

**MISSOURI PUBLIC ENTITY  
RISK MANAGEMENT FUND**

FINANCIAL STATEMENTS WITH  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND INDEPENDENT AUDITOR'S REPORT

**DECEMBER 31, 2016**

## TABLE OF CONTENTS

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	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1
<b>Management's Discussion and Analysis</b> .....	3
<b>Basic Financial Statements</b>	
Statements of Net Position .....	10
Statements of Revenues, Expenses and Changes in Net Position .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements .....	13
<b>Required Supplemental Information</b>	
Supplemental Schedule of 2007 – 2016 Loss Development Information.....	33
Reconciliation of Claims Liabilities by Type of Contract .....	35
Schedule of MOPERM's Proportionate Share of Net Pension Liability.....	36
Schedule of MOPERM's Contributions .....	37
Changes of Benefit Terms or Assumptions .....	38

## **Independent Auditor's Report**

Board of Trustees  
Missouri Public Entity Risk Management Fund  
Jefferson City, Missouri

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of Missouri Public Entity Risk Management Fund ("MOPERM"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, 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 generally accepted accounting principles in the United States of America; 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 error or fraud.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 MOPERM as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
March 23, 2017

## **Basic Financial Statements**

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements

December 31, 2016 and 2015

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### Note A – Reporting Entity

The Missouri Public Entity Risk Management Fund (“MOPERM”) is a corporate and political body created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for the employment of MOPERM’s employees and appointing some of the members of the Board of Trustees, the State’s accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. MOPERM had a total of 940 and 935 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2016 and 2015, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

### Note B – Basis of Accounting Summary of Significant Accounting Policies

#### **Basis of Accounting**

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on deposit, overnight repurchase agreements (“Investaccount-Government” securities), money market index funds (“Government Obligation Fund-Money Market”), and investments with original maturities of three months or less. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution’s trust department or agent in MOPERM’s name. The carrying amounts reported in the statements of net position approximate the fair value of these instruments.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

#### Investments

MOPERM reports investments as trading assets at fair value, with the changes in fair value reported in the statements of revenues, expenses and changes in net position. The estimated fair value of fixed maturity and equity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

#### Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations using the specific cost identification methodology.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	<u>Depreciable Life</u>
Automobiles	3 years
Computer equipment and software	3-5 years
Equipment	5 years
Furniture and fixtures and building improvements	5-10 years
Building	40 years

#### Impairment of Capital Assets

MOPERM evaluates whether events and circumstances have occurred that indicate that the remaining estimated useful life of capital assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. In the opinion of management, no such impairment existed at December 31, 2016 and 2015.

#### Equity Classifications

Net position represents the difference between assets and liabilities. MOPERM reports three categories of net position, as follows:

*Net investment in capital assets* - Consists of property and equipment at cost, net of accumulated depreciation.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

#### Equity Classifications (Continued)

*Restricted net position* - Net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. MOPERM does not have restricted net position as of December 31, 2016 and 2015.

*Unrestricted net position* - Consists of all other net position that does not meet the definition of the above two components and is available for general use by MOPERM. MOPERM considers unrestricted net position as undeclared retro return reserves which may be declared by the board at a future date. MOPERM has designated unrestricted net position for catastrophic reserves in the amount of \$39,822,236 and \$37,531,369 as of December 31, 2016 and 2015, respectively.

#### Contributions

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are determined based on actuarial projections to produce sufficient funds to pay losses, loss adjustment expense and general and administrative expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM. No special assessments were made during 2016 or 2015.

#### Accounts Receivable

Accounts receivable are recorded at net realizable value. Management has evaluated all receivable balances for collectability and determined no estimate or allowance for uncollectable accounts is necessary.

#### Retro Return Reserve Refunds

If collected contributions and interest income exceed the total amount of all paid claims, claim expenses, operating expenses, and the catastrophic retro return reserves allocation in any given year, the Board of Trustees may declare that a refund of the excess amount be made. The refund shall be on a pro rata basis to all participating public entities based on the contributions of the public entity for the immediately preceding year. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

#### **Loss and Loss Adjustment Expense Reserves**

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported, and are reported net of amounts recoverable and receivable from excess loss providers. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves within the statement of net position.

