

**COMMUNICATION OF  
AUDIT RELATED MATTERS**

**MISSOURI PUBLIC ENTITY RISK  
MANAGEMENT FUND**

**DECEMBER 31, 2020**

April 21, 2021

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

We have audited the financial statements of Missouri Public Entity Risk Management Fund (“MOPERM”) for the year ended December 31, 2020, and have issued our report thereon dated April 21, 2021. Professional standards require that we provide you with the following information related about our responsibilities under U.S. generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 10, 2021, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility was to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatement. As part of our audit, we considered the internal control over financial reporting of MOPERM. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas tested.

Our audit included obtaining an understanding of MOPERM and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to MOPERM or to acts by management or employees acting on behalf of MOPERM.

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MOPERM are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2020. We noted no transactions entered into by MOPERM during the year for which there is a lack of authoritative guidance or consensus. All material significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were related to the liability for losses and loss adjustment expenses and the valuation of investments. We evaluated the key factors and assumptions used to develop the estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were related to the liability for losses and loss adjustment expenses and investments.

### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We assisted the in identifying and correcting errors in the general ledger. Management approved such correcting entries.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 21, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to MOPERM’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MOPERM’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

We applied certain limited procedures to the management’s discussion and analysis and the supplementary schedule of 2011-2020 loss development information, reconciliation of claims liabilities by type of contract, schedules of MOPERM’s proportionate share of the net pension liability, schedule of MOPERM’s contributions for pensions, MOPERM’s proportionate share of net OPEB liability, and MOPERM’s contributions for OPEB, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the Board of Trustees charged with governance and management of MOPERM and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Williams-Keepers LLC". The signature is written in a cursive, slightly slanted style.

WILLIAMS-KEEPERS LLC

**REPORT OF**  
**MISSOURI PUBLIC ENTITY RISK**  
**MANAGEMENT FUND**  
**DECEMBER 31, 2020 and 2019**

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## INDEPENDENT AUDITORS' REPORT

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

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, 2020 and 2019, 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 U.S. generally accepted accounting principles; 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 fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 MOPERM'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 MOPERM'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 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 MOPERM as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, the loss development and claim liabilities schedules, the pension plan schedules, and the other post-employment benefit plan (OPEB) schedules as listed in the table of contents be presented to supplement the basic financial statements. 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 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 U.S. generally accepted auditing standards, 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.

*Williams - Keepers LLC*

April 21, 2021

## **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 year ended December 31, 2020. 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: an 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.

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 loss development as well as claim information by type of contract. Schedules illustrating MOPERM's proportionate share and employer contributions for pensions and OPEB are also presented.

## FINANCIAL ANALYSIS

The following tables present the summarized financial position and results of operations for the years ended December 31, 2020, 2019, and 2018. Additional details are available in the accompanying financial statements.

|  | 2020                  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|-----------------------|
| <b>ASSETS</b>  |                       |                       |                       |
| Cash and investments   | \$ 141,712,899        | \$ 123,087,700        | \$ 114,776,753        |
| Receivables  | 564,967               | 503,111               | 859,509               |
| Capital assets   | 785,562               | 748,604               | 782,435               |
| Deferred outflow of resources                                    | 366,376               | 402,252               | 481,328               |
| Other  | 425,553               | 157,031               | 676,180               |
| Total assets and deferred outflow of resources                   | <u>\$ 143,855,357</u> | <u>\$ 124,898,698</u> | <u>\$ 117,576,205</u> |
| <b>LIABILITIES</b>   |                       |                       |                       |
| Loss and loss adjustment expense                                 | \$ 74,761,702         | \$ 74,685,971         | \$ 69,509,033         |
| Net pension liability  | 2,827,892             | 2,593,578             | 2,385,423             |
| Deferred inflow of resources                                     | 95,839                | 189,044               | 226,610               |
| Other  | 13,587,587            | 10,311,463            | 10,753,901            |
| Total liabilities and deferred inflow of resources               | <u>91,273,020</u>     | <u>87,780,056</u>     | <u>82,874,967</u>     |
| <b>NET POSITION</b>  |                       |                       |                       |
| Net investment in capital assets                                 | 785,562               | 748,604               | 782,435               |
| Unrestricted   | 51,796,775            | 36,370,038            | 33,918,803            |
| Total net position   | <u>52,582,337</u>     | <u>37,118,642</u>     | <u>34,701,238</u>     |
| Total liabilities, deferred inflow of resources and net position | <u>\$ 143,855,357</u> | <u>\$ 124,898,698</u> | <u>\$ 117,576,205</u> |

MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM provides 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.

Total assets increased in 2020 by \$18.9 million, compared to an increase in 2019 of \$7.3 million and decrease of \$9.8 million in 2018. Cash and investments increased by \$18.6 million in 2020 and \$8.3 million in 2019, while decreasing approximately \$9.9 million in 2018. There were a few capital asset purchases in early 2020 to prepare for the pandemic, which caused the slight increase from 2019. Capital assets had decreased in the previous two years due to assets becoming fully depreciated and no new large assets being purchased. Receivables increased in 2020 by approximately \$62,000.

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 \$0.4 million, \$0.4 million and \$0.5 million indicate differences that would be included as an off-set to future pension and OPEB expense for the fiscal years ended December 31, 2020, 2019, and 2018, respectively. For 2020, 2019, and 2018, deferred inflow of resources of \$0.1 million, \$0.2 million and \$0.2 million 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, 2020, 2019 and 2018, MOPERM’s share of the net pension liability was \$2.1 million, \$2.0 million, and \$1.7 million, respectively. As of December 31, 2020, 2019 and 2018, MOPERM’s share of the net OPEB liability was \$0.7 million, \$0.6 million and \$0.7 million, respectively.

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 \$0.7 million, as well as additional note disclosures in Note 12 to display types of benefits provided and the number and classes of employees covered by the benefit terms.

