

# 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 United School Insurance Council for the period  
ended December 31, 2011

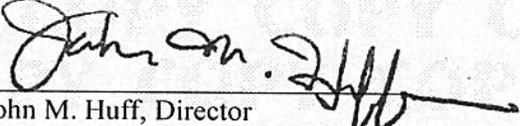
### ORDER

After full consideration and review of the report of the financial examination of Missouri United School Insurance Council 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 United School Insurance Council as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri United School Insurance Council 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 10th day of April, 2013.



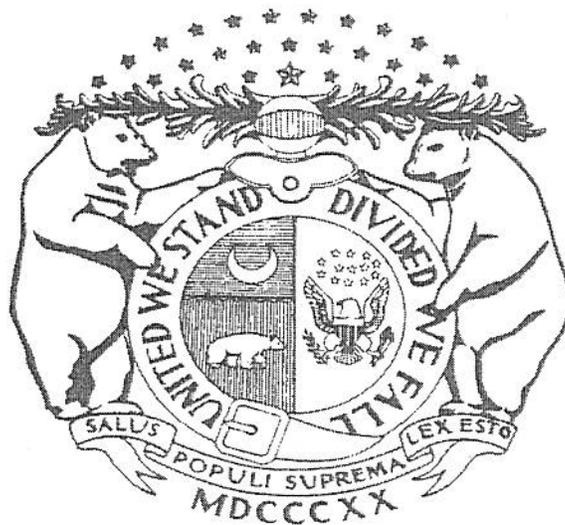
  
John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

Report of  
Financial Examination

**MISSOURI UNITED SCHOOL  
INSURANCE COUNCIL**

As of  
December 31, 2011

**FILED**  
APR 20 2013  
DIRECTOR OF INSURANCE &  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



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 .....	2
<b>MANAGEMENT AND CONTROL</b> .....	<b>3</b>
Board of Directors.....	3
Officers .....	3
Committees .....	3
Conflict of Interest .....	3
Holding Company, Subsidiaries and Affiliates .....	3
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>4</b>
<b>PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>4</b>
<b>TERRITORY AND PLAN OF OPERATION</b> .....	<b>4</b>
Broker Contract.....	4
Claims Administration Contract .....	5
<b>GROWTH OF COMPANY</b> .....	<b>5</b>
<b>LOSS EXPERIENCE</b> .....	<b>5</b>
<b>REINSURANCE</b> .....	<b>6</b>
Assumed.....	6
Ceded .....	6
<b>ACCOUNTS AND RECORDS</b> .....	<b>6</b>
General.....	6
Independent Auditor .....	7
Independent Actuary .....	7
<b>STATUTORY DEPOSITS</b> .....	<b>7</b>
<b>FINANCIAL STATEMENTS</b> .....	<b>7</b>
<b>BALANCE SHEET</b> .....	<b>8</b>
<b>INCOME STATEMENT</b> .....	<b>9</b>
<b>RECONCILIATION OF MEMBERS' FUND BALANCE</b> .....	<b>9</b>
<b>EXAMINATION CHANGES</b> .....	<b>10</b>
<b>COMMENTS ON FINANCIAL STATEMENTS</b> .....	<b>10</b>
<b>SUMMARY OF RECOMMENDATIONS</b> .....	<b>10</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>11</b>
<b>VERIFICATION</b> .....	<b>11</b>
<b>SUPERVISION</b> .....	<b>11</b>

December 27, 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 United School Insurance Council**

hereinafter referred to as "MUSIC" or as the "Company." The Company's main office is located at 12444 Powerscourt Drive; St. Louis, MO 63131; telephone number (314) 965-4346. Examination fieldwork began on October 1, 2012 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, 2006. This examination covers the period of January 1, 2007 through December 31, 2011. This examination also included material transactions or events occurring subsequent to December 31, 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 Conner Ash, P.C. for its audit covering the period from January 1, 2011 through December 31, 2011.

## SUMMARY OF SIGNIFICANT FINDINGS

The Company has grown steadily in recent years and has improved its overall surplus position. Losses have been effectively controlled and membership is stable.

### SUBSEQUENT EVENTS

There were no significant subsequent events.

### COMPANY HISTORY

#### General

MUSIC was formed on December 4, 1985 under Chapter 537 RSMo to provide risk management for its member public school districts, junior college districts and public community colleges. Forty-seven districts formed MUSIC with an initial assessment of \$2,286,692. The Company currently has 464 members. The assessment for 2011 was \$67,255,533.

#### Capital Stock

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

#### Dividends

Section 537.635 RSMo (Entity to be treated as corporation--not to produce profit--may pay dividends, when) permits the paying of dividends provided the Company has a positive surplus both before and after the dividend is declared. MUSIC credited member entities with a surplus allocation totaling \$12,576,895 during 2011. This was the first credit provided since inception.