The methods for making such estimates and for establishing the resulting liability are continually reviewed by management and MOPERM's independent actuary and any adjustments are reflected in earnings.

#### **Designated Catastrophic Reserves**

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2010 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002; plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2016 and 2015 is \$62,115 and \$8,974. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

#### **Operating and Non-operating Income and Expenses**

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

#### Income Taxes

The income earned by MOPERM is exempt from federal income tax in accordance with Section 115 of the Internal Revenue Code (IRC).

MOPERM has implemented the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, Income Taxes. MOPERM has concluded that there are no significant uncertain tax positions requiring disclosure. MOPERM continues to evaluate its tax exempt status in relation to FASB ASC 740.

#### Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

#### Retirement Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri State Employees' Retirement System (MOSERS) and additions to/deductions from MOSERS' fiduciary net position have been determined on the same basis as they are reported by MOSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Subsequent Events

MOPERM evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 23, 2017, which is the date the financial statements were available to be issued.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note B – Basis of Accounting Summary of Significant Accounting Policies (Continued)

#### Change in Accounting Principle and New Accounting Pronouncement

Effective for year ended December 31, 2016, MOPERM adopted GASB Statement No. 72, Fair Value Measurement and Application, which intends to improve financial reporting by requiring governments to account and report utilizing a consistent and more detailed definition of fair value and accepted valuation techniques. Adoption resulted in additional note disclosures in Note C to display investments by the category of measurement hierarchy.

Effective for the year ended December 31, 2015, MOPERM adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27, which enhances accounting and financial reporting by state and local governments for pensions and improves information provided by the state and local governmental employers about financial support for pensions provided by other entities. With adoption, MOPERM recognized the effect of a change in accounting principle in the amount of \$959,730 for the net pension liability and the beginning of fiscal year 2015. MOPERM will now recognize a long term liability for the net pension liability in the Statement of Net Position. See Note K for additional details regarding MOPERM's retirement plan.

### Note C – Deposits and Investments

#### Deposits

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2016 and 2015, the carrying amount of deposits at the financial institutions was \$273,745 and (\$369,567), the bank balance was \$483,837 and \$209,122. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2016 and 2015.

#### Investment Policies

MOPERM has adopted an investment policy that is reviewed and approved by the Board of Trustees. During 2015, MOPERM's Board of Trustees amended the existing investment policy to include a multi-asset class portfolio permitting Fixed Income Mutual Funds and ETFs, Equity Mutual Funds and ETFs and Alternative Asset Class Mutual Funds and ETFs of REITs and Inflation Hedging Assets.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note C – Deposits and Investments (Continued)

#### Investment Summary

The following table presents the summary of MOPERM'S investments by type at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<b>Cash Equivalents</b>		
Investaccount-Government	\$ 9,387,442	\$ 11,567,104
Government Obligation Fund-Money Market	<u>2,103,926</u>	<u>1,229,038</u>
Total Cash Equivalents	<u>11,491,368</u>	<u>12,796,142</u>
<b>Fixed Income Securities</b>		
Certificate of Deposit	6,500,615	4,490,250
Commercial Paper	1,988,726	4,492,807
Corporate Notes	27,122,079	32,493,459
Municipal Bonds	2,010,186	2,008,508
U.S. Agencies	4,610,978	27,001,909
U.S. Treasury Notes	28,563,993	5,306,384
U.S. Government Guaranteed Mortgages	11,260,474	25,469,054
Collateralized Mortgage Obligations	11,762,283	727,201
Asset-Backed Securities	<u>4,996,147</u>	<u>4,152,243</u>
Total Fixed Income Securities	<u>98,815,481</u>	<u>106,141,815</u>
<b>Equity Securities</b>	<u>17,175,531</u>	<u>5,745,013</u>
Total investments	<u>\$ 127,482,380</u>	<u>\$ 124,682,970</u>

The following securities are classified as cash equivalents in the statement of net position; however, are disclosed as investments subject to custodial credit, concentration of credit, interest rate, and foreign currency risks.

	<u>2016</u>	<u>2015</u>
Investaccount-Government	\$ 9,387,442	\$ 11,567,104
Government Obligation Fund-Money Market	<u>2,103,926</u>	<u>1,229,038</u>
	<u>\$ 11,491,368</u>	<u>\$ 12,796,142</u>

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note C – Deposits and Investments (Continued)

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in MOPERM's name, and held by the counterparty. The Investaccount-Government was collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. MOPERM's other investments are not exposed to custodial credit risk.

#### Concentration of Credit Risk

There is potential concentration of credit risk if more than five percent (5%) of the entity's investments are with any one issuer. The following investments are considered exposed to concentration of credit risk as of December 31, 2016 and 2015:

	2016		2015	
	<u>Amount</u>	<u>% of Portfolio</u>	<u>Amount</u>	<u>% of Portfolio</u>
U.S. Treasury	\$28,563,993	24.63	\$ -	-
Federal Home Loan Mortgage Corporation	-	-	17,142,107	15.32
Federal Home Loan Bank	-	-	15,855,078	14.17
Federal National Mortgage Association	18,426,865	15.89	14,340,797	12.82

Such concentrations are permitted by MOPERM's investment Policy.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instrument's full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

#### Foreign Currency Risk

MOPERM is not exposed to foreign currency risks.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

### Note C – Deposits and Investments (Continued)

#### Investment Maturity Schedule

Investments are reported at fair value. Investments that are purchased with less than 90 days maturity date are listed as "cash equivalents". As of December 31, 2016 and 2015, MOPERM's investment maturities consisted of the following:

<u>December 31, 2016</u>	<u>Rating</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>Five to ten years</u>	<u>More than ten years</u>	<u>Total</u>
Investaccount-Government	N/A	\$ 9,387,442	\$ -	\$ -	\$ -	\$ -	\$ 9,387,442
Money Market-Government	N/A	2,103,926	-	-	-	-	2,103,926
Asset-Backed Securities	Aaa/AAA	-	1,900,588	3,095,559	-	-	4,996,147
Certificate of Deposit	A-1	6,500,615	-	-	-	-	6,500,615
Collateralized Mortgage Obligations	Aaa/AA+	962,199	2,660,294	-	2,519,593	5,620,197	11,762,283
Commercial Paper	A-1	1,988,726	-	-	-	-	1,988,726
Municipal Bond	AA	2,591,898	7,285,073	12,079,620	5,165,488	-	27,122,079
U.S. Agencies	Aaa/AA+	-	-	2,010,186	-	-	2,010,186
U.S. Government							
Guaranteed Mortgages	Aaa/AA+	606,877	291,174	3,712,927	-	-	4,610,978
U.S. Treasury Notes	Aaa/AA+	-	-	1,940,285	1,678,909	7,641,280	11,260,474
Corporate Note	Aaa/BBB+	-	-	21,824,665	6,739,328	-	28,563,993
		<u>\$ 24,141,683</u>	<u>\$ 12,137,129</u>	<u>\$ 44,663,243</u>	<u>\$ 16,103,317</u>	<u>\$ 13,261,477</u>	<u>\$ 110,306,849</u>

<u>December 31, 2015</u>	<u>Rating</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>	<u>Five to ten years</u>	<u>More than ten years</u>	<u>Total</u>
Investaccount-Government	N/A	\$ 11,567,104	\$ -	\$ -	\$ -	\$ -	\$ 11,567,104
Money Market-Government	N/A	1,229,038	-	-	-	-	1,229,038
Asset-Backed Securities	Aaa/AAA	-	-	4,152,243	-	-	4,152,243
Certificate of Deposit	A-1	-	4,490,250	-	-	-	4,490,250
Collateralized Mortgage Obligations	Aaa/AA+	-	727,201	-	-	-	727,201
Commercial Paper	A-1	4,492,807	-	-	-	-	4,492,807
Municipal Bond	AA	-	-	2,008,508	-	-	2,008,508
U.S. Agencies	Aaa/AA+	1,000,077	7,852,005	18,149,827	-	-	27,001,909
U.S. Government							
Guaranteed Mortgages	Aaa/AA+	-	-	3,976,683	3,646,993	17,845,078	25,469,054
U.S. Treasury Notes	Aaa/AA+	-	-	5,306,384	-	-	5,306,384
Corporate Note	Aaa/BBB+	-	19,981,322	6,659,431	5,852,706	-	32,493,459
		<u>\$ 18,289,026</u>	<u>\$ 33,050,778</u>	<u>\$ 40,253,376</u>	<u>\$ 9,499,699</u>	<u>\$ 17,845,078</u>	<u>\$ 118,937,957</u>