Total liabilities increased by approximately \$3.5 million in 2020 due to an increase in advance and unearned premiums. Total liabilities increased by approximately \$4.9 million in 2019 and by \$0.9 million in 2018 due to the adverse development in loss and loss adjustment expense in all lines of business. MOPERM has no long-term debt.

Net position for 2020 increased by \$15.5 million. There were no refunds of paid contributions pursuant to Section 537.750, RSMo, declared in 2020.

|                                       | 2020                 | 2019                 | 2018                 |
|---------------------------------------|----------------------|----------------------|----------------------|
| <b>REVENUES</b>                       |                      |                      |                      |
| Contributions                         | \$ 25,488,439        | \$ 23,489,544        | \$ 22,332,672        |
| Investment income                     | 5,552,740            | 3,135,487            | 7,691,054            |
| Other income (expense)                | (22,711)             | 228                  | 9,188                |
| Total operating revenues              | <u>31,018,468</u>    | <u>26,625,259</u>    | <u>30,032,914</u>    |
| <b>EXPENSES</b>                       |                      |                      |                      |
| Loss and loss adjustment expense      | 14,569,430           | 24,871,279           | 23,835,870           |
| Excess insurance premiums             | 2,232,661            | 4,344,962            | 4,429,782            |
| General and administrative            | 3,694,041            | 3,485,226            | 3,321,263            |
| Total operating expenses              | <u>20,496,132</u>    | <u>32,701,467</u>    | <u>31,586,915</u>    |
| Operating income (loss)               | <u>10,522,336</u>    | <u>(6,076,208)</u>   | <u>(1,554,001)</u>   |
| Non-operating revenue (expenses):     |                      |                      |                      |
| Unrealized gain (loss) on investments | 4,941,359            | 8,493,612            | (8,502,709)          |
| Changes in net position               | 15,463,695           | 2,417,404            | (10,056,710)         |
| Total net position beginning of year  | <u>37,118,642</u>    | <u>34,701,238</u>    | <u>44,757,948</u>    |
| Total net position, end of year       | <u>\$ 52,582,337</u> | <u>\$ 37,118,642</u> | <u>\$ 34,701,238</u> |

MOPERM increased its overall participating membership from 971 in 2019 to 993 in 2020. Writing short-term policies in order to implement staggered renewals, a net increase in members along with a rate increase, allowed MOPERM's contributions to rise by \$2.0 million in 2020, compared to \$1.2 million in 2019 and \$1.3 million in 2018. The majority of the increase was attributed to liability contributions. The 2020 contribution increases were driven primarily by an overall rate increase of 10.1%.

In 2019, MOPERM's Board of Trustees approved the removal of liability reinsurance provided by an outside carrier, effective October 1, 2019. Thus, they opted to return to the previous method of self-insuring liability coverage for members due to cost effectiveness. Although liability reinsurance premiums ended in October 2019, coverage for members during the 2018-2020 period will continue to be provided by ACE Property & Casualty (Chubb).

The performance on the fixed income portfolio over the past 12 months was 5.49% with a 2.96% return since inception. There was a 17.86% return for the past 12 months on the Multi-Asset Class Portfolio and a 11.07% return since inception. Investment income consists of interest income, amortization of premium and discounts, and realized gains and losses on securities. In 2020, investment income was \$5.5 million compared to \$3.1 in 2019 and \$7.7 million in 2018. MOPERM ended 2020 with \$4.9 million in unrealized gains on investments, compared to \$8.5 million in unrealized gains in 2019, and \$8.5 million in unrealized losses for 2018.

In 2020, there was a \$10.3 million decrease in loss and loss adjustment expense, compared to 2019, when there was a \$1 million increase, and a \$16.0 million decrease for 2018. Actual loss and loss expenses paid in 2020 were \$15.0 million, \$20.5 million in 2019, and \$24.3 in 2018. 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 2020 Statement of Revenues, Expenses and Changes in Net Position includes cyber & liability reinsurance, property reinsurance and equipment breakdown coverage. There was an overall decrease in premiums between 2019 and 2020 of \$2.1 million. This was due to the non-renewal of liability reinsurance, effective October 2019.

In 2020, general and administrative expenses totaled 14% of contribution earned. General and administrative expenses approximated 16% of total contributions earned for 2019 and 16% for 2018. Commission expense comprises approximately 54% of total general and administrative expenses.

## **FINANCIAL SUMMARY**

In 2020, MOPERM's contributions increased by \$2.0 million. The increase can be attributed to both an increase in its overall participating members and an overall rate increase of 10.1%. A total of 993 entities contributed to the pool in 2020 compared to 971 participating members in 2019.

MOPERM's total net position increased by approximately \$15.5 million in 2020, totaling approximately \$52.6 million at December 31, 2020.

## **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.

## **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 MOPERM's Fiscal Manager, Randy Gilliland, at P.O. Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail [randy-gilliland@moperm.com](mailto:randy-gilliland@moperm.com).

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### STATEMENTS OF NET POSITION

