts due. However, in the event a reinsurer is unable to meet its obligations, MUSIC retains its primary obligation to its members.

6. INSURANCE SERVICES

Insurance services represents expenses incurred for broker services provided by Arthur J. Gallagher & Co. totaling approximately $1,620,000 and $1,584,000 in 2017 and 2016, respectively, and for claims servicing and loss prevention services provided by Gallagher Bassett Services, Inc. totaling approximately $3,320,000 and $3,476,000 in 2017 and 2016, respectively.

7. CONTINGENT LIABILITIES

As part of its normal claims adjustment activities, MUSIC is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of MUSIC's management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of MUSIC.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2018, the date on which the financial statements were available to be issued.

CONNER ASH P.C.
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Missouri United School Insurance Council
St. Louis, Missouri

We have audited the financial statements of Missouri United School Insurance Council as of and for the years ended December 31, 2017 and 2016, and our report thereon dated May 16, 2018 which expressed an unmodified opinion on those financial statements, appears on page 8. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of Ten-Year Claims and the Reconciliation of Claims by Type of Coverage are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Conner Ash P.C.

St. Louis, Missouri
May 16, 2018

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

SUPPLEMENTAL SCHEDULE OF TEN – YEAR CLAIMS

December 31, 2017

The table on page 23 illustrates how MUSIC's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by MUSIC as of the end of each year for the last ten years. The rows of the table are defined as follows:

(1) The total of each fiscal year's gross earned contribution revenues and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

(2) Each fiscal year's other operating costs of MUSIC including overhead and claims expense not allocable to individual claims.

(3) MUSIC's gross incurred claims and allocated claim adjustment expenses claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (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) The cumulative net amounts paid as of the end of successive years for each policy year.

(5) The latest reestimated amount of claims assumed by reinsurers as of the end of the current years for each accident year.

(6) Each policy year's 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 (see Note below).

(7) Compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years as indicated.

The columns of the table show data for successive fiscal or policy years as indicated.

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

SUPPLEMENTAL SCHEDULE OF TEN-YEAR CLAIMS (CONTINUED)

December 31, 2017

FISCAL YEAR ENDED	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
(1) Earned contribution and investment revenues										
Earned	$ 70,927,243	$ 74,668,287	$ 74,846,986	$ 58,392,036	$ 62,302,720	$ 67,799,544	$ 67,684,533	$ 77,645,334	$ 80,784,467	83,333,556
Ceded	(17,765,730)	(17,495,776)	(18,021,753)	(17,267,607)	(17,937,632)	(21,609,971)	(22,317,022)	(22,975,290)	(22,675,839)	(20,990,318)
Net earned	53,161,513	57,172,511	56,825,233	41,124,429	44,365,088	46,189,573	45,367,511	54,670,044	58,108,628	62,343,238
(2) Unallocated expenses	6,026,706	6,167,594	6,488,271	6,355,701	6,310,443	6,611,228	7,408,778	7,750,645	8,249,128	11,231,298
POLICY YEAR ENDED										
(3) Estimated incurred claims and expenses end of policy year										
Incurred	51,340,512	55,338,760	45,644,519	58,821,028	57,831,829	55,425,308	62,820,000	58,620,000	76,490,000	79,350,000
Ceded	(6,077,682)	(11,027,966)	(4,957,055)	(11,295,242)	(16,391,984)	(9,679,259)	(12,380,000)	(10,320,000)	(22,450,000)	(19,550,000)
Net incurred	45,262,830	44,310,794	40,687,464	47,525,786	41,439,845	45,746,049	50,440,000	48,300,000	54,040,000	59,800,000
(4) Net paid claims (cumulative) as of										
End of policy year	17,539,644	17,993,958	15,123,787	18,386,162	14,651,067	15,435,861	19,506,252	17,872,532	19,913,123	22,432,899
One year later	31,597,120	29,268,524	24,993,843	31,553,487	24,616,642	30,492,482	32,670,636	33,542,698	34,980,114	
Two years later	36,148,830	34,847,138	29,408,539	37,542,337	27,779,927	35,679,353	37,769,900	39,074,357		
Three years later	40,062,153	37,550,832	32,285,040	39,927,687	29,988,363	38,338,091	40,272,547			
Four years later	42,207,960	38,746,479	34,050,135	40,925,056	31,062,382	47,273,164				
Five years later	42,964,131	39,541,566	35,246,657	42,090,652	31,350,529					
Six years later	43,412,073	39,668,426	35,778,304	42,597,533						
Seven years later	44,216,747	39,829,208	35,950,581							
Eight years later	44,544,383	40,080,630								
Nine years later	44,564,787									
(5) Reestimated ceded claims and expenses	4,720,247	8,543,785	3,999,473	13,567,297	12,906,495	6,820,000	14,460,000	12,420,000	21,530,000	-
(6) Reestimated net incurred claims and expenses										
End of policy year	45,262,830	44,310,794	40,687,464	47,525,786	41,439,845	45,746,049	50,440,000	48,300,000	54,040,000	59,800,000
One year later	44,321,630	42,381,304	39,269,403	47,526,423	38,718,898	46,510,000	47,930,000	48,500,000	52,190,000	
Two years later	45,065,414	43,053,162	38,782,376	47,021,034	34,970,000	44,770,000	46,260,000	48,090,000		
Three years later	45,196,730	42,623,038	38,187,082	45,210,000	34,165,000	51,100,000	45,486,667			
Four years later	46,290,676	41,945,224	38,020,000	45,040,000	33,298,185	50,900,000				
Five years later	46,149,730	41,090,000	37,075,467	44,623,761	33,072,335					
Six years later	45,986,693	41,237,252	36,653,223	44,613,761						
Seven years later	45,381,693	40,969,683	36,335,287							
Eight years later	45,611,693	40,939,883								
Nine years later	45,541,693									
(7) Increase (decrease) in estimated incurred claims and expense from end of policy year	278,863	(3,370,911)	(4,352,177)	(2,912,025)	(8,367,510)	5,153,951	(4,953,333)	(210,000)	(1,850,000)	-

