DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Missouri Housing Authorities Property and Casualty, Inc. for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Missouri Housing Authorities Property and Casualty, Inc. for the period ended December 31, 2012, 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 Housing Authorities Property and Casualty, Inc. as of December 31, 2011, be and is hereby ADOPTED as filed and for Missouri Housing Authorities Property and Casualty, Inc. 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 1st day of November, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration
REPORT OF THE
FINANCIAL EXAMINATION OF
MISSOURI HOUSING AUTHORITIES
PROPERTY AND CASUALTY, INC.
AS OF
DECEMBER 31, 2012

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALUTATION</td>
<td>1</td>
</tr>
<tr>
<td>SCOPE OF EXAMINATION:</td>
<td></td>
</tr>
<tr>
<td>Period Covered</td>
<td>1</td>
</tr>
<tr>
<td>Procedures</td>
<td>1</td>
</tr>
<tr>
<td>Comments - Previous Examination Report</td>
<td>2</td>
</tr>
<tr>
<td>HISTORY:</td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>2</td>
</tr>
<tr>
<td>Dividends</td>
<td>2</td>
</tr>
<tr>
<td>Management</td>
<td>3</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>3</td>
</tr>
<tr>
<td>Corporate Records</td>
<td>3</td>
</tr>
<tr>
<td>AFFILIATED COMPANIES</td>
<td>3</td>
</tr>
<tr>
<td>FIDELITY BOND AND OTHER INSURANCE</td>
<td>4</td>
</tr>
<tr>
<td>EMPLOYEE BENEFITS</td>
<td>4</td>
</tr>
<tr>
<td>INSURANCE PRODUCTS AND RELATED PRACTICES:</td>
<td></td>
</tr>
<tr>
<td>Territory and Plan of Operation</td>
<td>4</td>
</tr>
<tr>
<td>Policy Forms &amp; Underwriting Practices</td>
<td>4</td>
</tr>
<tr>
<td>REINSURANCE:</td>
<td></td>
</tr>
<tr>
<td>Assumed</td>
<td>6</td>
</tr>
<tr>
<td>Ceded</td>
<td>6</td>
</tr>
<tr>
<td>ACCOUNTS AND RECORDS</td>
<td>7</td>
</tr>
<tr>
<td>FINANCIAL STATEMENTS:</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>8</td>
</tr>
<tr>
<td>Liabilities, and Fund Balance</td>
<td>9</td>
</tr>
<tr>
<td>Statement of Operations</td>
<td>10</td>
</tr>
<tr>
<td>NOTES TO THE FINANCIAL STATEMENTS</td>
<td>11</td>
</tr>
<tr>
<td>EXAMINATION CHANGES</td>
<td>11</td>
</tr>
<tr>
<td>SUBSEQUENT EVENTS</td>
<td>11</td>
</tr>
<tr>
<td>SUMMARY OF RECOMMENDATIONS</td>
<td>11</td>
</tr>
<tr>
<td>ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION</td>
<td>12</td>
</tr>
</tbody>
</table>
October 11, 2013
Chesterfield, Missouri

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

Sir:

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

MISSOURI HOUSING AUTHORITIES PROPERTY AND CASUALTY, INC.

hereinafter referred to as such, or as the "Company." The Company's administrative office is
located at 173 Chesterfield Business Parkway, Chesterfield, MO 63005, telephone number (636)
530-6181. This examination began on August 26, 2013, and was completed on the above date, and
is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2008, and was
conducted by examiners from the State of Missouri. The current full-scope examination covers the
period from January 1, 2009, through December 31, 2012, and was conducted by examiners from
the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the
examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners
Handbook of the National Association of Insurance Commissioners (NAIC), except where
practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri
prevailed.
Comments-Previous Examination Report

There were no prior examination report comments or recommendations.

HISTORY

General

The Company was formed in December 1988, under Chapter 537 RSMo (Risk Management for Public Entities). The Company's purpose is to provide general liability, property and automobile property and liability coverages to public housing authorities located in Missouri. As of December 31, 2012, 104 housing authorities were members of the Company.

Dividends

Dividends are made in the form of premium reductions and are paid at the board of directors' discretion. The amount paid to each member is a function of the length of time as a member and the amount of premium paid during that time period. Dividends in the form of premium reductions paid during the examination period were: $835,480 paid during 2009, $475,873 paid during 2010, and $554,887 paid during 2012. No dividend/premium reductions were paid during 2011.