December 31, 2020 and 2019

|  | 2020           | 2019           |
|--|----------------|----------------|
| <b>ASSETS</b>  |                |                |
| CURRENT ASSETS   |                |                |
| Cash and cash equivalents  | \$ 16,585,880  | \$ 7,988,725   |
| Investments, at fair value                                       | 125,127,019    | 115,098,974    |
| Deposits and accounts receivable                                 | 204,293        | 77,033         |
| Accrued interest receivable                                      | 360,674        | 426,078        |
| Deferred acquisition costs                                       | 207,850        | 150,020        |
| Prepaid expenses   | 217,703        | 7,012          |
| Total current assets   | 142,703,419    | 123,747,842    |
| FIXED ASSETS, NET  | 785,562        | 748,604        |
| DEFERRED OUTFLOW OF RESOURCES                                    | 366,376        | 402,252        |
| Total assets and deferred outflow of resources                   | \$ 143,855,357 | \$ 124,898,698 |
| <b>LIABILITIES AND NET POSITION</b>                              |                |                |
| CURRENT LIABILITIES  |                |                |
| Advance contributions  | \$ 10,630,931  | \$ 7,720,416   |
| Unearned contributions   | 2,728,148      | 2,215,078      |
| Accounts payable and accrued expense                             | 228,508        | 375,969        |
| Total current liabilities  | 13,587,587     | 10,311,463     |
| NONCURRENT LIABILITIES   |                |                |
| Loss and loss adjustment expense reserves                        | 74,761,702     | 74,685,971     |
| Net pension and OPEB liability                                   | 2,827,892      | 2,593,578      |
| Total noncurrent liabilities                                     | 77,589,594     | 77,279,549     |
| DEFERRED INFLOW OF RESOURCES                                     | 95,839         | 189,044        |
| Total liabilities and deferred inflow of resources               | 91,273,020     | 87,780,056     |
| NET POSITION   |                |                |
| Net investment in capital assets                                 | 785,562        | 748,604        |
| Unrestricted   | 51,796,775     | 36,370,038     |
| Total net position   | 52,582,337     | 37,118,642     |
| Total liabilities, deferred inflow of resources and net position | \$ 143,855,357 | \$ 124,898,698 |

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

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2020 and 2019

|                                     | <u>2020</u>                 | <u>2019</u>                 |
|-------------------------------------|-----------------------------|-----------------------------|
| OPERATING REVENUES                  |                             |                             |
| Contributions                       | \$ 25,488,439               | \$ 23,489,544               |
| Investment income                   | 5,552,740                   | 3,135,487                   |
| Other (loss) income                 | (22,711)                    | 228                         |
| Total operating revenues            | <u>31,018,468</u>           | <u>26,625,259</u>           |
| OPERATING EXPENSES                  |                             |                             |
| Losses and loss adjustment expenses | 14,569,430                  | 24,871,279                  |
| Excess insurance premiums           | 2,232,661                   | 4,344,962                   |
| General and administrative          | 3,694,041                   | 3,485,226                   |
| Total operating expenses            | <u>20,496,132</u>           | <u>32,701,467</u>           |
| Operating income (loss)             | <u>10,522,336</u>           | <u>(6,076,208)</u>          |
| NON-OPERATING REVENUE               |                             |                             |
| Unrealized gain on investments      | <u>4,941,359</u>            | <u>8,493,612</u>            |
| Change in net position              | 15,463,695                  | 2,417,404                   |
| Net position, beginning of year     | <u>37,118,642</u>           | <u>34,701,238</u>           |
| Net position, end of year           | <u><u>\$ 52,582,337</u></u> | <u><u>\$ 37,118,642</u></u> |

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

## MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

### STATEMENTS OF CASH FLOWS Years Ended December 31, 2020 and 2019

|   | 2020          | 2019           |
|---|---------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |               |                |
| Contributions collected   | \$ 28,896,944 | \$ 22,735,704  |
| Loss and loss adjustment expenses paid  | (14,620,959)  | (19,335,344)   |
| Payments to suppliers and excess insurer  | (5,439,930)   | (6,062,480)    |
| Payments to employees   | (658,363)     | (648,653)      |
| Investment income received  | 5,451,716     | 3,049,192      |
| Other income  | (22,711)      | 228            |
| Net cash provided by (used in) operating activities                                       | 13,606,697    | (261,353)      |
| Cash flows used in capital and related financing activities:                              |               |                |
| Purchases of capital assets   | (89,284)      | (5,009)        |
| Cash flows from investing activities:   |               |                |
| Proceeds from investments   | 55,176,439    | 62,399,889     |
| Purchase of investments   | (60,096,697)  | (68,436,566)   |
| Net cash used in investing activities   | (4,920,258)   | (6,036,677)    |
| Change in cash and cash equivalents   | 8,597,155     | (6,303,039)    |
| Cash and cash equivalents, beginning of year  | 7,988,725     | 14,291,764     |
| Cash and cash equivalents, end of year  | \$ 16,585,880 | \$ 7,988,725   |
| Reconciliation of net operating loss to net cash provided by operating activities:        |               |                |
| Net operating income (loss)   | \$ 10,522,336 | \$ (6,076,208) |
| Adjustments to reconcile net operating loss to net cash provided by operating activities: |               |                |
| Depreciation and amortization   | 52,326        | 38,840         |
| Pension expense, net of contributions   | 172,572       | 263,137        |
| Accretion of discounts and amortization of premiums, net                                  | -             | 17,638         |
| Realized gain on investments  | (166,428)     | (101,334)      |
| Changes in certain assets and liabilities:  |               |                |
| (Increase) decrease in deposits and accounts receivable                                   | (112,180)     | 359,295        |
| Decrease (increase) in accrued interest receivable  | 65,404        | (2,599)        |
| (Increase) decrease in contributions in course of collection                              | (15,080)      | (298)          |
| (Increase) decrease in prepaid expenses   | (210,691)     | 669,168        |
| (Increase) in deferred acquisition costs  | (57,830)      | (150,020)      |
| Increase in loss and loss adjustment expense reserves                                     | 75,731        | 5,176,938      |
| Increase (decrease) in advance contributions  | 2,910,515     | (2,961,122)    |
| Increase in unearned contributions  | 513,070       | 2,215,078      |
| (Decrease) increase in accounts payable and accrued expenses                              | (143,048)     | 290,134        |
| Net adjustments   | 3,084,361     | 5,814,855      |
| Net cash provided by (used in) operating activities                                       | \$ 13,606,697 | \$ (261,353)   |
| Schedule of noncash investing, capital, and financing activities:                         |               |                |
| Increase in fair value of investments   | \$ 4,941,359  | \$ 8,493,612   |

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

# MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS

### 1. 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 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.

### 2. 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.

*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, 2020 and 2019.

