

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

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

ORDER

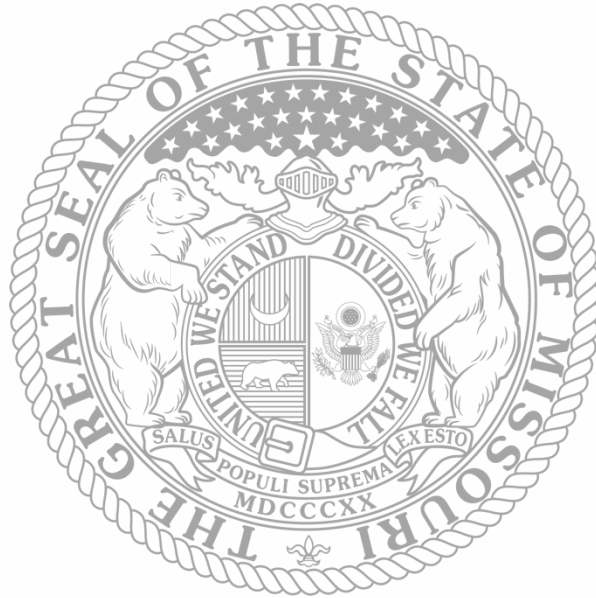
After full consideration and review of the report of the financial examination of Missouri United School Insurance Council for the period ended December 31, 2021, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance 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 finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

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, 2021, 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) 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 01st day of June, 2023.



Chlora Lindley Myers
Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

MISSOURI UNITED SCHOOL INSURANCE COUNCIL

AS OF
DECEMBER 31, 2021

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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St. Louis, MO
March 9, 2023

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

Director Lindley-Myers:

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

Missouri United School Insurance Council (NAIC # 15250)

hereinafter referred to as such, as MUSIC, or as the Company. Its administrative office is located at 12444 Powerscourt Drive, Suite 500, St. Louis, MO 63131; telephone number (314) 800-2220. The fieldwork for this examination began on December 1, 2022, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a single-state financial examination of Missouri United School Insurance Council. The last examination of the Company by the Department covered the period of January 1, 2012, through December 31, 2016. The current examination covers the period of January 1, 2017, through December 31, 2021, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

MUSIC was formed on December 30, 1985, and organized under Chapter 537 RSMo to provide insurance and risk management services for its members. The Articles of Association limit membership to Missouri public school districts, public community colleges, and entities operated and controlled by these organizations which provide ancillary services.

MUSIC is not a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions) and does not have any subsidiaries or affiliates.

Mergers, Acquisitions, and Major Corporate Events

There were no mergers, acquisitions, or other major corporate events, as applicable, during the examination period.

Assessments

MUSIC’s Articles of Association allows for surplus beyond the funds necessary to meet its financial obligations and reserves to be credited toward future annual assessments. This is done through surplus allocation credits. The Board of Directors did not approve any surplus allocation credits during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that are elected by official representatives of the members. The Company’s By-Laws specify that the Board of Directors shall consist of nine members. Subsequent to the examination period, the By-Laws were amended, increasing the Board to ten members. The Directors elected and serving as of December 31, 2021, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Member Affiliation</u>
Bernard DuBray	Superintendent, Fort Zumwalt R-II School District
Phillip Cook	Superintendent, Carl Junction R-1 School District
Jenny Ulrich	Superintendent, Lonedell R-XIV School District
Todd Galbierz	Vice President, St. Charles Community College
Chris Wilson	Superintendent, Kennett School District #39
Tracy Bottoms	Superintendent, Montgomery County R-II School District
Jeff Blackford	Superintendent, Nodaway-Holt R-VII School District
Matt Unger	Superintendent, Morgan County R-1 School District
Ron Orr	Chief Financial Officer, Pattonville School District

Senior Officers

The officers elected and serving, as of December 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Mark Stockwell	Executive Director
Bernard DuBray	Chairman
Phillip Cook	Vice-Chairman
Chris Wilson	Secretary
Ron Orr	Treasurer

Corporate Records

The Company's Articles of Association and By-Laws were reviewed. The minutes of the annual meetings and the Board of Directors' meetings were reviewed for the period under examination.

TERRITORY AND PLAN OF OPERATION

MUSIC is a self-insurance pool designed exclusively for Missouri public school districts, community colleges, and related entities. At year-end 2021, membership consisted of 467 public school districts, 8 community colleges, and 10 other education-related entities. This represents 91% of Missouri public school districts and 67% of Missouri public community colleges.

MUSIC provides coverage to its members through a blanket coverage policy called the "Plan Document" which provides coverage for property, liability, automobile, boiler and machinery, commercial crime, cyber and workers' compensation. The Company purchases excess insurance above certain self-insured retentions to protect the pool assets from large losses. In addition, MUSIC has implemented multiple loss control activities in an effort to reduce losses.

Under the Missouri public entity pooling laws in Chapter 537 RSMo, the Company is not required to file policy forms or premium rates with the Missouri Department of Commerce and Insurance. Arthur J. Gallagher Risk Management Services, Inc. provides for the overall management of pool operations. Gallagher Bassett Services, Inc. provides claim administration service.

GROWTH OF COMPANY AND LOSS EXPERIENCE

The table below summarizes the Company's membership, assessments (premiums), claims, and member's fund balance (net position) for the period under examination:

(\$000s omitted)

Year	Member Participants	Member Assessments	Claims and Claim Adjustment Expenses	Members' Fund Balance
2017	480	\$ 80,503,416	\$ 55,805,171	\$ 23,210,397
2018	475	84,589,067	53,540,529	27,765,774
2019	476	86,677,602	61,249,063	34,942,173
2020	482	92,629,085	64,269,065	41,310,373
2021	485	91,614,009	50,849,558	48,317,154

Membership remained steady during the examination period. Favorable loss experience compared to projections resulted in significant growth in members' fund balance.