#### Mergers and Acquisitions

There were no mergers or acquisitions involving the Company during the examination period.

### CORPORATE RECORDS

#### Corporate Documents

The Articles of Association and the Bylaws were reviewed. No amendments were made to either document during the current examination period.

#### 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 nine members manages the Association. The directors are elected annually for staggered three-year terms. Members serving at December 31, 2011, were:

Dr. Bernard DuBray, Superintendent  
Fort Zumwalt R-II

Russ Brock, Superintendent  
Gasconade Co. R-II

Blane Keel, Superintendent  
Clearwater R-I

Mark Stockwell, Chief Financial Officer  
Parkway School District

Rob Dowis, Superintendent  
Jefferson C-123

Dr. Phillip Cook, Superintendent  
Carl Junction R-I

Dr. Mark James, Chancellor  
Metropolitan Community College of  
Kansas City

Dr. William "Bill" Nicely,  
Superintendent  
Kearney R-I

Debra Livingston, Superintendent  
Macon R-I

### Officers

The officers appointed and serving as of December 31, 2011 were:

Dr. Gary VanMeter - Executive Director  
Dr. Bernard DuBray, Chairman  
Russ Brock, Vice-Chairman  
Blane Keel, Secretary  
Mark Stockwell, Treasurer

### Committees

There are no formal standing committees.

### 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.

## **FIDELITY BOND AND OTHER INSURANCE**

Missouri United School Insurance Council is the named insured on a \$1,000,000 crime and fidelity policy, with a \$150,000 deductible. This policy meets the suggested minimum coverage requirements of the NAIC. The Company also maintains a bond covering its Treasurer with \$50,000 coverage and an Errors and Omissions policy that provides \$2,000,000 in coverage with a \$50,000 deductible. These insurance policies provide adequate coverage for all of the Company's insurance exposure.

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

MUSIC has an employment agreement with its Executive Director. Under the agreement, the Executive Director receives vacation, sick leave, medical, dental and life insurance benefits. The Company does not provide pension or retirement benefits.

## **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 coverage to public school districts and community colleges in the state of Missouri. At year end 2011, membership consisted of 450 school districts, 8 community colleges and 6 other education-related entities. This represents 86% of Missouri public schools and 67% of community colleges. MUSIC operates in a manner similar to other public entity risk pools.

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.

### Broker Contract

MUSIC utilizes the services of its broker Arthur J. Gallagher & Company to provide the following services:

- Marketing
- Selection of reinsurers
- Premium accounting and allocation
- Loss control oversight
- Evaluation of the company's insurance program
- Review of all contracts entered into by the company
- Arbitration of loss settlements

The service fees paid to Arthur J. Gallagher & Company during the examination period were:

<u>Year</u>	<u>Service Fee Paid</u>	<u>Percentage of Assessments</u>
2008	\$1,300,000	1.97%
2009	\$1,339,000	1.90%
2010	\$1,358,739	1.91%
2011	\$1,728,739	2.57%

#### Claims Administration Contract

Gallagher Bassett Services, Inc. provides claims administration, loss control and loss prevention services to MUSIC, including providing seminars and training sessions for member school districts to reduce or eliminate losses. The service fees paid to Gallagher Bassett Services, Inc. during the examination period were:

<u>Year</u>	<u>Service Fee Paid</u>	<u>Percentage of Assessments</u>
2008	\$2,973,000	4.51%
2009	\$3,034,000	4.30%
2010	\$3,113,000	4.40%
2011	\$3,058,000	4.55%

### **GROWTH OF COMPANY**

The Company has exhibited stable growth over the past five years. The table below illustrates the stability in the Company's growth and the increasing Members' Fund Balance. The Members' Fund Balance in 2011 reflects a \$12.6 million surplus allocation credit to the membership. (All dollar amounts are in millions.)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Members	470	471	469	466	464
Member Assessments	\$67.6	\$65.9	\$70.5	\$75.0	\$67.3
Total Assets	\$169.0	\$184.8	\$192.0	\$193.9	\$199.4
Members' Fund Balance	\$32.9	\$38.5	\$46.5	\$59.4	\$49.1

### **LOSS EXPERIENCE**

The Company has shown a steady increase in the overall claims incurred as well as claim reserves during the past five years. This is commensurate with the Company's overall growth. The following table illustrates the changes. (All dollar amounts are in millions.)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Claim Reserves	\$67.9	\$73.1	\$72.8	\$75.6	\$86.6
Incurred Claims	\$36.0	\$40.9	\$43.3	\$40.1	\$47.2

## 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 following table shows the Company's retention and excess coverage limits for various types of insurance coverages:

Coverage	Company's Retention	Excess Limits	Deductibles
Property	\$500,000	\$750,000,000	\$1,000 for buildings, \$500 for contents per occurrence
Auto Physical Damage	\$0	Actual cash value	\$500 per occurrence
Boiler and Machinery	\$0	\$100,000,000	\$500 per occurrence
Terrorism	\$0	\$50,000,000	\$150,000 per occurrence
General Liability	\$500,000	\$2,500,000	\$0
School Board Legal Liability	\$500,000	\$1,000,000	\$0
Misc. Medical Malpractice	\$500,000	\$2,500,000	\$0
Employment Practices	\$500,000	\$2,500,000	None
Workers Compensation	\$500,000	Statutory Limit	None
Employers Liability	\$500,000	\$1,000,000	None
Crime	\$150,000	\$1,000,000	None
Errors and Omissions	\$50,000	\$2,000,000	None
Special Events	\$0	\$2,000,000	\$250 per attendee
Treasurer's Bond	\$0	\$25,000	None

Excess coverages are obtained through numerous, highly-rated companies.

## ACCOUNTS AND RECORDS

### General

The Company uses the Quick Books system for all general ledger transactions and reporting. All policy administration and claims processing is done on the RISX-FACS

system. The company's financial statements are prepared on excel spreadsheets by the CPA firm Conner Ash P.C. Accounts payable are processed manually by the Company's part-time accountant.

Requests for information were not always addressed in a timely manner. For example, the Company received a reinsurance questionnaire before the examination started in September, 2012. Responses to the questionnaire were never provided. The Company violated regulations in that 20 CSR 200-4.010(4) requires insurers to provide requested records within 5 business days of the request.

A request was made for custodial agreements with First Bankers' Banc Securities, Inc. and Enterprise Bank. Again, these documents were not provided.

#### Independent Auditor

The Company is audited by the accounting firm of Conner Ash P.C. 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 Robert F. Scott, Jr., FCAS, MAAA, of CAI Casualty Actuaries, Inc.

### **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 December 31, 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 December 31, 2011**

**Assets**

*Current Assets*

Cash and equivalents	\$51,287,576
Investments	113,211,085
Member assessments receivable	11,189,772
Accrued investment income	890,495
Reinsurance recoverable on paid claims	1,781,867
Prepaid expenses	2,696
Total Current Assets	<u>178,363,491</u>

*Other Assets*

Reinsurance recoverable on unpaid claims	21,023,939
--	------------

Total Assets	<u>\$199,387,430</u>
--------------	----------------------

**Liabilities and Members' Fund Balance**

*Current Liabilities*

Unearned member assessments	61,921,270
Claims and claim adjustment expense reserves	37,000,000
Accounts payable and accrued expenses	246,905
Liability for uncleared checks and drafts	1,462,217
Total Current Liabilities	<u>100,630,392</u>

*Other Liabilities*

Claims and claim adjustment expense reserves	<u>49,641,918</u>
--	-------------------

Total Liabilities	150,272,310
-------------------	-------------

Members' Fund Balance	<u>49,115,120</u>
-----------------------	-------------------

Total Liabilities and Members' Fund Balance	<u>\$199,387,430</u>
---	----------------------

**INCOME STATEMENT**  
**For Year Ending December 31, 2011**

Revenues	
Member assessments	\$67,255,533
Member surplus allocation credit	(12,576,895)
Investment income, net	3,713,398
Total Revenues	<u>58,392,036</u>
Expenses	
Incurred claims and claim adjustment expenses	47,230,785
Premiums for reinsurance coverage	17,267,607
Insurance services	4,681,808
General and administrative	483,299
Premium taxes	1,190,594
Total Expenses	<u>70,854,093</u>
Net change in fair value of investments	<u>2,213,585</u>
Net Revenue	<u>(\$10,248,472)</u>

**RECONCILIATION OF MEMBERS' FUND BALANCE**  
**Changes from December 31, 2007 to December 31, 2011**

	2007	2008	2009	2010	2011
Beginning Fund Balance	\$19,956,553	\$32,874,200	\$38,474,816	\$46,537,830	\$59,363,592
Net Income (Loss)	\$12,917,647	\$5,600,616	\$8,063,014	\$12,825,762	\$2,328,423
Surplus Allocation Credit	\$0	\$0	\$0	\$0	(\$12,576,895)
Ending Fund Balance	<u>\$32,874,200</u>	<u>\$38,474,816</u>	<u>\$46,537,830</u>	<u>\$59,363,592</u>	<u>\$49,115,120</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

### *Accounts and Records, Page 7*

The Company did not provide requested information in a timely manner. The reinsurance questionnaire requested prior to the start of the examination was never provided. Also, custodial agreements with First Bankers' Banc Securities, Inc. and Enterprise Bank were requested but not provided.

This violates 20 CSR 200-4.010(4) which requires insurers to provide requested records within 5 business days of the request. The Company should take actions to ensure its service provider responds to requests to produce documents in the examination.

The Company should also ensure that custodial agreements exist with the institutions holding securities for the Company. The agreements should reflect the custodial agreement requirements outlined in the Financial Condition Examiners Handbook.