*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, 2020 and 2019.

Unrestricted net position - Consists of all other net position that does not meet the definition of the above component and is available for general use by MOPERM. MOPERM has designated unrestricted net position for catastrophic reserves in the amount of \$47,023,165 and \$44,774,211 as of December 31, 2020 and 2019, respectively. MOPERM considers the remaining unrestricted net position as undeclared retro return reserves which may be declared by the board at a future date. The undeclared retro return reserve balance as of December 31, 2020 and 2019 was a net deficit of \$9,904,526 and \$10,072,976, 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. Prior to January 1, 2019, all policies expired on December 31. Effective January 1, 2019, MOPERM modified their policy to allow renewals throughout the year. Unearned contributions were \$2,728,148 and \$2,215,078 as of December 31, 2020 and 2019, respectively. Advance contributions were \$10,630,931 and \$7,720,416 as of December 31, 2020 and 2019, respectively.

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 2020 or 2019.

*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; 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.

*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 2020 is equivalent to 10 percent of the earned contribution and 15 percent of the earned contribution for all policy years since MOPERM's inception through 2005 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 \$2,348,954 and \$2,233,267 to the designated catastrophic reserves during 2020 or 2019, respectively. 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.

*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:* 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 April 21, 2021, which is the date the financial statements were available to be issued.

### 3. DEPOSITS AND INVESTMENTS

*Deposits:* Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2020 and 2019, the carrying amount of deposits at the financial institutions was \$1,695,101 and \$468,871 and the bank balance was \$2,212,618 and \$1,477,958, respectively. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2020 and 2019.

*Investment Policies:* MOPERM has adopted an investment policy that is reviewed and approved by the Board of Trustees. During 2020 and 2019, there were no amendments to the existing investment policy.

*Investment Summary:* The following table presents the summary of MOPERM'S investments by type at December 31:

|  | 2020                  | 2019                  |
|--|-----------------------|-----------------------|
| Cash equivalents                                   |                       |                       |
| Investaccount-government                           | \$ 10,043,836         | \$ 6,453,905          |
| Government obligation fund - money market          | 4,846,943             | 1,065,949             |
| Total cash equivalents                             | <u>\$ 14,890,779</u>  | <u>\$ 7,519,854</u>   |
| Fixed income Securities                            |                       |                       |
| Asset-backed securities                            | \$ 5,427,683          | \$ 8,061,020          |
| Bank notes   | -                     | 507,897               |
| Certificate of deposit                             | 2,455,152             | 3,476,085             |
| Corporate notes                                    | 28,930,721            | 29,001,920            |
| Federal agency collateralized mortgage obligations | 5,712,265             | 5,197,841             |
| Federal agency bonds                               | 7,090,758             | 979,457               |
| Federal agency mortgage-backed securities          | 7,185,237             | 7,663,896             |
| Municipal bonds                                    | -                     | 2,001,955             |
| International bonds                                | 1,735,080             | 478,202               |
| U.S. Treasury notes                                | 29,011,207            | 25,855,105            |
| Total fixed income securities                      | <u>87,548,103</u>     | <u>83,223,378</u>     |
| Equity securities                                  | <u>37,578,916</u>     | <u>31,875,596</u>     |
| Total investments                                  | <u>\$ 125,127,019</u> | <u>\$ 115,098,974</u> |

*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:

|  | 2020          |                | 2019          |                |
|--|---------------|----------------|---------------|----------------|
|  | Amount        | % of Portfolio | Amount        | % of Portfolio |
| U.S. Treasury                          | \$ 29,011,207 | 23.19%         | \$ 25,855,105 | 22.46%         |
| Federal National Mortgage Association  | 7,185,237     | 5.74%          | 7,663,896     | 6.66%          |
| Federal Home Loan Mortgage Corporation | 5,712,265     | 4.57%          | 5,197,841     | 4.52%          |

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, 2020, MOPERM's investment maturities consisted of the following:

|   | Rating   | Less than one<br>year | One to three<br>years | Three to five<br>years | Five to ten<br>years | More than ten<br>years | Total         |
|---|----------|-----------------------|-----------------------|------------------------|----------------------|------------------------|---------------|
| Asset-backed securities                               | Aaa/AAA  | \$ -                  | \$ 972,905            | \$ 2,413,890           | \$ 2,040,888         | \$ -                   | \$ 5,427,683  |
| Certificate of deposit                                | A-1      | 1,318,252             | 1,136,900             | -                      | -                    | -                      | 2,455,152     |
| Corporate notes                                       | Aaa/BBB+ | -                     | 6,423,343             | 14,280,591             | 8,226,787            | -                      | 28,930,721    |
| Federal agency collateralized<br>mortgage obligations | Aaa/AA+  | -                     | -                     | 647,230                | 906,496              | 4,158,539              | 5,712,265     |
| Federal agency bonds                                  | Aaa/AA+  | -                     | 3,487,329             | 3,603,429              | -                    | -                      | 7,090,758     |
| Federal agency mortgage-backed securities             | Aaa/AA+  | -                     | 121,724               | 135,517                | 3,273,453            | 3,654,544              | 7,185,238     |
| International bonds                                   | Aaa/AAA  | 276,906               | 300,129               | 1,158,046              | -                    | -                      | 1,735,081     |
| U.S. Treasury notes                                   | Aaa/AA+  | -                     | 4,271,098             | 21,057,781             | 3,682,326            | -                      | 29,011,205    |
| Total   |          | \$ 1,595,158          | \$ 16,713,428         | \$ 43,296,484          | \$ 18,129,950        | \$ 7,813,083           | \$ 87,548,103 |

*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, 2020 and 2019:

- |         |  |
|---------|--|
| Level 1 | <i>U.S. treasury securities:</i> Valued at closing price reported on the active market in which the individual securities are traded.  |
| Level 2 | <i>Certificate of deposit, commercial paper, corporate notes, municipal bonds, U.S. agencies, and asset backed securities:</i> 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.<br><br><i>Mortgage backed securities:</i> 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.<br><br><i>Equity securities:</i> 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>Level 1</u>       | <u>Level 2</u>       | <u>Level 3</u> | <u>Total</u>          |
|---|----------------------|----------------------|----------------|-----------------------|
| <b><u>2020</u></b>                                    |                      |                      |                |                       |
| Fixed income securities                               |                      |                      |                |                       |
| Asset-backed securities                               | \$ -                 | \$ 5,427,683         | \$ -           | \$ 5,427,683          |
| Certificate of deposit                                | -                    | 2,455,152            | -              | 2,455,152             |
| Corporate notes                                       | -                    | 28,930,721           | -              | 28,930,721            |
| Federal agency collateralized<br>mortgage obligations | -                    | 5,712,265            | -              | 5,712,265             |
| Federal agency bonds                                  | -                    | 7,090,758            | -              | 7,090,758             |
| Federal agency mortgage-backed securities             | -                    | 7,185,237            | -              | 7,185,237             |
| International bonds                                   | -                    | 1,735,080            | -              | 1,735,080             |
| U.S. Treasury notes                                   | -                    | 29,011,207           | -              | 29,011,207            |
| Total fixed income securities                         | -                    | 87,548,103           | -              | 87,548,103            |
| Equity securities                                     | 37,578,916           | -                    | -              | 37,578,916            |
| Total investments                                     | <u>\$ 37,578,916</u> | <u>\$ 87,548,103</u> | <u>\$ -</u>    | <u>\$ 125,127,019</u> |
|   | <u>Level 1</u>       | <u>Level 2</u>       | <u>Level 3</u> | <u>Total</u>          |
| <b><u>2019</u></b>                                    |                      |                      |                |                       |
| Fixed income securities                               |                      |                      |                |                       |
| Asset-backed securities                               | \$ -                 | \$ 8,061,020         | \$ -           | \$ 8,061,020          |
| Bank notes  | -                    | 507,897              | -              | 507,897               |
| Certificate of deposit                                | -                    | 3,476,085            | -              | 3,476,085             |
| Corporate notes                                       | -                    | 29,001,920           | -              | 29,001,920            |
| Federal agency collateralized<br>mortgage obligations | -                    | 5,197,841            | -              | 5,197,841             |
| Federal agency bonds                                  | -                    | 979,457              | -              | 979,457               |
| Federal agency mortgage-backed securities             | -                    | 7,663,896            | -              | 7,663,896             |
| Municipal bonds                                       | -                    | 2,001,955            | -              | 2,001,955             |
| International bonds                                   | -                    | 478,202              | -              | 478,202               |
| U.S. Treasury notes                                   | -                    | 25,855,105           | -              | 25,855,105            |
| Total fixed income securities                         | -                    | 83,223,378           | -              | 83,223,378            |
| Equity securities                                     | 31,875,596           | -                    | -              | 31,875,596            |
| Total investments                                     | <u>\$ 31,875,596</u> | <u>\$ 83,223,378</u> | <u>\$ -</u>    | <u>\$ 115,098,974</u> |

*Gains on Investments:* Net unrealized gains on investments classified as trading assets held at the reporting date were \$4,941,359 and 8,493,612 for the years ended December 31, 2020 and 2019, respectively. Net realized gains on assets sold or otherwise disposed of, and included within net investment income, amounted to \$166,428 and \$101,334 in 2020 and 2019, respectively.

#### 4. CAPITAL ASSETS

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

|                                    | Balance at<br>December 31,<br>2019 | Additions        | Deductions/<br>Transfers | Balance at<br>December 31,<br>2020 |
|------------------------------------|------------------------------------|------------------|--------------------------|------------------------------------|
| Building and building improvements | \$ 1,172,339                       | \$ -             | \$ -                     | \$ 1,172,339                       |
| Equipment                          | 28,706                             | -                | -                        | 28,706                             |
| Furniture and fixtures             | 96,610                             | -                | -                        | 96,610                             |
| Computer equipment and software    | 702,001                            | 89,284           | -                        | 791,285                            |
| Automobiles                        | 16,650                             | -                | -                        | 16,650                             |
| Total capital assets               | <u>2,016,306</u>                   | <u>89,284</u>    | <u>-</u>                 | <u>2,105,590</u>                   |
| Less accumulated depreciation      | <u>1,267,702</u>                   | <u>52,326</u>    | <u>-</u>                 | <u>1,320,028</u>                   |
| Capital assets, net                | <u>\$ 748,604</u>                  | <u>\$ 36,958</u> | <u>\$ -</u>              | <u>\$ 785,562</u>                  |

  

|                                    | Balance at<br>December 31,<br>2018 | Additions          | Deductions/<br>Transfers | Balance at<br>December 31,<br>2019 |
|------------------------------------|------------------------------------|--------------------|--------------------------|------------------------------------|
| Building and building improvements | \$ 1,172,339                       | \$ -               | \$ -                     | \$ 1,172,339                       |
| Equipment                          | 28,706                             | -                  | -                        | 28,706                             |
| Furniture and fixtures             | 96,610                             | -                  | -                        | 96,610                             |
| Computer equipment and software    | 696,992                            | 5,009              | -                        | 702,001                            |
| Automobiles                        | 16,650                             | -                  | -                        | 16,650                             |
| Total capital assets               | <u>2,011,297</u>                   | <u>5,009</u>       | <u>-</u>                 | <u>2,016,306</u>                   |
| Less accumulated depreciation      | <u>1,228,862</u>                   | <u>38,840</u>      | <u>-</u>                 | <u>1,267,702</u>                   |
| Capital assets, net                | <u>\$ 782,435</u>                  | <u>\$ (33,831)</u> | <u>\$ -</u>              | <u>\$ 748,604</u>                  |

Total depreciation and amortization expense for the years ended December 31, 2020 and 2019, was \$52,326 and \$38,840, respectively.