REINSURANCE

General

The Company operates as a risk pool and does not have reinsurance in the traditional use of the term. The Company carries excess coverages for all risks shared in the pool above the self-insured retention. The Company's self-insured retention varies by coverage.

Assumed Reinsurance

The Company does not assume any business.

Ceded Reinsurance

The Company's excess coverage limits for various types of insurance coverages are summarized in the following table:

Coverage	Limit
Property ¹	\$1,000,000,000 per occurrence
Crime	\$2,000,000 per occurrence
Treasurer's bond	\$50,000 per occurrence
Equipment breakdown	\$100,000,000 per occurrence
General liability/auto liability	\$3,000,000 per occurrence
Uninsured/underinsured motorist	\$50,000 per person, \$100,000 per occurrence
School board legal liability	\$3,000,000 per occurrence
Worker's compensation	Statutory limits
Employer's liability	\$3,000,000 per occurrence
Errors and omissions	\$3,000,000 per occurrence
Catastrophe Violent Acts	\$250,000 per occurrence
Cyber	\$2,000,000 per occurrence
Pollution	\$1,000,000 each incident
Special Events Liability (as needed)	\$1,000,000 per occurrence

¹ Property coverage has sub-limits of \$450,000,000 each for earthquake and flood claims per occurrence and annual aggregate across all members.

Due to the extent of reinsurance coverage and limits provided, 36 carriers participated in the reinsurance program for 2021. All reinsurers utilized by MUSIC during 2021 were rated at least "A-" by A.M. Best.

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

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, Conner Ash P.C., in St. Louis, MO, performed the financial statement audit of the Company for all years in the examination period. Reliance was placed upon the CPA workpapers as deemed appropriate.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense (LAE) reserves, and other actuarial items was issued by Russel L. Sutter, FCAS, MAAA, for all years in the examination period. Russel L. Sutter is employed by Willis Towers Watson in St. Louis, MO.

Information Systems

In conjunction with this examination, Kimberly Dobbs, CFE, AES, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the financial statements filed by the Company with the Department and present the financial condition of Missouri United School Insurance Council for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2021

	Assets
Cash and Cash Equivalents	\$ 90,226,102
Investments	129,793,096
Member Assessments Receivable	16,522,959
Accrued Investment Income	585,998
Reinsurance Recoverable on Paid Claims	579,309
Prepaid Expenses and Other Receivables	456,001
TOTAL ASSETS	\$ 238,163,465

LIABILITIES AND MEMBERS' FUND BALANCE

As of December 31, 2021

Unearned Member Assessments	\$ 97,146,046
Claims and Claim Adjustment Expense Reserves	40,000,000
Liability for Uncleared Checks and Drafts	1,365,517
Total Current Liabilities	\$ 138,511,563
Claims and Claim Adjustment Expense Reserves – Long Term	51,334,748
TOTAL LIABILITIES	\$ 189,846,311
MEMBERS' FUND BALANCE	\$ 48,317,154
TOTAL LIABILITIES AND MEMBERS' FUND BALANCE	\$ 238,163,465

STATEMENT OF INCOME
For the Year Ended December 31, 2021

<i>Revenues:</i>	
Members Assessments	\$ 91,614,009
Investment Income, Net	3,487,552
Total Revenues	\$ 95,101,561
<i>Expenses:</i>	
Incurred Claims and Claim Adjusting Expenses	\$ 50,849,558
Premiums for Reinsurance Coverage	25,899,963
Insurance Services	5,638,025
General and Administrative	748,043
Premium Taxes	2,207,623
Total Expenses	\$ 85,343,212
Net Change in Fair Value of Investments	\$ (2,751,568)
Net Increase (Decrease) in Members' Fund Balance	\$ 7,006,781

RECONCILIATION OF MEMBERS' FUND BALANCE
Changes from January 1, 2017 to December 31, 2021

(\$000s omitted)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Members' Fund Balance, Beginning of Year	\$ 27,065	\$ 23,210	\$ 27,766	\$ 34,942	\$ 41,310
Change in Members' Fund Balance	(3,855)	4,555	7,176	6,368	7,007
Members' Fund Balance, End of Year	\$ 23,210	\$ 27,766	\$ 34,942	\$ 41,310	\$ 48,317

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The amended and restated By-Laws were approved and adopted by the Board of Directors at the October 6, 2022, meeting.

At the June 24, 2022, meeting, the Board of Directors approved a 2.2% surplus allocation credit, or approximately \$2,500,000 to be applied toward 2023 annual assessments.

The COVID-19 pandemic is ongoing, with uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri United School Insurance Council during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Rebecca Edwards, APIR, examiner for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of Cole)

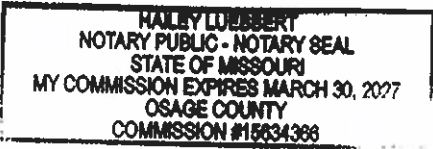
I, Brian D. Hammann, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Missouri United School Insurance Council, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Brian D. Hammann

Brian D. Hammann, CPA, CFE
Examiner-In-Charge
Missouri Department of Commerce and Insurance

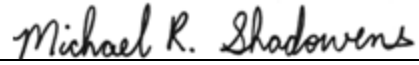
Sworn to and subscribed before me this 27th day of April, 2023.

My commission expires: March 30, 2027 *Hailey Gubelt*
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Michael Shadowens, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance