

**MISSOURI PUBLIC ENTITY
RISK MANAGEMENT FUND**

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

DECEMBER 31, 2018

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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 statement of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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 audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit 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, 2018, and the results of its operations and its cash flows for the year 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 audit was 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 27, 2019

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Missouri Public Entity Risk Management Fund (“MOPERM”) offers this narrative overview and analysis of the financial activities of MOPERM for the years ended December 31, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with MOPERM’s financial statements and notes to the financial statements to enhance their understanding of MOPERM’s financial performance.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a body corporate and politic created by the Missouri General Assembly, uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements. MOPERM is considered to be a related party but not a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds, and fiduciary funds. MOPERM’s funds are considered proprietary funds.

Proprietary Funds

Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: enterprise fund. MOPERM’s purpose is to provide liability and property coverage to participating public entities, their officials, and employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MOPERM’s financial statements. Typically, governmental entity’s financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, MOPERM uses only proprietary funds, which presents financial statement information in the same manner as government-wide financial statements (only with more detail); thus we do not present government-wide financial statements as the information would be repetitive.

Overview of the Financial Statements (Continued)

The financial statements, in addition to management's discussion and analysis, are comprised of the statements of net position; the statements of revenues, expenses and changes in net position; the statements of cash flows, and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The statement of net position presents MOPERM's financial position as of year-end. Information is displayed on assets and liabilities, with the difference between the two reported as net position. The net position of MOPERM reflects the resources available as of the end of the year to pay claims of participants when due. Over time, increases and decreases in net position measure whether MOPERM's financial position is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information detailing the revenues and expenses that resulted in the change to net position occurring during the current year. All revenues and expenses are reported on an accrual basis. This means the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for transactions that will not result in cash flows until future periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end of year cash balances contained in the statement of net position. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statements of revenues, expenses and changes in net position.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past 10 years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

Financial Analysis

The following tables present the summarized financial position and results of operations for the years ended December 31, 2018, 2017, and 2016. Additional details are available in the accompanying financial statements.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
ASSETS			
Cash and investments	\$ 114,776,753	\$ 124,688,304	\$ 127,756,125
Receivables	859,509	720,818	692,670
Capital assets	782,435	804,405	880,136
Deferred outflow of resources	481,328	575,936	639,404
Other	<u>676,180</u>	<u>609,978</u>	<u>10,053</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 117,576,205</u>	<u>\$ 127,399,441</u>	<u>\$ 129,978,388</u>
LIABILITIES			
Loss and loss adjustment expense	\$ 69,509,033	\$ 69,800,445	\$ 53,584,795
Net pension liability	2,385,423	1,720,313	1,579,833
Deferred inflow of resources	226,610	132,901	162,553
Other	<u>10,753,901</u>	<u>10,291,086</u>	<u>11,763,803</u>
Total Liabilities and Deferred Inflow of Resources	82,874,967	81,944,745	67,091,034
NET POSITION			
Net investment in capital assets	782,435	804,405	880,136
Unrestricted	<u>33,918,803</u>	<u>44,650,291</u>	<u>62,007,218</u>
Total net position	<u>34,701,238</u>	<u>45,454,696</u>	<u>62,887,354</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 117,576,205</u>	<u>\$ 127,399,441</u>	<u>\$ 129,978,388</u>

MOPERM was established to offer liability protection to participating public entities, their officials, and employees. MOPERM has been providing member entities with broad coverages at stable and economical rates. In 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members; and in 2016, MOPERM's Board of Trustees approved offering cyber and information breach coverage to its members beginning in 2017. MOPERM increased its overall membership by 23 members in 2018. With the net increase in members and a rate increase, MOPERM picked up an increase in contribution of \$1,269,578 in 2018 as compared to an increase of \$853,347 in 2017 and \$148,000 in 2016. Total assets decreased in 2018 by \$9.8 million and \$2.6 million in 2017, but increased during 2016 by \$3.7 million. Cash and investments decreased by \$9.9 million in 2018, decreased by \$3 million in 2017, while it increased approximately \$3.4 million in 2016. Capital assets have decreased in the past three years due to assets being fully depreciated and no new large assets being purchased. Receivables increased in 2018 by \$138,691.