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note C – Deposits and Investments (Continued)

#### Fair Value Measurement

MOPERM categorizes its fair value measurements with the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurements and Application*. Certain financial assets are valued using market prices from active markets (level 1). Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from readily-observable inputs of the instrument. Level 3 instrument valuations are done primarily with unobservable inputs which are significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value as of December 31, 2016:

#### Level 1 Measurements

*U.S. treasury securities and equity securities:* Valued at closing price reported on the active market in which the individual securities are traded.

#### Level 2 Measurements

*Certificate of deposit, commercial paper, corporate notes, municipal bonds, U.S. agencies, and asset backed securities:* Valued using broker-provided quotations from pricing services, such as Interactive Data Corporation, with all significant inputs derived from or corroborated with observable market data.

*Mortgage backed securities:* Principally valued using either the market approach, which uses prices and other relevant information generated by market transactions for similar assets, or the income approach, which uses valuation techniques to convert future estimated cash flows to a discounted present value amount. The valuation of these securities is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected payment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

### Note C – Deposits and Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, MOPERM's investments:

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>December 31, 2016</b>				
<b>Fixed Income Securities</b>				
Certificate of Deposit	\$ 6,500,615	\$ -	\$ 6,500,615	\$ -
Commercial Paper	1,988,726	-	1,988,726	-
Corporate Notes	27,122,079	-	27,122,079	-
Municipal Bonds	2,010,186	-	2,010,186	-
U.S. Agencies	4,610,978	-	4,610,978	-
U.S. Treasury Notes	28,563,993	28,563,993	-	-
U.S. Government Guaranteed Mortgages	11,260,474	-	11,260,474	-
Collateralized Mortgage Obligations	11,762,283	-	11,762,283	-
Asset-Backed Securities	4,996,147	-	4,996,147	-
<b>Total Fixed Income Securities</b>	<b>98,815,481</b>	<b>28,563,993</b>	<b>70,251,488</b>	<b>-</b>
<b>Equity Securities</b>	<b>17,175,531</b>	<b>17,175,531</b>	<b>-</b>	<b>-</b>
<b>Total investments</b>	<b>\$ 115,991,012</b>	<b>\$ 45,739,524</b>	<b>\$ 70,251,488</b>	<b>\$ -</b>

	Fair Value Measurement at Report Date Using			
	Fair Value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>December 31, 2015</b>				
<b>Fixed Income Securities</b>				
Certificate of Deposit	\$ 4,490,250	\$ -	\$ 4,490,250	\$ -
Commercial Paper	4,492,807	-	4,492,807	-
Corporate Notes	32,493,459	-	32,493,459	-
Municipal Bonds	2,008,508	-	2,008,508	-
U.S. Agencies	27,001,909	-	27,001,909	-
U.S. Treasury Notes	5,306,384	5,306,384	-	-
U.S. Government Guaranteed Mortgages	25,469,054	-	25,469,054	-
Collateralized Mortgage Obligations	727,201	-	727,201	-
Asset-Backed Securities	4,152,243	-	4,152,243	-
<b>Total Fixed Income Securities</b>	<b>106,141,815</b>	<b>5,306,384</b>	<b>100,835,431</b>	<b>-</b>
<b>Equity Securities</b>	<b>5,745,013</b>	<b>5,745,013</b>	<b>-</b>	<b>-</b>
<b>Total investments</b>	<b>\$ 111,886,828</b>	<b>\$ 11,051,397</b>	<b>\$ 100,835,431</b>	<b>\$ -</b>



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

### Note C – Deposits and Investments (Continued)

#### Gains (Losses) on Investments

Net unrealized gains (losses) on investments classified as trading assets held at the reporting date were \$804,892 and (\$55,064) for the year ended December 31, 2016 and 2015, respectively. Net realized gains (losses) on assets sold or otherwise disposed of, and included within net investment income, amounted to \$106,335 in 2016 and (\$9,631) in 2015.