Management

The board of directors consists of nine members as authorized by the bylaws. Members serving as of December 31, 2012, were as follows:

<table>
<thead>
<tr>
<th>Name and Address</th>
<th>Occupation</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Hayes</td>
<td>Executive Director</td>
<td>2011-2014</td>
</tr>
<tr>
<td>Marshall, Missouri</td>
<td>Marshall Housing Authority</td>
<td></td>
</tr>
<tr>
<td>Carole King</td>
<td>Executive Director</td>
<td>2011-2013</td>
</tr>
<tr>
<td>Sikeston, Missouri</td>
<td>East Prairie Housing Authority</td>
<td></td>
</tr>
<tr>
<td>Carrol Lindley</td>
<td>Executive Director</td>
<td>2012-2015</td>
</tr>
<tr>
<td>Bernie, Missouri</td>
<td>Bernie Housing Authority</td>
<td></td>
</tr>
<tr>
<td>Jack McCord</td>
<td>Executive Director</td>
<td>2012-2015</td>
</tr>
<tr>
<td>Hannibal, Missouri</td>
<td>Hannibal Housing Authority</td>
<td></td>
</tr>
</tbody>
</table>
The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2012, were as follows:

- David Hayes: President
- Matt Moran: Vice-President
- Ed Miller: Treasurer
- Reba Williams: Secretary
- Susan McNary: Chief Executive Officer

**Conflict of Interest**

Directors and officers are required to complete a “Code of Ethics” statement upon taking office, and annually thereafter. The Company’s bylaws also require directors and officers to disclose any conflicts that may arise after taking office. No material conflicts were noted.

**Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Amendments to the Bylaws made during the examination period were properly approved by the Board of Directors. The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

**AFFILIATED COMPANIES**

The Company is not a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions), however, during the exam period the Company was affiliated with
Captive Housing Insurance Company, Ltd. (CHIC). The Company withdrew from that relationship as of January 1, 2011. The agreement with CHIC is described in detail in the Reinsurance Section of this report.

**FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of $1,000,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is $150,000. The Company maintains adequate other liability and property insurance, including errors and omissions liability insurance and workers compensation insurance.

**EMPLOYEE BENEFITS**

The Company has one part-time and two full-time employees. The full-time employees receive a variety of employee benefits that include paid leave, life and health insurance and a 401(k) plan. Based upon the number of hours worked, the part-time employee was eligible to participate in the 401(k) plan in 2012.

**INSURANCE PRODUCTS AND RELATED PRACTICES**

**Territory and Plan of Operations**

The Company is licensed by the DIFP under Chapter 537 RSMo (Risk Management for Public Entities). Membership is comprised exclusively of housing authorities located throughout Missouri. At December 31, 2012, the Company had 104 members.

The Company contracts with consultants to perform many of its insurance functions. The contracts in place as of December 31, 2012 are described as follows:

- **Actuarial Services Contract**
  Financial Risk Analysts, LLC provided actuarial services, including year-end analysis of loss and loss adjustment expense reserves and funding for the subsequent year.

- **Brokerage Contract**
  Towers Watson provided insurance and consulting advisory services, including reinsurance brokerage services and coverage determination. Compensation was derived solely from
Claims Administration Contract
Corporate Claims Management Inc. (CCMI) provided claims administration, recordkeeping, loss control and prevention services for the Company. The Company paid CCMI based on a schedule of fees varying by the types and magnitude of the claim.

Co-Agent Agreement
The Company contracted with Wells Fargo Insurance Services of Missouri to facilitate the provision of employee benefits and ancillary coverage to its members. The Company shared commissions earned on policies provided to its members.

Investment Agreement
The Company's investments were managed by an unrelated party, SagePoint Financial, Financial Adviser, Carolyn Cash of Cash Financial Group. The Company paid a management fee based on returns. The funds were under the management of Genworth, a third party money manager, with additional fees based on returns as well as annual custodial fees, which were paid quarterly.

Property Valuation Services
The Company entered into an insurance valuation services contract with CBIZ.

Sponsorship and Services Agreement
The Company entered into a Sponsorship and Services Agreement with Midwest Public Risk and AHRMA Exchange, to assist members who wish to purchase workers compensation, employee benefits and various lines of coverage for affordable housing affiliates. A service fee is paid to the Company on collected premium.

Policy Forms and Underwriting Practices
The Company issues four separate policy forms to its members. The policy forms provide general liability, employment practices liability, property and auto coverages. The following schedule outlines the coverages, limits and deductibles for each policy form:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Limits</th>
<th>Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liability:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$2,657,587</td>
<td>$0</td>
</tr>
<tr>
<td>Directors and Officers</td>
<td>$2,657,587</td>
<td>$0</td>
</tr>
<tr>
<td>Automobile</td>
<td>$2,657,587</td>
<td>$0</td>
</tr>
<tr>
<td>Employment Practices</td>
<td>$2,657,587</td>
<td>$1,000 + $100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>per employee</td>
</tr>
<tr>
<td><strong>Property:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>Replacement Cost</td>
<td>$1,000-$10,000</td>
</tr>
<tr>
<td></td>
<td>$50,000</td>
<td>$250</td>
</tr>
</tbody>
</table>


The Company requires housing authorities to sign a membership agreement upon entering the pool. The membership agreement documents the responsibilities of the Company and its members.