Financial Analysis (Continued)

- With the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement No. 27, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“OPEB”); deferred outflow of resources of \$481,328, \$575,936 and \$639,404 indicate differences that would be included as an off-set to future pension and OPEB expense for the fiscal year ended December 31, 2018, 2017 and 2016, respectively. For 2018, 2017 and 2016, deferred inflow of resources of \$226,610, \$132,901 and \$162,553 respectively, presented differences between expected and actual experiences on investment earnings as well as changes in actuarial assumptions relative to the pension and OPEB calculations. As of December 31, 2018, 2017 and 2016, MOPERM’s share of the net pension liability was \$1,676,043, \$1,720,313 and \$1,579,883, respectively. As of December 31, 2018, MOPERM’s share of the net OPEB liability was \$709,381.
- Effective for the year ended December 31, 2018, MOPERM adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“OPEB”). “The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.” Adoption resulted in an adjustment to opening surplus of \$696,749, as well as, additional note disclosures in Note L to display types of benefits provided and the number and classes of employees covered by the benefit terms.
- Total liabilities increased by approximately \$1 million in 2018 and by \$14.8 million in 2017. This increase is due to the adverse development in loss and loss adjustment expense for all lines of business except property. The largest adverse development in losses during 2017 and 2018 was in Law Enforcement, Errors and Omissions, Employment Practices and General Liability coverages. In 2016, total liabilities increased by \$9.4 million. This increase was due to the adverse development in loss and loss adjustment expense with the majority relating to several class action suits in St. Louis County. A similar class action suit brought against a city in the St. Louis metropolitan area settled for \$4.7 million during the early resolution process. This early resolution, of this related lawsuit has set precedent for other municipalities with similar potential liabilities. MOPERM has 33-member entities in St. Louis County. Loss and loss adjustment expense in the law enforcement line of business accounted for the next largest increase of the adverse development in 2016. MOPERM has no long-term debt.
- The change in net position for 2018 decreased by \$10.8 million. There were no refunds declared in 2018. Since its inception, MOPERM has refunded approximately \$12.7 million of contributions to the participating members.

Financial Analysis (Continued)

- The performance on the Fixed Income Portfolio over the past 12 months was 1.16% with a 1.62% return since inception date of December 2014. There was a negative 7.13 % return for the past 12 months on the Multi-Asset Class Portfolio and a 5.04% return since the inception date of August 2015. Investment income consists of interest income, amortization of premium and discounts, and realized gains and losses on securities. In 2018 investment income was \$7.7 million in comparison to 2017 and 2016, which was \$2.5 and \$2.3 million, respectively. MOPERM ended 2018 with \$8.5 million in unrealized loss on investments while there were \$4.2 million and \$805,000 in unrealized gains on investments for 2017 and 2016.
- In 2018 there was a \$16 million decrease in loss and loss adjustment expense compared to a \$16.7 million and \$11 million increase for 2017 and 2016 respectively. The large decrease in loss and loss adjusting expenses for 2018 were due to advantageous developments due to success in defending cases brought against MOPERM members. Actual loss and loss expenses paid in 2018 was \$24.3 million whereas 2017 was \$25.1 and 2016 was approximately \$14.2 million. The increases and decreases in loss and loss adjustment expense consisted of actual paid claims and the change in case and IBNR reserves.
- Excess insurance premiums listed on the 2018 Statement of Revenues, Expenses and Changes in Net Position includes cyber & liability reinsurance and excess insurance. There was an overall increase between 2017 and 2018 of \$1,907,575. This is due to the liability-reinsurance treaty which took affect October 1, 2017, thus the total for 2017 only accounted for three months whereas 2018 accounted for a full year of premiums. Additionally, the City of St Joseph moved its property and equipment breakdown coverage to another carrier at the beginning of 2018, which had a significant impact on the cost of the related reinsurance. It should be noted that the full cost of liability reinsurance for the 2018-2019 policy term will not be calculated until the retrospective adjustment that will take place at the end of the term (October 2019).
- Effective for the 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 68, *Accounting and Financial Reporting for Pensions*, an amendment to GASB Statement 27, beginning net position was adjusted by \$959,730 for the net pension liability and the beginning of fiscal year 2015.
- In 2018, general and administrative expenses totaled 16% of contribution earned, resulting in a 1% decrease from 2017. General and administrative expenses approximated 17% of total contributions earned for 2017 and 15% for 2016. Commission expense comprises approximately 50% of total general and administrative expenses.

Financial Summary

In 2018, MOPERM had an increase in its overall membership and increased its contribution by \$1,269,578. For 2018, liability base rates were increased 15.1% overall, and property base rates were increased 2.7% overall. A total of 966 entities contributed to the pool in 2018 compared to 954 participating members in 2017.

MOPERM's total net position decreased by approximately \$10.8 million in 2018, totaling approximately \$34.7 million at December 31, 2018.

Economic Environment and Next Year's Budget and Rates

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

An 8% overall contribution increase has been estimated for 2019, which reflects continued moderate growth due to competition in the marketplace.

Contacting MOPERM's Financial Management

This financial report is designed to provide MOPERM members and the public with a general overview of MOPERM's finances. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Vickie Akin, at P.O. Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail vickie-akin@moperm.com.