### Note D – Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Category</u>	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	<u>Balance at December 31, 2016</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	26,318	2,930	540	28,708
Furniture and fixtures	93,148	1,662	-	94,810
Computer equipment and software	680,836	-	-	680,836
Automobiles	31,975	-	-	31,975
Total capital assets, being depreciated	<u>2,004,616</u>	<u>4,592</u>	<u>540</u>	<u>2,008,668</u>
Less accumulated depreciation	<u>993,200</u>	<u>(135,872)</u>	<u>540</u>	<u>1,128,532</u>
Capital assets, net	<u>\$ 1,011,416</u>	<u>\$ (131,280)</u>	<u>\$ -</u>	<u>\$ 880,136</u>

Capital asset activity for the year ended December 31, 2015, was as follows:

<u>Category</u>	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	<u>Balance at December 31, 2015</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	26,318	-	-	26,318
Furniture and fixtures	104,168	-	11,020	93,148
Computer equipment and software	673,788	20,048	13,000	680,836
Automobiles	31,975	-	-	31,975
Total capital assets, being depreciated	<u>2,008,588</u>	<u>20,048</u>	<u>24,020</u>	<u>2,004,616</u>
Less accumulated depreciation	<u>873,907</u>	<u>(142,478)</u>	<u>23,185</u>	<u>993,200</u>
Capital assets, net	<u>\$ 1,134,681</u>	<u>\$ (122,430)</u>	<u>\$ 835</u>	<u>\$ 1,011,416</u>

Total depreciation expense for the years ended December 31, 2016 and 2015, was \$135,872 and \$142,478.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note E – Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	<u>2016</u>	<u>2015</u>
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$143,017 in 2016 and \$201,060 in 2015	\$ 44,808,742	\$ 46,295,926
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	23,274,467	12,280,989
Provision for insured events – prior years	<u>(130,225)</u>	<u>(101,492)</u>
Total incurred loss and loss adjustment expenses	<u>23,144,242</u>	<u>12,179,497</u>
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	4,098,633	4,419,805
Loss and loss adjustment expenses attributable to insured events – prior years	<u>10,269,556</u>	<u>9,246,876</u>
Total payments	<u>14,368,189</u>	<u>13,666,681</u>
Loss and loss adjustment expenses reserves, end of year, net of reinsurance recoverable of \$123,143 in 2016 and \$143,017 in 2015	\$ <u>53,584,795</u>	\$ <u>44,808,742</u>

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

### Note F – General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri, a related organization, for all costs of administration, including salary costs of \$741,713 for 2016 and \$672,993 for 2015 and pension costs of \$112,286 for 2016 and \$112,576 for 2015. As of December 31, 2016 and 2015, payables due to the State of Missouri totaled \$123,373 and \$124,944, respectively. The State of Missouri's other post-employment benefit package is subject to the measurement and disclosure requirements of GASB 45.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

### Note F – General and Administrative Expenses (Continued)

Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post-retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement.

Agent commission expense totaled \$1,631,091 and \$1,655,152 for the years ended December 31, 2016 and 2015, respectively.

### Note G – Retro Return Reserve Refunds

The Board of Trustees of MOPERM declared retro return reserve refunds in the amount of \$983,698 and \$1,062,344 in 2016 and 2015. As of December 31, 2016, cumulative retro return reserve refunds were as follows:

<u>Policy Year</u>	<u>Prior Refunds Declared and Paid</u>	<u>Refunds Declared and Accrued During 2016</u>	<u>Total Refunds Declared</u>	<u>Percentage of Contributions Refunded</u>
1987	\$ 1,391,082	\$ -	\$ 1,391,082	85%
1988	2,074,331	-	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1991	270,627	-	270,627	12%
1992	825,298	-	825,298	28%
1993	45,879	-	45,879	1%
1994	155,373	-	155,373	3%
1995	2,786,072	-	2,786,072	47%
1996	1,314,626	144,388	1,459,014	23%
1997	915,314	270,664	1,185,978	18%
1998	399,671	-	399,671	6%
1999	260,183	-	260,183	4%
2000	140,169	145,291	285,460	4%
2001	167,612	173,736	341,348	4%
2003	-	249,619	249,619	2%
	<u>\$ 12,198,767</u>	<u>\$ 983,698</u>	<u>\$ 13,182,465</u>	

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note H – Excess Insurance

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property excess policy for 2016 and 2015 was placed with multiple carriers and they collectively provided coverage of \$200,000,000 for each occurrence, with MOPERM's retention per claim of \$100,000. For 2016 and 2015, the equipment breakdown excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence. For 2016, MOPERM carried no excess insurance coverage for crime. For 2015, MOPERM's crime excess policy, with Travelers Casualty and Surety of America, provided coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability coverage.

