

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Missouri Intergovernmental Risk Management Association for the period ending December 31, 2011.

### ORDER

After full consideration and review of the report of the Financial Examination of Missouri Intergovernmental Risk Management Association for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Missouri Intergovernmental Risk Management Association as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri Intergovernmental Risk Management Association to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 26th day of December, 2012.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

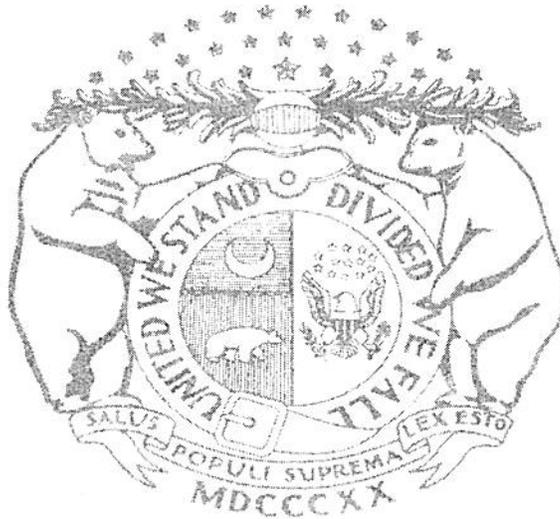


REPORT OF  
FINANCIAL EXAMINATION

**FILED**  
JAN 05 2013  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

# Missouri Intergovernmental Risk Management Association

As of:  
June 30, 2011



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

JEFFERSON CITY, MISSOURI

Table of Contents

<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
Period Covered .....	1
Procedures.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>2</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>2</b>
<b>COMPANY HISTORY .....</b>	<b>2</b>
General.....	2
Capital Stock.....	2
Dividends.....	2
Mergers and Acquisitions .....	2
<b>CORPORATE RECORDS .....</b>	<b>2</b>
Corporate Documents .....	2
Meeting Minutes .....	3
<b>MANAGEMENT AND CONTROL .....</b>	<b>3</b>
Board of Directors .....	3
Officers .....	4
Conflict of Interest.....	4
Holding Company, Subsidiaries and Affiliates .....	4
<b>SERVICE PROVIDERS .....</b>	<b>4</b>
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>5</b>
<b>PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS.....</b>	<b>5</b>
<b>TERRITORY AND PLAN OF OPERATION.....</b>	<b>6</b>
<b>GROWTH OF COMPANY .....</b>	<b>6</b>
<b>LOSS EXPERIENCE .....</b>	<b>6</b>
<b>REINSURANCE .....</b>	<b>6</b>
Assumed.....	6
Ceded .....	6
<b>ACCOUNTS AND RECORDS.....</b>	<b>7</b>
General.....	7
Independent Auditor .....	7
Independent Actuary.....	7
<b>STATUTORY DEPOSITS.....</b>	<b>8</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>8</b>
<b>BALANCE SHEET .....</b>	<b>9</b>
<b>INCOME STATEMENT .....</b>	<b>10</b>
<b>RECONCILIATION OF NET ASSETS .....</b>	<b>10</b>
<b>EXAMINATION CHANGES.....</b>	<b>11</b>
<b>COMMENTS ON FINANCIAL STATEMENTS .....</b>	<b>11</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>11</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>12</b>
<b>VERIFICATION .....</b>	<b>12</b>
<b>SUPERVISION.....</b>	<b>12</b>

October 10, 2012  
St. Louis, MO

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Huff:

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

**Missouri Intergovernmental Risk Management Association**

hereinafter referred to as "MIRMA" or as the "Company." The Company's main office is located at 3002 Falling Leaf Court; Columbia, Missouri 65201; telephone number (573) 817-2554. Examination fieldwork began on September 10, 2012 and concluded on the above date.

**SCOPE OF EXAMINATION**

Period Covered

We have performed a single-state examination of Missouri Intergovernmental Risk Management Association. The last examination was completed as of June 30, 2006. This examination covers the period of July 1, 2006 through June 30, 2011. This examination also included material transactions or events occurring subsequent to June 30, 2011.