Basic Financial Statements

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Net Position

December 31, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 14,291,764
Short-term investments, at fair value	797,227
Investments in trading securities, at fair value	99,687,762
Deposits and accounts receivable other than contributions	436,030
Accrued interest receivable	423,479
Prepaid expenses	676,180
Total Current Assets	116,312,442

Noncurrent Assets

Capital assets (net of accumulated depreciation of \$1,228,862)	782,435
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Deferred Outflow of Resources

481,328

TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES

\$ 117,576,205

LIABILITIES AND NET POSITION

Current Liabilities

Advance contributions	\$ 10,681,538
Accounts payable and accrued expense	72,363
Total Current Liabilities	10,753,901

Noncurrent Liabilities

Loss and loss adjustment expenses reserves	69,509,033
Net pension and OPEB liability	2,385,423
Total Noncurrent Liabilities	71,894,456

Deferred Inflow of Resources

226,610

TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES

82,874,967

Net Position

Net investment in capital assets	782,435
Unrestricted	33,918,803
Total Net Position	34,701,238

TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

\$ 117,576,205

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Revenues, Expenses and Changes in Net Position

Year ended December 31, 2018

Revenues	
Contributions	\$ 22,332,672
Investment income	7,691,054
Other income	9,188
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Total operating revenues	30,032,914
Expenses	
Losses and loss adjustment expenses	23,835,870
Excess insurance premiums	4,429,782
General and administrative	3,321,263
	<hr/>
Total operating expenses	31,586,915
Operating loss	(1,554,001)
Nonoperating expenses	
Unrealized loss on investments	(8,502,709)
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Change in net position	(10,056,710)
Total net position, beginning of year, adjusted	44,757,948
Refunds to members, net (see Note G)	-
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Total net position, end of year	\$ 34,701,238
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The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Statement of Cash Flows

Year ended December 31, 2018

Cash flows from operating activities:	
Contributions collected	\$ 22,921,504
Loss and loss adjustment expenses paid	(24,283,327)
Payments to suppliers and excess insurer	(7,176,662)
Payments to employees	(579,651)
Investment income received	2,529,285
Other income	9,188
	<u>9,188</u>
Net cash used in operating activities	(6,579,663)
Cash flows used in non-capital financing activities:	
Refunds paid to members	-
Cash flows used in capital and related financing activities:	
Purchases of capital assets	(14,195)
Cash flows from investing activities:	
Proceeds from investments	66,002,243
Purchase of investments	(55,759,838)
	<u>10,242,405</u>
Net cash provided by investing activities	10,242,405
Change in cash and cash equivalents	3,648,547
Cash and cash equivalents, beginning of year	<u>10,643,217</u>
Cash and cash equivalents, end of year	<u>\$ 14,291,764</u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating loss	\$ (1,554,001)
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation and amortization	36,163
Pension and OPEB expense, net of contributions	149,040
Accretion of discounts and amortization of premiums, net	50,643
Realized gain on investments	(5,227,310)
Changes in certain assets and liabilities:	
Increase in deposits and accounts receivable other than contributions	(156,045)
Decrease in accrued interest receivable	14,898
Decrease in contributions in course of collection	6,502
Increase in prepaid expenses	(66,202)
Decrease in loss and loss adjustment expense reserves	(291,412)
Increase in advance contributions	582,330
Decrease in accounts payable and accrued expenses	(124,269)
	<u>(5,025,662)</u>
Net adjustments	(5,025,662)
Net cash used in operating activities	<u>\$ (6,579,663)</u>
Schedule of noncash investing, capital, and financing activities:	
Decrease in fair value of investments	<u>\$ (8,502,709)</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements

December 31, 2018

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 Section 537.700, RSMo, 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 966 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2018.

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, 2018

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 statement 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 which extend the useful life of assets 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, 2018.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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

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.

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 a restricted net position as of December 31, 2018.

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 \$44,774,211 as of December 31, 2018.

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 2018.

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.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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

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; however, MOPERM's Board of Trustees has the ability to amend prior declarations prior to payment. The effect of any board approved amendments made to the original declarations are reported during the year they are incurred.

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.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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

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 percent of the earned contribution and 15 percent of the earned contribution for all policy years since MOPERM's inception minus \$1,666,271 for policy year 2002; plus any undesignated retro return reserves of a policy year that is twenty years old. MOPERM contributed \$2,233,267 to the designated catastrophic reserves during 2018. 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.

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.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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

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.

Other Post-employment Benefits

During the year ended December 31, 2018, MOPERM implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions ("OPEB"). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Missouri Consolidated Health Care Plan (MCHCP) and additions to/deductions from MCHCP's fiduciary net position have been determined on the same basis as they are reported by MCHCP. For this purpose, employer contributions are recognized as revenue when due and payable. Benefits are recognized when due and payable in accordance with the terms of the Plan.

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 27, 2019, which is the date the financial statements were available to be issued.

Note C – Deposits and Investments

Deposits

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2018, the carrying amount of deposits at the financial institutions was \$2,123,868, the bank balance was \$2,789,558. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2018.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note C – Deposits and Investments (Continued)

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.