### Note I – Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM previously contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

### Note J – Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of other litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of the other litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note K – Retirement Plan

#### **General Information About the Pension Plan**

**Plan description:** Benefit eligible employees of MOPERM are provided with pensions through Missouri State Employees' Plan (MSEP) – a cost-sharing multiple-employer defined benefit pension plan administered by the Missouri State Employers' Retirement System ("MOSERS"). The plans are referred to as MOSERS in the notes. Chapter 104.320 of the Revised Statutes of Missouri grants the authority to establish a defined benefit plan for eligible state and other related agency employees. MOSERS issues an annual Comprehensive Annual Financial Report (CAFR), a publicly available financial report that can be obtained at [www.mosers.org](http://www.mosers.org).

**Benefits provided:** MOSERS provides retirement, disability, and life insurance benefits to eligible employees. The base retirement benefits are calculated by multiplying the employee's final average pay by a specific factor multiplied by the years of credited service. The factor is based on the specific plan in which the employee participates, which is based on the employee's hire date. Information on the three plans administered by MOSERS (MSEP, MSEP 2000, and MSEP2011 retirement plans) and how eligibility and the benefit amount is determined for each plan may be found in the Notes to the Financial Statements of MOSERS' CAFR starting on page 28.

**Contributions:** Per Chapter 104.436 of the Revised Statutes of Missouri, contribution requirements of the active employees and the participating employers are established and may be amended by the MOSERS Board. Employees in the MSEP2011 Plan are required to contribute 4.0 percent of their annual pay. MOPERM's required contribution rate for the measurement date of June 30, 2016, was 16.97 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The contribution rate for the MOSERS plan year ended June 30, 2016 was 16.97 percent, which is the year of measurement for the net pension liability. Contributions to the pension plan from MOPERM were \$111,857 for the measurement date of June 30, 2016.

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note K – Retirement Plan (Continued)

#### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2016, MOPERM reported a liability of \$1,579,883 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

MOPERM's proportion of the net pension liability was based on MOPERM's actual share of contributions to the pension plan relative to the actual contributions of all participating employers for MOSERS plan year ended June 30, 2016. At June 30, 2016 measurement date, MOPERM's proportion was 0.034 percent, which represents a .001 decrease from the percentage used to allocate the liability as of June 30, 2015.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2016, that affected the measurement of total pension liability.

For the year ended December 31, 2016, MOPERM recognized pension expense of \$242,351. At the measurement date of June 30, 2016, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 16,271	\$ 4,616
Changes of assumptions	164,497	9,496
Net difference between projected and actual earnings on pension plan investments	258,137	-
Changes in proportion and differences between MOPERM contributions and proportionate share of contributions	27,740	31,452
MOPERM contributions subsequent to the measurement date of June 30, 2016	55,770	-
Total	<u>\$ 522,415</u>	<u>\$ 45,564</u>

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note K – Retirement Plan (Continued)

#### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Contributions of \$55,770 reported as deferred outflows of resources related to pensions resulting from MOPERM contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability at the next valuation date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in MOPERM's calendar year end December 31, 2016 following MOSERS' fiscal year as follows:

#### Projected Recognition of Outflows/ (Inflows)

##### Plan Year ending June 30:

2017	\$ 112,952
2018	111,134
2019	151,850
2020	45,145
2021	-
Thereafter	-

**Actuarial assumptions:** The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015. As a result of this actuarial experience study, the MOSERS Board made various demographic and economic assumption changes to more closely reflect actual experience. The most significant change was lowering the assumed annual investment rate of return from 8 percent to 7.65 percent.