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 Hochschild, Bloom & Company LLP for its audit covering the period from July 1, 2010 through June 30, 2011.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The Company has achieved substantial growth in its net assets while maintaining stable membership. Assessments have also been somewhat stable even though the rates upon which the assessments are based have been declining. The Company has a conservative investment strategy and effective claims administration has resulted in acceptable levels of losses.

## **SUBSEQUENT EVENTS**

There are no significant subsequent events since the examination date.

## **COMPANY HISTORY**

### General

The Missouri Intergovernmental Risk Management Association was formed as a self-insurance pool to cover workers compensation and property and casualty claims for its members. The Association provides multi-line coverage (individual lines are not available) to municipalities and municipally owned utilities throughout Missouri. MIRMA was formed under the provisions of Chapter 287 RSMo (Workers' Compensation) and Chapter 537 RSMo (Risk Management for Public Entities) and was incorporated July 1, 1981.

On June 30, 1983, the Missouri Division of Insurance issued the Company a certificate of authority to operate as an assessable political subdivision plan pursuant to Sections 537.620 to 537.650 RSMo (Political Subdivision Assessable).

### Capital Stock

MIRMA is a not-for-profit entity and has no capital stock.

### Dividends

MIRMA does not pay dividends, but may provide credits on previously paid assessments. No credits were provided during the current examination period.

### Mergers and Acquisitions

There have been no mergers or acquisitions involving this company.

## **CORPORATE RECORDS**

### Corporate Documents

The Articles of Association and the Bylaws were reviewed. The Articles of Association had been amended as follows:

1. A revision to include a provision that allows for a member to be terminated following a minimum 30 day notice for any outlined reason with the reimbursement of half of any unused assessment.
2. A provision allowing the Executive Director to give a firm not-to-exceed quote for the following year for new members.
3. A new provision allowing the Executive Director to approve any new member, even in mid-term.
4. A new clause requiring that a written vote be conducted when multiple nominations are made for any one officer position and the election to be decided by a simple majority vote.

The Bylaws were also amended. Those new procedures are:

1. A timeline was added to require an appeal to be filed within two years from the date of the adverse decision.
2. Amended the Board attendance policy to require that the attendance be reviewed by the Board and the Board may take whatever action deemed appropriate, up to and including removal from the Board.

Meeting Minutes

The minutes from the annual meetings and the Board of Directors meetings were reviewed for the current examination period. Those 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 ten members manages the Association. The directors are elected annually for staggered three-year terms. Members serving at June 30, 2011, were:

David Dews  
City Manager  
City of De Soto, MO

Dolores Grannemann  
City Clerk  
City of Hermann, MO

Jennifer Schmidt  
City Clerk  
City of Tipton, MO

Greg Hodge  
Director of Finance  
City of Moberly, MO

Derek Brown  
City Administrator  
City of Albany, MO

Ronald Mersch  
City Administrator  
City of Bolivar, MO

Phillip Shatzer  
Superintendent of Operations  
City of Paris, MO

Vicky McLeland  
City Clerk  
City of Macon, MO

Russell Rost  
City Administrator  
City of Union, MO

W. Alan Winders  
City Administrator  
City of Vandalia, MO

### Officers

The officers appointed and serving as of June 30, 2011 were:

Matthew Brodersen - Executive Director  
David Dews - Chairman  
Dolores Grannemann – Vice Chairman  
Jennifer Schmidt - Secretary  
Greg Hodge - 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.

## **SERVICE PROVIDERS**

The Company has contracted with third party vendors to provide a variety of services for the operation. These are summarized here:

**Corporate Claims Management, Inc. (CCMI)** This company provides claims administration for all claims except worker's compensation (MIRMA performs this internally) and employment practice liability. MIRMA also uses the claims administration software, provided by CCMI, for all claims. MIRMA paid \$300,608 under this contract during 2011.

**Professional Claims Managers, Inc. (PCM)** PCM provides the claims administration function for all of the Company's employment practice liability claims. This is a highly specialized area and the Company does not receive a large number of claims, so management determined a specialized servicer would be beneficial. MIRMA paid \$33,232 for this contract during 2011.