Investment Summary

The following table presents the summary of MOPERM'S investments by type at December 31, 2018:

Cash Equivalents

Investaccount-Government	\$ 11,352,255
Government Obligation Fund-Money Market	815,641
Total Cash Equivalents	<u>\$ 12,167,896</u>

Fixed Income Securities

Certificate of Deposit	\$ 8,439,649
Corporate Notes	29,975,239
Municipal Bonds	1,977,939
U.S. Agencies	1,528,950
U.S. Treasury Notes	14,584,864
U.S. Government Guaranteed Mortgages	7,468,483
Collateralized Mortgage Obligations	6,407,679
Asset-Backed Securities	<u>4,954,499</u>
Total Fixed Income Securities	75,337,302

Equity Securities

Total investments	<u>\$ 25,147,687</u>
	<u>\$ 100,484,989</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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, 2018:

	<u>Amount</u>	<u>% of Portfolio</u>
U.S. Treasury	\$ 14,584,864	14.52
Federal National Mortgage Association	13,876,161	13.81

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.

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, 2018, MOPERM's investment maturities consisted of the following:

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note C – Deposits and Investments (Continued)

<u>December 31, 2018</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	\$ 11,352,255	\$ -	\$ -	\$ -	\$ -	\$ 11,352,255
Money Market-Government	N/A	815,641	-	-	-	-	815,641
Asset-Backed Securities	Aaa/AAA	-	617,237	3,832,147	505,115	-	4,954,499
Certificate of Deposit	A-1	505,470	7,934,179	-	-	-	8,439,649
Collateralized Mortgage Obligations	Aaa/AA+	-	1,701,044	-	1,205,803	3,500,832	6,407,679
Municipal Bond	AA	-	1,977,939	-	-	-	1,977,939
U.S. Agencies	Aaa/AA+	291,049	-	-	264,014	973,887	1,528,950
U.S. Government Guaranteed Mortgages	Aaa/AA+	-	1,823,457	668,964	4,572,565	403,497	7,468,483
U.S. Treasury Notes	Aaa/AA+	-	5,433,338	6,972,429	2,179,097	-	14,584,864
Corporate Note	Aaa/BBB+	-	10,821,494	11,845,901	7,307,844	-	29,975,239
		<u>\$ 12,964,415</u>	<u>\$ 30,308,688</u>	<u>\$ 23,319,441</u>	<u>\$ 16,034,438</u>	<u>\$ 4,878,216</u>	<u>\$ 87,505,198</u>

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, 2018:

Level 1 Measurements

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

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note C – Deposits and Investments (Continued)

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.

Equity securities – Open-ended mutual funds valued using net asset value. The fund is comprised of equity securities and depository receipts of international and domestic issuers.

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

	<u>Fair Value Measurement at Report Date Using</u>			
	<u>Fair Value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Fixed Income Securities				
Certificate of Deposit	\$ 8,439,649	\$ -	\$ 8,439,649	\$ -
Corporate Notes	29,975,239	-	29,975,239	-
Municipal Bonds	1,977,939	-	1,977,939	-
U.S. Agencies	1,528,950	-	1,528,950	-
U.S. Treasury Notes	14,584,864	14,584,864	-	-
U.S. Government Guaranteed Mortgages	7,468,483	-	7,468,483	-
Collateralized Mortgage Obligations	6,407,679	-	6,407,679	-
Asset-Backed Securities	4,954,499	-	4,954,499	-
Total Fixed Income Securities	<u>75,337,302</u>	<u>14,584,864</u>	<u>60,752,438</u>	<u>-</u>
Equity Securities	<u>25,147,687</u>	<u>-</u>	<u>25,147,687</u>	<u>-</u>
Total investments	<u>\$ 100,484,989</u>	<u>\$ 14,584,864</u>	<u>\$ 85,900,125</u>	<u>\$ -</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note C – Deposits and Investments (Continued)

Gains (Losses) on Investments

Net unrealized losses on investments classified as trading assets held at the reporting date were \$8,502,709 for the year ended December 31, 2018. Net realized gains on assets sold or otherwise disposed of, and included within net investment income, amounted to \$5,227,310 in 2018.

Note D – Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

<u>Category</u>	<u>Balance at December 31, 2017</u>	<u>Additions</u>	<u>Deductions/ Transfers</u>	<u>Balance at December 31, 2018</u>
Capital assets, being depreciated				
Building and building improvements	\$ 1,172,339	\$ -	\$ -	\$ 1,172,339
Equipment	28,706	-	-	28,706
Furniture and fixtures	94,810	1,800	-	96,610
Computer equipment and software	684,597	12,395	-	696,992
Automobiles	31,975	-	(15,325)	16,650
Total capital assets, being depreciated	<u>2,012,427</u>	<u>14,195</u>	<u>(15,325)</u>	<u>2,011,297</u>
Less accumulated depreciation	<u>1,208,025</u>	<u>36,162</u>	<u>(15,325)</u>	<u>1,228,862</u>
Capital assets, net	<u>\$ 804,402</u>	<u>\$ (21,967)</u>	<u>\$ -</u>	<u>\$ 782,435</u>