The total pension liability in the June 30, 2016 actuarial valuation, which is also the date of measurement for GASB 68 purposes, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	2.5 %
Salary increases or wage inflation	3.0% to 5.9% including inflation
Wage inflation	3.0%
Investment rate of return	7.65%, compounded annually, net after investment expenses and including inflation

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note K – Retirement Plan (Continued)

Mortality rates for post-retirement mortality were based on the RP-2014 Healthy Annuitant mortality table, projected from 2006 to 2026 with Scale MP-2015 and scaled by 120%. The pre-retirement mortality rates used were the RP-2014 Employee mortality table, projected from 2006 to 2026 with Scale MP-2015 and scaled by 95% for males and 90% for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015. As a result of this actuarial experience study, the MOSERS Board made various demographic and economic assumption changes to more closely reflect actual experience. The most significant changes included lowering the assumed annual investment rate of return from 8 percent to 7.65 percent and the adoption of new mortality tables. The changes in assumptions recorded as deferred inflows and outflows of resources were due to these changes from the actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in MOSERS target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Policy Allocation</u>	<u>Long-term Expected Real Rate of Return *</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Beta Balanced	80.0%	5.7%	4.6%
Illiquids **	20.0%	7.3%	1.5%
	<u>100.0%</u>		<u>6.1%</u>

\* Represent best estimates of geometric rates of return for each major asset class included.

\*\* Illiquid portfolio upper limit of 27.5% of capital, no new commitments past 23%.



# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## Notes to Financial Statements - Continued

December 31, 2016 and 2015

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### Note K – Retirement Plan (Continued)

**Discount rate:** The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the MOPERM's proportionate share of the net pension liability to changes in the discount rate:** The following presents MOPERM's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what MOPERM's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
	<b><u>(6.65%)</u></b>	<b><u>(7.65%)</u></b>	<b><u>(8.65%)</u></b>
MOPERM's proportionate share of the net pension liability	\$ 2,080,329	\$ 1,579,883	\$ 1,160,302

**Pension plan fiduciary net position:** Detailed information about the pension plan's fiduciary net position is available in the separately issued MOSERS financial report.

#### **Payable to the Pension Plan**

MOPERM did not report any payables to MOSERS.

## **Required Supplemental Information**

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### Supplemental Schedule of 2007-2016 Loss Development Information

December 31, 2016

(See Independent Auditor's Report)

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The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2016. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss 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 re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (6) Each policy years incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (7) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of loss cost are greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### Schedule of MOPERM's Proportionate Share of the Net Pension Liability Missouri State Employees' Retirement System

As of December 31, 2016

(See Independent Auditor's Report)

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	<u>2015</u>	<u>2016</u>
MOPERM's proportion of the net pension liability (asset)	.0350%	<b>.0340%</b>
MOPERM's proportionate share of the net pension liability (asset)	\$1,138,251	<b>\$1,579,883</b>
MOPERM's covered-employee payroll	\$686,195	<b>\$659,145</b>
MOPERM's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	165.88%	<b>239.69%</b>
Plan fiduciary net position as a percentage of the total pension liability	72.62 %	<b>63.60%</b>

\* Based on a measurement date and actuarial valuation as of June 30, 2016.

Note: This schedule will ultimately contain 10 years of data.

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### Schedule of MOPERM's Contributions Missouri State Employees' Retirement System

As of December 31, 2016

(See Independent Auditor's Report)

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	<u>2015</u>	<u>2016</u>
Required contribution	\$116,447	<b>\$111,857</b>
Contributions in relation to the required contribution	\$116,447	<b>\$111,857</b>
Contribution deficiency (excess)	0	<b>0</b>
MOPERM's covered-employee payroll	686,195	<b>659,145</b>
Contributions as a percentage of covered-employee payroll	16.97%	<b>16.97%</b>

\* Based on a measurement date and actuarial valuation as of the end of June 30, 2016.

Note: This schedule will ultimately contain 10 years of data.

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### Changes of Benefit Terms or Assumptions Missouri State Employees' Retirement System

December 31, 2016

(See Independent Auditor's Report)

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#### **Changes of benefit terms or assumptions:**

**Changes of benefit terms.** There were no changes to benefit terms in the plan for the year ended June 30, 2016.

**Changes of assumptions.** Economic and demographic assumptions were updated by the Board of Trustees on July 16, 2016 to be first effective for the June 30, 2016 valuation. The most significant changes to these assumptions was the reduction of the investment return assumption from 8 percent to 7.65 percent and the adoption of new mortality tables.