**St. Louis Series of Lockton Companies, LLC (Lockton)** Lockton evaluates reinsurance programs and assists the Company in obtaining its reinsurance coverages. MIRMA paid \$190,000 for this service in 2011.

**Hochschild, Bloom & Company LLP (HBC)** This firm performs the Company's annual audit. During 2011, it was paid \$27,800.

**Tiller Consulting Group, Inc.** Tiller Consulting Group, Inc. is the Company's opining actuary. Claim reserves and expected losses are validated by this firm. The cost of this service for 2011 was \$16,675.

**Police Law Institute** This organization provides online training which is available to the police officers of member municipalities. The annual fee is \$56,000.

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company is protected by a crime policy with a \$1,000,000 limit and a \$10,000 deductible. MIRMA's property and casualty risks are self-insured with additional protection provided by the excess insurance coverages purchased for the protection of its members. In addition, the Company has Directors and Officers coverage for itself. These coverages provide adequate protection to the Company.

#### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

MIRMA has nine full-time employees. The Company offers a wide range of benefits to employees including life and disability insurance, health insurance, paid holidays, sick leave, a retirement plan and a voluntary tax deferred compensation plan.

MIRMA provides its employees with a defined contribution pension plan that provides retirement benefits to all eligible employees. MIRMA's contributions to the plan are based upon length of service, with employees becoming eligible for the program after six months of employment and are vested after three years of employment. No other obligations relating to this pension plan exist.

## **TERRITORY AND PLAN OF OPERATION**

MIRMA is licensed by the Department of Insurance, Financial Institutions and Professional Registration under Chapter 537 RSMo (Risk Management for Public Entities) and Chapter 287 RSMo (Workers' Compensation). Membership consists of 67 municipalities and municipally owned utilities in Missouri. The Company provides coverage to its members under five major categories; General Liability, Automobile Liability, Property, Crime and Workers' Compensation. Members must take all the coverages offered in the protection package.

The Company requires all municipalities and municipally owned utilities to sign a membership contract as a condition of membership. The membership contract documents the responsibilities of the Company and its members. All members also complete a membership questionnaire each year at renewal.

Assessments are largely a function of municipalities' payrolls. Adjustments are made based on loss prevention measures undertaken by the member and by the loss experience of the individual members. Assessment credits may be given when the Company's income permits. No credits were authorized during the examination period.

## **GROWTH OF COMPANY**

The Company's growth is best described as stable. Membership has remained fairly constant as have the assessments paid by that membership. The Company has been profitable which has allowed net assets to grow from just over \$3 million at the end of fiscal year 2007 to almost \$13.6 million through June 30, 2011.

## **LOSS EXPERIENCE**

The Company realized somewhat stable loss experience over the examination period. Reported losses ranged from a low in 2011 of \$5.2 million to a high of \$8.6 million in 2009. The Company's June 30, 2011 loss reserves of \$13.4 million were determined to be adequate by the Company's opining actuary.

## **REINSURANCE**

### Assumed

The Company does not assume any business.

### Ceded

The Company receives protection for a variety of coverages through several excess of loss programs. The following table shows the Company's reinsurance coverages:

Company	Coverage Type	Limits	Company Retention
Old Republic Insurance Company	Airport Liability	2,000,000	NA
General Reinsurance Corporation	General Liability	1,500,000	1,000,000
National Union Fire Insurance Company of Pittsburgh, PA	Workers Compensation	Statutory	1,000,000
The Travelers Indemnity Company	Boiler and Machinery	99,500,000	500,000
The Travelers Insurance Company	Property Damage	25,000,000	500,000
Aspen Specialty Insurance Company	Property Damage 10%	7,500,000	25,000,000
Empire Indemnity Insurance Company	Property Damage 16.67%	12,500,000	25,000,000
Max Specialty Insurance Company	Property Damage 10%	7,500,000	25,000,000
The Princeton Surplus and Excess Lines Insurance Company	Property Damage 13.33%	10,000,000	25,000,000
RSUI Indemnity Company	Property Damage 50%	37,500,000	25,000,000

Property damage protection is provided through two layers. The first layer has limits of \$25 million excess the Company's \$500,000 retention. The second layer has \$75 million excess the \$25 million from the first layer. This is shared by five different reinsurers (percentage shares shown in the table above.) The total premium for the Company's reinsurance was \$1.5 million in 2011.