## 5. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves for the years ended December 31, was as follows:

|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$6,568,521 in 2020 and \$2,301,968 in 2019 | \$ 74,685,971        | \$ 69,509,033        |
| Incurred loss and loss adjustment expenses:   |                      |                      |
| Provision for insured events - current year   | 27,000,703           | 27,075,395           |
| Provision for insured events - prior year   | <u>(12,431,279)</u>  | <u>(2,204,110)</u>   |
| Total incurred loss and loss adjustment expenses  | <u>14,569,424</u>    | <u>24,871,285</u>    |
| Payments:   |                      |                      |
| Loss and loss adjustment expense attributable to insured events - current year  | 3,366,782            | 4,705,911            |
| Loss and loss adjustment expense attributable to insured events - prior years   | <u>11,126,911</u>    | <u>14,988,436</u>    |
| Total Payments  | <u>14,493,693</u>    | <u>19,694,347</u>    |
| Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$7,885,890 in 2020 and \$6,568,521 in 2019       | <u>\$ 74,761,702</u> | <u>\$ 74,685,971</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.

## 6. 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 \$785,931 and \$640,385 for 2020 and 2019, respectively, and pension costs of \$145,913 and \$127,449 for 2020 and 2019, respectively. As of December 31, 2020 and 2019, 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.

Agent commission expense totaled \$1,985,633 and \$1,799,560 for the year ended December 31, 2020 and 2019, respectively.

## 7. RETRO RETURN RESERVE REFUNDS

The Board of Trustees of MOPERM did not declare retro return reserve refunds for 2020. As of December 31, 2020, cumulative retro return reserve refunds were as follows:

| Policy Year | Refunds Declared and Paid Prior to 2020 | Refunds Declared and Accrued During 2020 | Refunds Total Declared | Percentage of Contributions Refunded |
|-------------|---|--|------------------------|--------------------------------------|
| 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>   |                                      |

## 8. EXCESS INSURANCE

MOPERM maintains excess insurance coverage with outside insurance carriers for the property program. The property reinsurance coverage for 2020 and 2019 was placed with multiple carriers, collectively providing coverage of \$200,000,000 for each occurrence. For 2019 and 2020, MOPERM's retention was \$500,000 for wind/hail events and \$100,000 for all other perils. For 2019 and 2020, the equipment breakdown excess policy provided 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 through an outside carrier during the 2017 fiscal year, and the coverage continued in 2019 and 2020. MOPERM has not carried excess insurance coverage for the crime program since January 1, 2016.

Effective October 1, 2017, MOPERM purchased an annual liability reinsurance policy with ACE American Insurance Company. The coverage was renewed effective October 1, 2018 and allowed to expire effective October 1, 2019 due to a significant increase in cost for the coverage. ACE American Insurance Company is not 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. Prior to October 1, 2017, MOPERM had not purchased an excess insurance policy for liability coverage since July 7, 2002.

## 9. 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.

## 10. RETIREMENT 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 MOSERS. The plan is referred to as MOSERS in the notes. Chapter 104.320 RSMo 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 plan-specific factor multiplied by the years of creditable 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 MSEP 2011 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.

*Contributions:* Per Chapter 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 MSEP 2011 Plan are required to contribute 4 percent of their annual pay. MOPERM's required contribution rate for the MOSERS plan years ended June 30, 2020 and 2019, was 20.77% and 20.21% of annual payroll, respectively, 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 the unfunded accrued liability.

Contributions to the pension plan from MOPERM were \$145,913 and \$127,449 for the MOSERS plan years ended June 30, 2020 and 2019, respectively.

*Net pension liability:* At December 31, 2020 and 2019, MOPERM reported a liability of \$2,129,232 and \$1,961,021, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The total pension liability was offset by the fiduciary net position obtained from MOSERS' CAFR as of June 30, 2020 and 2019, to determine the net pension liability.

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 years ended June 30, 2020 and 2019, respectively. At the June 30, 2020, measurement date, MOPERM’s proportion was 0.034 percent, an increase from its proportion measured using 0.032 percent as of the June 30, 2019, measurement date.

During the MOSERS plan year ended June 30, 2020 and 2019, there were no changes in benefit terms that affected the measurement of total pension liability.

*Actuarial assumptions:* The total pension liability in the June 30, 2020, actuarial valuations, 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:

|                           | 2020   |
|---------------------------|--|
| Inflation                 | 2.25 percent   |
| Salary increases          | 2.75 to 8.25 percent, including inflation  |
| Wage inflation            | 2.25 percent   |
| Investment rate of return | 6.95 percent, compounded annually, net after investment expenses and including inflation |

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015. In addition, the investment return assumption was reduced from 7.10% to 6.95% for the June 30, 2020 valuation. Other assumption changes were decreases in the inflation, payroll, wage growth, and cost-of-living adjustment assumptions.

The total pension liability in the June 30, 2019, actuarial valuations, 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:

|                           | 2019   |
|---------------------------|--|
| Inflation                 | 2.35 percent   |
| Salary increases          | 2.85 to 8.35 percent, including inflation  |
| Wage inflation            | 2.35 percent   |
| Investment rate of return | 7.10 percent, compounded annually, net after investment expenses and including inflation |

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015. In addition, the investment return assumption was reduced from 7.25% to 7.10% for the June 30, 2019 valuation. Other assumption changes were decreases in the payroll and wage growth assumptions.

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

*Long-term investment rate of return:* 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, 2020 and 2019, are summarized in the following tables:

| New Portfolio               |                   |  |  |
|-----------------------------|-------------------|--|--|
| Asset Class                 | Policy Allocation | Long-term<br>Expected Nominal<br>Rate of Return* | Weighted Average<br>Long-Term<br>Expected Real Rate<br>of Return |
| Global public equities      | 30.0%             | 7.7%   | 2.3%   |
| Global private equities     | 15.0%             | 9.3%   | 1.4%   |
| Long treasuries             | 25.0%             | 3.5%   | 0.9%   |
| Core bonds                  | 10.0%             | 3.1%   | 0.3%   |
| Commodities                 | 5.0%              | 5.5%   | 0.3%   |
| TIPS                        | 25.0%             | 2.7%   | 0.7%   |
| Private real assets         | 5.0%              | 7.1%   | 0.3%   |
| Public real assets          | 5.0%              | 7.7%   | 0.4%   |
| Hedge funds                 | 5.0%              | 4.8%   | 0.2%   |
| Alternative beta            | 10.0%             | 5.3%   | 0.5%   |
| Private credit              | 5.0%              | 9.5%   | 0.5%   |
| Cash and cash equivalents** | -40.0%            | 0.0%   | 0.0%   |
|                             | <u>100.0%</u>     |  | <u>7.8%</u>  |
|                             |                   |  | <u>-0.6%</u>   |
|                             |                   |  | <u>7.2%</u>  |
|                             |                   |  | 5.3%   |

\* Long-term expected arithmetic returns of the asset classes at the time of the asset allocation study for each portfolio.

\*\*Cash and cash equivalents policy allocation amounts are negative due to the use of leverage.

| Old Portfolio               |                   |  |  |
|-----------------------------|-------------------|--|--|
| Asset Class                 | Policy Allocation | Long-term<br>Expected Nominal<br>Rate of Return* | Weighted Average<br>Long-Term<br>Expected Real Rate<br>of Return |
| Opportunistic global equity | 38.0%             | 8.3%   | 3.1%   |
| Nominal bonds               | 44.0%             | 3.3%   | 1.5%   |
| Commodities                 | 20.0%             | 7.8%   | 1.6%   |
| Inflation-linked bonds      | 39.0%             | 2.4%   | 0.9%   |
| Alternative beta            | 31.0%             | 6.6%   | 2.0%   |
| Cash and cash equivalents** | -72.0%            | 1.0%   | -0.7%  |
|                             | <u>100.0%</u>     |  | <u>8.4%</u>  |
|                             |                   |  | Correlation/Volatility Adjustment                                |
|                             |                   |  | -0.7%  |
|                             |                   |  | Long-Term Expected Net Nominal Return                            |
|                             |                   |  | <u>7.7%</u>  |
|                             |                   |  | Long-Term Expected Geometric Net Nominal Return                  |
|                             |                   |  | 5.2%   |

\* Long-term expected arithmetic returns of the asset classes at the time of the asset allocation study for each portfolio.

\*\*Cash and cash equivalents policy allocation amounts are negative due to the use of leverage.

*Discount rate:* The discount rate used to measure the total pension liability for the periods ending June 30, 2020 and 2019, were 6.95 percent and 7.10 percent, respectively. 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 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 for the period ended June 30, 2020, using the discount rate of 6.95 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 (5.95 percent) or 1-percentage-point higher (7.95 percent) than the current rate:

|   | 2020                   |                                  |                        |
|---|------------------------|----------------------------------|------------------------|
|   | 1% Decrease<br>(5.95%) | Current Discount<br>Rate (6.95%) | 1% Increase<br>(7.95%) |
| MOPERM's proportionate share of the net pension liability | <u>\$ 2,666,103</u>    | <u>\$ 2,129,232</u>              | <u>\$ 1,677,681</u>    |

The following presents MOPERM's proportionate share of the net pension liability calculated for the period ended June 30, 2019, using the discount rate of 7.10 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 (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

|   | 2019                   |                                  |                        |
|---|------------------------|----------------------------------|------------------------|
|   | 1% Decrease<br>(6.10%) | Current Discount<br>Rate (7.10%) | 1% Increase<br>(8.10%) |
| MOPERM's proportionate share of the net pension liability | \$ 2,473,922           | \$ 1,961,021                     | \$ 1,529,796           |

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

*Pension Expense:* For the years ended December 31, 2020 and 2019, MOPERM recognized pension expense of \$330,456 and \$380,888, respectively.

*Deferred Outflows of Resources and Deferred Inflows of Resources:* At the measurement date of June 30, 2020, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | 2020                                 |                                     |
|---|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience  | \$ 964                               | \$ 22,116                           |
| Changes of assumptions  | 56,278                               | -                                   |
| Net difference between projected and actual earnings on pension plan investments                            | 113,042                              | -                                   |
| Changes in proportion and differences between MOPERM contributions and proportionate share of contributions | 82,122                               | 18,345                              |
| MOPERM contributions subsequent to the measurement date of June 30, 2020                                    | 70,239                               | -                                   |
| Total   | \$ 322,645                           | \$ 40,461                           |

\$70,239 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

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 fiscal year following MOSERS’ fiscal year as follows:

MOSERS plan year ending June 30:

|      |    |                |
|------|----|----------------|
| 2021 | \$ | 110,104        |
| 2022 |    | 62,967         |
| 2023 |    | 28,984         |
| 2024 |    | 9,890          |
|      | \$ | <u>211,945</u> |

At the measurement date of June 30, 2019, MOPERM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | 2019                                 |                                     |
|---|--------------------------------------|-------------------------------------|
|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
| Differences between expected and actual experience  | \$ 1,672                             | \$ 22,796                           |
| Changes of assumptions  | 78,357                               | -                                   |
| Net difference between projected and actual earnings on pension plan investments                            | 152,254                              | -                                   |
| Changes in proportion and differences between MOPERM contributions and proportionate share of contributions | 76,388                               | 57,598                              |
| MOPERM contributions subsequent to the measurement date of June 30, 2019                                    | 70,201                               | -                                   |
| Total   | <u>\$ 378,872</u>                    | <u>\$ 80,394</u>                    |

\$70,201 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 in the year ended December 31, 2020.

*Payables to the pension plan:* MOPERM did not report any payables to MOSERS.