Total depreciation expense for the year ended December 31, 2018, was \$36,162.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note E – Loss and Loss Adjustment Expense Reserves

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

Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$583,811	\$ 69,800,445
Incurred loss and loss adjustment expenses:	
Provision for insured events – current year	24,143,943
Provision for insured events – prior years	<u>(308,073)</u>
Total incurred loss and loss adjustment expenses	23,835,870
Payments:	
Loss and loss adjustment expenses attributable to insured events – current year	4,107,686
Loss and loss adjustment expenses attributable to insured events – prior years	<u>20,019,596</u>
Total payments	<u>24,127,282</u>
Loss and loss adjustment expenses reserves, end of year, net of reinsurance recoverable of \$2,301,968	<u>\$ 69,509,033</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 \$595,026 for 2018, and pension costs of \$113,588 for 2018. As of December 31, 2018, no balances were due to the State of Missouri. The State of Missouri's other post-employment benefit package is subject to the measurement and disclosure requirements of GASB 75.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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 \$1,735,389 for the year ended December 31, 2018.

Note G – Retro Return Reserve Refunds

The Board of Trustees of MOPERM did not declare retro return reserve refunds for 2018. As of December 31, 2018, 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 2018</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	2,786,059	-	2,786,059	47%
1996	1,456,194	-	1,456,194	23%
1997	1,048,002	-	1,048,002	15%
1998	399,664	-	399,664	6%
1999	260,176	-	260,176	4%
2000	211,403	-	211,403	3%
2001	337,970	-	337,970	4%
	<u>\$ 12,714,588</u>	<u>\$ -</u>	<u>\$ 12,714,588</u>	

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note H – Excess Insurance

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property excess policy for 2018 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 2018, the equipment breakdown excess policy, provides coverage of \$100,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence. MOPERM added cyber and information breach insurance coverage to its product offerings during the 2018 fiscal year. For 2018, MOPERM carried no excess insurance coverage for crime.

On October 31, 2017, MOPERM purchased an annual liability reinsurance policy with ACE American Insurance Company. ACE American Insurance Company shall not be liable for more than \$1,500,000 in net losses per occurrence. MOPERM's retention per occurrence was \$500,000 with a \$500,000 annual aggregate. MOPERM had not purchased a liability excess insurance policy for liability coverage since July 7, 2002.

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, 2018

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.

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 Section 104.436, RSMo, 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, 2018, 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, 2018, was 16.97 percent, which is the year of measurement for the net pension liability. Contributions to the pension plan from MOPERM were \$113,588 for the measurement date of June 30, 2018.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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, 2018, MOPERM reported a liability of \$1,676,043 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018. At June 30, 2018, measurement date, MOPERM's proportion was 0.030, which represents a .003 decrease from the percentage used to allocate the liability as of June 30, 2017.

There were no changes in benefit terms during the MOSERS plan year ended June 30, 2018, that affected the measurement of total pension liability.

For the year ended December 31, 2018, MOPERM recognized pension expense of \$258,119. At the measurement date of June 30, 2018, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 60,598	\$ 96,465
Changes of assumptions	144,447	-
Net difference between projected and actual earnings on pension plan investments	197,124	-
Changes in proportion and differences between MOPERM contributions and proportionate share of contributions	-	108,966
MOPERM contributions subsequent to the measurement date of June 30, 2018	63,413	-
Total	<u>\$ 465,581</u>	<u>\$ 205,431</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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 \$63,413 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, 2018 following MOSERS' fiscal year as follows:

Projected Recognition of Outflows/ (Inflows)

Plan Year ending June 30:	
2019	138,399
2020	45,648
2021	12,584
2022	107
Thereafter	-

Actuarial assumptions: The actuarial assumptions used in the June 30, 2018, valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report, performed by the prior actuary, is dated March 30, 2016. The only change in actuarial assumptions and methods was the lowering of the annual investment rate of return from 7.50 percent to 7.25 percent.

The total pension liability in the June 30, 2018, 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	2.75% to 4.95% including inflation
Wage inflation	2.5%
Investment rate of return	7.25%, compounded annually, net of investment expenses.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

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 98 percent. The pre-retirement mortality rates used were the RP-2014 Employee mortality table, projected from 2006 to 2026 with Scale MP-2015.