## ACCOUNTS AND RECORDS

### General

The Company's financial statements are prepared based on generally accepted accounting principles. Accounting entries are recorded in *TurningPoint*, which is a Red Wing software program. The Company uses a claims management software obtained through the claims administrator, CCMI, for claims processing functions. This software used to be called *Prism*.

### Independent Auditor

The Company is audited by the accounting firm of Hochschild, Bloom & Company LLP. A review was made of the workpapers of the most recently completed audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

### Independent Actuary

Claim and adjustment expense reserves reported in the financial statements were certified by Margaret Tiller Sherwood, FCAS, MAAA, of Tiller Consulting Group, Inc. The Company's reported reserves were higher than the reserves determined by Ms. Sherwood.

## **STATUTORY DEPOSITS**

The Company is not required to maintain any statutory deposits.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of June 30, 2011, and the results of operations for the year then ended. 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 June 30, 2011**

<b>Assets</b>	
Certificates of deposit	\$1,950,692
Debt securities	23,508,520
Repurchase agreements	413,000
Cash	11,295,096
Accrued interest	161,193
Insurance recoverable	50,777
Member assessment receivable	46,909
Prepaid expenses	473
Capital assets	363,334
Total Assets	<u>37,789,994</u>
<b>Liabilities</b>	
Claim reserves	13,388,421
Reserve for unallocated loss adjustment	43,903
Accounts payable	114,344
Unearned member assessments	10,612,035
Accrued payroll expense	54,057
Total Liabilities	<u>24,212,760</u>
<b>Net Assets</b>	
Invested in capital assets	363,334
Unrestricted	13,213,900
Total Net Assets	<u>13,577,234</u>
Total Liabilities and Net Assets	<u>\$37,789,994</u>

**INCOME STATEMENT**  
**For Year Ending June 30, 2011**

<b>Revenues:</b>	
Member assessments	\$11,843,682
Penalty assessments	250
Interest income	788,432
Net increase (decrease) in fair value of investments	<u>(327,100)</u>
<b>Total Revenues</b>	<b>\$12,305,264</b>
<b>Expenses:</b>	
Claims paid on current losses	\$2,133,829
Established claim reserves	4,090,045
Adjustment to prior year's claim reserves	435,118
Excess insurance and bond premiums	1,522,483
Insurance services:	
Claims adjustment	335,160
Brokerage fee	190,000
Loss control services	115,447
Change in unallocated loss adjustment expenses	7,800
General and administrative	1,200,122
Taxes and fees	192,805
Risk management awards	<u>146,557</u>
<b>Total Expenses</b>	<b><u>\$10,369,366</u></b>
<b>Change in Net Assets</b>	<b><u>\$1,935,898</u></b>

**RECONCILIATION OF NET ASSETS**  
**Changes for Fiscal Years 2007 through 2011**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Beginning Unrestricted Net Assets	\$2,133,838	\$2,609,672	\$6,081,197	\$7,739,328	\$11,276,361
Change in Unrestricted Net Assets	475,834	3,471,525	1,658,131	3,537,033	1,937,539
Ending Unrestricted Net Assets	2,609,672	6,081,197	7,739,328	11,276,361	13,213,900
Invested in Capital Assets	425,096	386,772	375,221	364,975	363,334
Total Net Assets	<u>\$3,034,768</u>	<u>\$6,467,969</u>	<u>\$8,114,549</u>	<u>\$11,641,336</u>	<u>\$13,577,234</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.

## **SUMMARY OF RECOMMENDATIONS**

The Company should continue to monitor the legal environment in which it operates. The rationale behind the recent Supreme Court decision regarding tort reform could have implications for worker's compensation and on laws applicable to municipalities. Uncertainty surrounding the Second Injury Fund could also negatively impact the Company.