See auditors' report on supplementary information.

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

RECONCILIATION OF CLAIMS RESERVE BY TYPE OF COVERAGE

Years ended December 31, 2017 and 2016

	Workers compensation		Property		General liability		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Total claims reserves, beginning of year	**$ 36,629,858**	$ 37,035,320	**$ 26,112,611**	$ 9,708,723	**$ 49,444,805**	$ 42,695,838	**$ 112,187,274**	$ 89,439,881
Less: reinsurance recoverables	**(4,153,365)**	(4,566,776)	**(20,896,480)**	(5,037,692)	**(8,493,202)**	(11,006,837)	**(33,543,047)**	(20,611,305)
Claims and claim adjustment expense reserves, net of excess insurance, beginning of year	**32,476,493**	32,468,544	**5,216,131**	4,671,031	**40,951,603**	31,689,001	**78,644,227**	68,828,576
Incurred claims and claim adjustment expenses:								
Provision for insured events of the current fiscal year	**29,200,000**	27,010,000	**12,060,000**	10,080,000	**18,540,000**	16,950,000	**59,800,000**	54,040,000
Increase (decrease) to provision for insured events of prior fiscal years	**(2,556,783)**	(1,361,165)	**(15,257)**	474,616	**(1,422,788)**	4,312,430	**(3,994,828)**	3,425,881
Total incurred claims and claim adjustment expenses, net of excess insurance	**26,643,217**	25,648,835	**12,044,743**	10,554,616	**17,117,212**	21,262,430	**55,805,172**	57,465,881
Payments, net of excess insurance:								
Claims and claims adjustment expense attributable to insured events of the current fiscal year	**(10,776,728)**	(10,432,508)	**(8,675,437)**	(6,929,543)	**(2,980,536)**	(2,551,073)	**(22,432,701)**	(19,913,124)
Claims and claims adjustment expense attributable to insured events of the prior fiscal years	**(13,882,044)**	(15,208,378)	**(3,113,667)**	(3,079,973)	**(16,682,012)**	(9,448,755)	**(33,677,723)**	(27,737,106)
Total payments, net of excess insurance	**(24,658,772)**	(25,640,886)	**(11,789,104)**	(10,009,516)	**(19,662,548)**	(11,999,828)	**(56,110,424)**	(47,650,230)
Claim and claim adjustment expense reserves, net of excess insurance, end of year	**34,460,938**	32,476,493	**5,471,770**	5,216,131	**38,406,267**	40,951,603	**78,338,975**	78,644,227
Plus: reinsurance recoverables	**4,841,629**	4,153,365	**16,043,626**	20,896,480	**4,766,560**	8,493,202	**25,651,815**	33,543,047
Total claims reserves, end of year	**$ 39,302,567**	$ 36,629,858	**$ 21,515,396**	$ 26,112,611	**$ 43,172,827**	$ 49,444,805	**$ 103,990,790**	$ 112,187,274

See auditors' report on supplementary information.