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, 2018, 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>
Opportunistic global equities	38.0%	5.5%	2.1%
Nominal bonds	44.0	1.0%	0.5
Commodities	20.0	4.5%	0.9
Inflation-linked bonds	39.0	0.8%	0.3
Alternative beta	<u>31.0</u>	4.5%	<u>1.4</u>
	<u>172.0%</u>		<u>5.2%</u>

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

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note K – Retirement Plan (Continued)

Discount rate: The discount rate used to measure the total pension liability was 7.25 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
MOPERM's proportionate share of the net pension liability	\$ 2,141,009	\$ 1,676,043	\$ 1,285,059

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.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note L – Other Post-employment Benefit Plans

General Information About the Pension Plan

Plan description: MOPERM participates as an employer in a cost-sharing, multiple-employer, defined benefit, other post-employment benefits plan, the State Retiree Welfare Benefit Trust (SRWBT), operated by MCHCP. Employees may participate at retirement if eligible to receive a monthly retirement benefit from MOSERS. The terms and conditions governing post-employment benefits are vested with the MCHCP Board of Trustees within the authority granted under Chapter 103 of the Revised Statutes of Missouri (2000) as amended (“RSMo”) 103.003 through 103.178. The SRWBT does not issue a separate stand-alone financial report. Financial activity of the SRWBT is included in the MCHCP Comprehensive Annual Financial Report as a fiduciary fund and is intended to present only the financial position of the activities attributable to the SRWBT. Additionally, MCHCP is considered a component unit of the state of Missouri reporting entity and is included in the state’s financial report. The plan’s financial statements are available on MCHCP’s website at www.mchcp.org.

Benefits provided: The SRWBT was established and organized on June 27, 2008, pursuant to the Revised Statutes of Missouri (2000) as amended (“RSMo”) 103.003 through 103.178 to provide health and welfare benefits for the exclusive benefit of current and future retired employees of the state and their dependents who meet eligibility requirements, except for those retired members covered by other OPEB plans of the state. MCHCP’s three medical plans offer the same basic coverage such as preventative care, freedom to choose care from a nationwide network of primary care providers, specialists, pharmacies and hospitals, usually at a lower negotiated group discount and the same covered benefits for both medical and pharmacy. Benefits are the same in all three plans; other aspects differ such as premium, deductible and out of pocket costs. Retiree benefits are the same as for active employees

Contributions: Contributions are established and may be amended by the MCHCP Board of Trustees, with the authority granted under Chapter 103 of the Revised Statutes of Missouri (2000) as amended (“RSMo”) 103.003 through 103.178. For the fiscal year ended June 30, 2017, employers were required to contribute 4.26% for the period July 1, 2016, through December 31, 2016, and 4.02% for the period January 1, 2017, through June 30, 2017, of gross active employee payroll toward their required contributions. Employees do not contribute to this plan. No payables to the plan were outstanding at year end.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note L – Other Post-employment Benefit Plans (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, MOPERM reported a liability of \$709,381 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. MOPERM's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, MOPERM's proportion was 0.0402%. For the year ended June 30, 2018, MOPERM recognized OPEB expense of \$47,366. As of June 30, 2018, MOPERM reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,287
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	69
Changes in proportion and differences between MOPERM contributions and proportionate share of contributions	-	19,823
MOPERM contributions subsequent to the measurement date of June 30, 2017	<u>15,747</u>	<u>-</u>
Total	<u>\$ 15,747</u>	<u>\$ 21,179</u>

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note L – Other Post-employment Benefit Plans (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

Contributions of \$15,747 reported as deferred outflows of resources related to OPEB resulting from MOPERM contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability at the next valuation date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in MOPERM's calendar year end December 31, 2018 following MOSERS' fiscal year as follows:

Projected Recognition of Outflows/ (Inflows)

Plan Year ending June 30:	
2019	(\$2,586)
2020	(2,586)
2021	(2,586)
2022	(2,586)
2023	(2,586)
Thereafter	(8,317)

Actuarial assumptions: The collective total OPEB liability for the June 30, 2017, measurement date was determined by an actuarial valuation as of January 1, 2017, with updated procedures used to roll forward the total OPEB liability to June 30, 2017. This actuarial valuation used the following assumptions:

Valuation year	July 1, 2016 – June 30, 2017
Actuarial cost method	Entry age normal, level percentage of payroll
Asset valuation method	Market value
Discount rate(blended)	5.71%
Projected payroll growth rate	4.0%
Inflation rate	3.0%
Health care cost trend rate (Medical and Rx)	
Nonmedicare	6.5% for fiscal year 2017 – rate decreased .25% per annum
Medicare	7.5% for fiscal year 2017– rate decreased .25% per annum
Mortality:	RP-2016 for Employees/Annuitants without collar adjustments using Scale MP-2016
Experience study:	The last experience study was conducted July 1, 2008 – June 30,2012

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note L – Other Post-employment Benefit Plans (Continued)

Discount rate: A discount rate of 5.71% was used to measure the total OPEB liabilities. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and the contributions will be made at statutorily required rates, actuarially determined. This discount rate was determined as a blend of the best estimate of the expected return on plan assets and the 20-year high quality municipal bond rate as of the measurement date. For years where expected benefit payments can be covered by projected trust assets, expected returns are used. For years where payments are not expected to be covered by trust assets, the municipal Bond Buyer 20-Bond General Obligation Index rate is utilized.