**Advertising and Sales Materials**

The Company has minimal advertising. Most promotion is performed through personal contact.

**Treatment of Policyholders**

The Company is not required under Chapter 537 RSMo to maintain a log of complaints submitted by policyholders. The Company appears to address all concerns of its members.

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**REINSURANCE**

**Assumed**

None.

**Ceded**

**Property Coverage**

During 2009 and 2010, the Company’s first layer of property reinsurance was placed with Captive Housing Insurance Company, Ltd., (CHIC) a Vermont captive insurer created by the Company in concert with four other housing authority pools in 1996. Each pool contributed $50,000 cash and a $150,000 irrevocable letter of credit to capitalize the company. CHIC also signed an agreement with each member stating that the $200,000 contribution would be returned to members within five years should they withdraw from the pool. The Company withdrew from the pool effective January 1, 2011. As of the examination date, CHIC had not yet returned the cash deposit, nor released the irrevocable letter of credit.

As of December 31, 2012, the Company has three layers of excess of loss agreements in place. The first layer is an excess of loss agreement with Illinois Union Insurance Company, providing coverage for losses in excess of $100,000 per occurrence for each housing authority, subject to a $1,000 deductible, up to $10,000,000. The second layer is with Homeland Insurance Company of New York, providing coverage up to $25,000,000 above the first layer. The third layer is with Commonwealth Insurance Company, providing coverage up to $25,000,000 above the second layer.

**Liability Coverage**

During 2009 and 2010, CHIC reinsured liability losses in excess of $100,000 retention per occurrence up to $2,000,000. In addition to the $100,000 retention, the reinsurance limit of liability was also in excess of an additional aggregate retention of $100,000. Once the Company has paid the full aggregate retention, CHIC was responsible for $2,000,000 per occurrence in excess of the $100,000 deductible.
As of December 31, 2012, the Company reinsures liability losses in excess of $100,000 for each occurrence up to $2,900,000, through an agreement with Evanston Insurance Company.

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

ACCOUNTS AND RECORDS

The Company’s 2012 financial statements were audited by the accounting firm, James E. Kinkead, P.C. The audit workpapers were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Financial Risk Analysts, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2012, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow 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 differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.
### Assets

#### Current Assets:
- Cash and Cash Equivalents: $2,047,964
- Investments – Trading Securities, at Fair Value: 11,225,073
- Premiums Receivable: 29,490
- Reinsurance Recovery: 658,543
- Other Receivables: 6,916
- Prepaid Expenses: 23,087

**Total Current Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$13,991,073</td>
</tr>
</tbody>
</table>

#### Noncurrent Assets:
- Property and Equipment:
  - Building: 269,980
  - Furniture and Fixtures: 53,414

**Total Property and Equipment**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>323,394</td>
</tr>
</tbody>
</table>

- Captive Deposit: 50,000

**Total Assets**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$14,364,467</td>
</tr>
</tbody>
</table>
## LIABILITIES, AND FUND BALANCE

**Current Liabilities:**
- Reserve for Losses: $1,123,012
- Unearned Premiums: 2,344,330
- Accounts Payable and Accrued Liabilities: 176,006
  
  **Total Current Liabilities:** 3,643,348

**Fund Balance:**
- Specific Loss Reserve Fund Balance: 2,100,000
- Special Development Reserve Fund Balance: 3,037,870
- Premium Reduction Reserve: 492,808
- Special Building Reserve: 61,149
- Unreserved Fund Balance: 5,029,292

  **Total Member Balances:** 10,721,119

**Total Liabilities and Member Balances:** $14,364,467
# STATEMENT OF OPERATIONS

**Revenues:**
- Premiums Earned: $3,527,779
- Premiums Ceded-Reinsurance: $(1,084,417)
- **Net Premiums Earned**: 2,443,362
- Net Investment Income: 1,005,677
- Commissions: 74,310
- **Total Revenues**: 3,523,349

**Expenses:**
- Losses and Loss-Adjustment Expenses: 1,580,787
- Dividends Paid to Members: 554,887
- General and Administrative Expenses: 805,886
- Loss on Sale of Assets: 6,381
- **Total Expenses**: 2,947,941

**Net Income (Loss)**: $575,408

| Members Fund Balance, Beginning of Year | $10,145,711 |
| Net Income (Loss)                      | 575,408     |

**Members Fund Balance, End of Year**: $10,721,119
NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

SUBSEQUENT EVENTS

None.

SUMMARY OF RECOMMENDATIONS

None.
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Missouri Housing Authorities Property and Casualty, Inc., during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri  
City of St. Louis  

I, Jennifer R. Danz, 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 the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Jennifer R. Danz, CPA, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this ___ day of ___ , 2013.

My commission expires:

5-11-2016  

Andrea V. Moffatt  
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.

Michael Shadowens, CFE  
Audit Manager – St. Louis  
Missouri DIFP