Sensitivity of the MOPERM’s proportionate share of the net OPEB liability to changes in the discount rate: The following presents MOPERM’s proportionate share of the net OPEB liability calculated using the discount rate of 5.71 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 (4.71 percent) or 1-percentage-point higher (6.71 percent) than the current rate:

	1% Decrease <u>(4.71%)</u>	Current Discount Rate <u>(5.71%)</u>	1% Increase <u>(6.71%)</u>
MOPERM’s proportionate share of the net pension liability	\$ 837,795	\$ 709,381	\$ 607,746

Sensitivity of the MOPERM’s proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates: The following table presents MOPERM’s net OPEB liability, calculated using the current trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease <u>Trend Rates</u>	Current Trend Rates	1% Increase <u>Trend Rates</u>
MOPERM’s proportionate share of the net OPEB liability	\$ 604,641	\$ 709,381	\$ 842,037

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Notes to Financial Statements - Continued

December 31, 2018

Note L – Other Post-employment Benefit Plans (Continued)

Long-Term Expected Rate of Return: The target allocation and expected real rate of return for each major asset class are listed below:

	Target Allocation	Expected Real Rate of Return
Large cap stocks	20.0%	5.7%
Mid cap stocks	10.0%	6.0%
Small cap stocks	10.0%	6.0%
High-yield bonds	10.0%	2.6%
BarCap aggregate bonds	20.0%	1.0%
Long government /credit	25.0%	1.4%
Cash equivalents	5.0%	0.3%

Note M – Change in Accounting Principle

During the year ended December 31, 2018, MOPERM implemented GASB Statement No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pensions. This statement established standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses related to OPEB. As a result of the implementation, MOPERM's beginning net position was restated to reflect the January 1, 2018 net OPEB liability of \$710,304.

Required Supplemental Information

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Supplemental Schedule of 2009-2018 Loss Development Information

December 31, 2018

(See Independent Auditor's Report)

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, 2018. 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

Supplemental Schedule of 2009-2018 Loss Development Information, Continued

Year ended December 31, 2018

(See Independent Auditor's Report)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fiscal year ended:										
(1) Contribution and investment revenue:										
Earned	22,681,440	21,232,605	19,366,692	19,309,387	20,402,355	21,779,552	21,991,334	22,508,769	23,607,351	22,332,672
Ceded	(1,119,946)	(1,273,174)	(1,447,161)	(1,639,866)	(1,744,482)	(1,852,432)	(1,916,934)	(1,700,131)	(2,522,207)	(4,429,782)
Net earned	21,561,494	19,959,431	17,919,531	17,669,521	18,657,873	19,927,120	20,074,400	20,808,638	21,085,144	17,902,890
(2) Unallocated expenses	2,624,008	2,504,618	2,366,185	2,489,258	2,669,851	2,962,782	3,051,943	3,176,652	3,295,614	3,321,263
Policy year ended:										
(3) Contribution refunds, cumulative	-	-	-	-	-	-	-	-	-	-
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	13,351,739	12,505,206	12,233,711	10,763,247	11,666,726	12,436,173	12,955,049	23,377,682	21,735,197	26,475,860
Ceded	(398,943)	(286,666)	(753,284)	(101,048)	(308,872)	(138,327)	(674,060)	(103,215)	(1,565,208)	(2,331,916)
Net incurred	12,952,796	12,218,540	11,480,427	10,662,199	11,357,854	12,297,846	12,280,989	23,274,467	20,169,989	24,143,944
(4) Net paid losses (cumulative) as of:										
End of policy year	2,734,679	3,126,561	5,385,430	2,954,358	2,953,383	3,429,124	3,745,745	3,995,418	4,582,995	4,107,686
One year later	4,311,864	5,182,373	7,166,940	4,088,118	4,271,256	5,556,737	5,120,963	5,883,568	7,691,060	-
Two years later	5,188,008	6,541,593	10,392,180	6,657,025	6,913,884	8,849,610	8,664,274	10,508,302	-	-
Three years later	8,445,272	7,880,273	14,727,920	8,397,325	9,368,411	13,414,187	11,161,378	-	-	-
Four years later	9,114,240	8,678,272	15,693,487	9,217,546	11,581,950	19,668,008	-	-	-	-
Five years later	9,446,530	9,648,147	16,001,183	12,447,819	14,381,852	-	-	-	-	-
Six years later	10,021,237	10,245,215	16,204,081	12,620,922	-	-	-	-	-	-
Seven years later	10,364,483	13,071,027	16,408,700	-	-	-	-	-	-	-
Eight years later	10,538,334	13,095,866	-	-	-	-	-	-	-	-
Nine years later	10,656,177	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	(732,765)	(334,886)	(1,266,160)	(273,511)	(558,925)	(350,689)	(788,638)	(184,236)	(2,271,791)	(2,331,916)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	12,952,796	12,218,540	11,174,983	10,662,199	11,357,854	12,297,846	12,280,989	23,274,467	20,169,989	24,143,944
One year later	12,798,194	12,143,246	12,396,804	10,656,543	11,255,187	12,250,430	12,372,649	27,565,422	21,344,752	-
Two years later	12,798,195	12,145,377	14,399,011	10,654,114	11,247,424	17,687,310	18,305,431	18,229,678	-	-
Three years later	12,798,194	12,145,007	14,399,011	13,932,748	13,780,962	22,538,991	21,403,002	-	-	-
Four years later	12,798,195	12,143,487	17,020,515	13,932,748	16,032,996	24,459,456	-	-	-	-
Five years later	12,798,195	12,143,487	17,020,515	13,932,747	18,994,453	-	-	-	-	-
Six years later	12,798,195	12,870,664	16,953,529	14,317,366	-	-	-	-	-	-
Seven years later	12,798,195	13,597,841	18,023,968	-	-	-	-	-	-	-
Eight years later	12,798,194	14,067,243	-	-	-	-	-	-	-	-
Nine years later	11,261,448	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	(1,691,348.35)	1,848,702.98	6,543,540.53	3,655,167.06	7,636,598.96	12,161,610	9,122,013	(5,044,789)	1,174,763	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Reconciliation of Claims Liabilities by Type of Contract

Year ended December 31, 2018

(See Independent Auditor's Report)

The schedule below presents the changes in claims liabilities for the past two years for the fund's two types of contracts: Liability and Property

	<u>Liability</u>	<u>Property</u>
Loss and loss adjustment expense reserves, beginning of year	\$ 69,537,731	\$ 262,714
Incurred loss and loss adjustment expenses:		
Provision for insured events - current year	22,241,429	1,902,514
Provision for insured events - prior year	<u>(334,260)</u>	<u>26,187</u>
Total incurred loss and loss adjustment expenses	<u>21,907,169</u>	<u>1,928,701</u>
Payments:		
Loss and loss adjustment expenses attributable to insured	3,273,982	833,704
Loss and loss adjustment expenses attributable to insured	<u>19,773,386</u>	<u>246,210</u>
Total payments	<u>23,047,368</u>	<u>1,079,914</u>
Loss and loss adjustment expense reserves, end of year	<u><u>\$ 68,397,532</u></u>	<u><u>\$ 1,111,501</u></u>

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, 2018

(See Independent Auditor's Report)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
MOPERM's proportion of the net pension liability (asset)	.0350%	.0340%	.033%	.030%
MOPERM's proportionate share of the net pension liability (asset)	\$1,138,251	\$1,579,883	\$1,720,313	\$1,676,043
MOPERM's covered-employee payroll	\$ 686,195	\$ 659,145	\$ 650,280	\$ 584,003
MOPERM's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	165.88%	239.69%	264.55%	286.99%
Plan fiduciary net position as a percentage of the total pension liability	72.62%	63.60%	60.41%	59.02%

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

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Contributions for Pensions Missouri State Employees' Retirement System

As of December 31, 2018

(See Independent Auditor's Report)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Required contribution	\$ 116,447	\$ 111,857	\$ 110,353	\$ 113,588
Contributions in relation to the required contribution	\$ 116,447	\$ 111,857	\$ 100,353	\$ 113,588
Contribution deficiency (excess)	-	-	-	-
MOPERM's covered-employee payroll	\$ 686,195	\$ 659,145	\$ 650,280	\$ 584,003
Contributions as a percentage of covered-employee payroll	16.97%	16.97%	16.97%	19.45%

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

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

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

December 31, 2018

(See Independent Auditor's Report)

Changes of benefit terms or assumptions:

Changes of benefit terms. For the year ended June 30, 2018, there was one benefit change to be recognized. Senate Bill 62 made several changes to the MSEP 2011 benefit provisions. There were no changes in the benefit terms since the Prior Measurement Date.

Changes of assumptions. The long-term rate of return on investments assumption was changed from 7.50 percent to 7.25 percent.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Proportionate Share of the Net OPEB Liability State Retiree Welfare Benefit Trust

As of December 31, 2018

(See Independent Auditor's Report)

	<u>2018</u>
MOPERM's proportion of the net OPEB liability	.0402%
MOPERM's proportionate share of the net OPEB liability	\$ 709,381
MOPERM's covered-employee payroll	\$ 584,003
MOPERM's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	121.47%
Plan fiduciary net position as a percentage of the total OPEB liability	6.64%

Based on a measurement date and actuarial valuation as of the end of June 30, 2017.

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

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Schedule of MOPERM's Proportionate Share of the Net OPEB Liability State Retiree Welfare Benefit Trust

As of December 31, 2018

(See Independent Auditor's Report)

	<u>2018</u>
Contractually required contribution	\$ 27,110
Contributions in relation to the required contribution	\$ 27,110
Contribution deficiency (excess)	-
MOPERM's covered-employee payroll	\$ 584,003
Contributions as a percentage of covered-employee payroll	4.64%

Based on a measurement date and actuarial valuation as of the end of June 30, 2017.

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