## 11. OTHER POST-EMPLOYMENT BENEFIT (OPEB) 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 Missouri Consolidated Health Care Plan (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 reporting entity and is included in the State’s CAFR.

The plan’s financial statements are available on MCHCP’s website at [www.mchcp.org](http://www.mchcp.org).

*Benefits:* The SRWBT was established and organized on June 27, 2008, 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. For the fiscal year ended June 30, 2019, employers were required to contribute 4.99% for the period July 1, 2018 through January 31, 2019; 6.19% for the period February 1, 2019, through April 15, 2019; and 4.33% for the period April 16, 2019 through June 30, 2019, of gross active employee payroll. Employees do not contribute to this plan. No payables to MCHCP were outstanding at year end.

*OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources:* At December 31, 2020 and 2019, MOPERM reported a liability of \$698,661 and \$632,558, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and 2018, respectively, 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, 2019 and 2018, MOPERM's proportion was 0.0395% and 0.0361%, respectively.

For the years ended December 31, 2020 and 2019, MOPERM recognized OPEB expense of \$32,610 and 34,574, respectively. As of December 31, 2020, MOPERM reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred Inflows<br>of Resources |
|---|--------------------------------------|----------------------------------|
| Difference between actual and expected experience   | \$ 24,709                            | \$ 8,663                         |
| Assumption changes  | -                                    | 28,129                           |
| Net difference between projected and actual earnings on plan investments                                      | 1,043                                | -                                |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | -                                    | 18,496                           |
| MOPERM contributions subsequent to the measurement date of June 30, 2019                                      | 17,980                               | -                                |
|   | <u>\$ 43,732</u>                     | <u>\$ 55,288</u>                 |

\$17,980 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 in MOPERM's financial statements during the year December 31, 2021.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan year ending June 30:

|            |    |               |
|------------|----|---------------|
| 2020       | \$ | 5,301         |
| 2021       |    | 5,302         |
| 2022       |    | 5,282         |
| 2023       |    | 5,532         |
| 2024       |    | 5,615         |
| Thereafter |    | 2,504         |
|            | \$ | <u>29,536</u> |

*Actuarial assumptions:* The collective total OPEB liability for the June 30, 2019, measurement date was determined by an actuarial valuation as of January 1, 2019, with updated procedures used to roll forward the total OPEB liability to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

|  |   |
|--|---|
| Valuation year   | July 1, 2018 - June 30, 2019  |
| Actuarial cost method  | Entry age normal, level percentage of payroll   |
| Asset valuation method   | Market value  |
| Discount rate (blended)  | 5.24%   |
| Projected payroll growth   | 4.00%   |
| Inflation rate   | 3.00%   |
| Health care cost trend rate (medical & prescription drugs combined): |   |
| Non-Medicare   | 6.00% for fiscal year 2019 (rate decreases by 0.25% per year to an ultimate rate of 5.0% in fiscal year 2023 and later)<br>10.00% in fiscal 2019 (and 2020, 22.00% in fiscal 2021, 10.00% in fiscal 2022 and 2023, 9.5% in fiscal 2024, 9.00% in fiscal 2025, 8.5% in fiscal 2026 then 8.00% in fiscal 2027 decreasing by 1.0% per year to an ultimate rate of 5.00% in fiscal year 2030 and after) |
| Medicare   |   |

*Mortality:* RP-2016 for Employees/Annuitants without collar adjustments using Scale MIP-2016.

The last experience study was conducted for the period July 1, 2008 through June 30, 2012. The last independent actuarial review of the reasonableness and accuracy of actuarial assumptions, actuarial cost methods, and valuations was conducted as of June 30, 2016.

A discount rate of 5.24% 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 MOPERM's proportionate share of the net OPEB Liability to changes in the discount rate:*

The table on the following page presents MOPERM's net OPEB liability, calculated using a discount rate of 5.24%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

|  | 1% Decrease in<br>Discount Rate<br>(4.24%) | Current Discount<br>Rate (5.24%) | 1% Increase in<br>Discount Rate<br>(6.24%) |
|--|--|----------------------------------|--|
| MOPERM's proportionate share of the net OPEB liability | \$ 829,151                                 | \$ 698,661                       | \$ 595,346                                 |

*Sensitivity of 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 in<br>Trend Rates<br>(4.24%) | Current Trend<br>Rates (5.24%) | 1% Increase in<br>Trend Rates<br>(6.24%) |
|--|--|--------------------------------|--|
| MOPERM's proportionate share of the net OPEB liability | \$ 587,509                               | \$ 698,661                     | \$ 839,961                               |

*Long-term expected rate of return:* The target allocation and expected real rate of return for each major asset class are listed below:

|                        | Target<br>Allocation | Expected Real<br>Rate of Return |
|------------------------|----------------------|---------------------------------|
| Large cap stocks       | 16.0%                | 8.5%                            |
| Mid cap stocks         | 7.0%                 | 8.8%                            |
| Small cap stocks       | 7.0%                 | 8.8%                            |
| High-yield bonds       | 5.0%                 | 9.0%                            |
| BarCap aggregate bonds | 63.0%                | 3.7%                            |
| Long government/credit | 0.0%                 | 0.0%                            |
| Cash equivalents       | 2.0%                 | 3.3%                            |

## 12. CONTINGENCIES

MOPERM is the defendant in a lawsuit alleging that MOPERM acted in bad faith in its handling and defense of a claim. The trial court entered summary judgment in favor of MOPERM, ruling that MOPERM had sovereign immunity precluding MOPERM from being sued on the theories asserted. The trial court's decision was appealed to the Missouri Court of Appeals, Western District. On March 16, 2021, the Court of Appeals reversed the trial court and held that MOPERM did not have immunity for the claims asserted against MOPERM. The plaintiff is pursuing judgment, including post judgment interest, of \$7.9 million as well as punitive damages. As of December 31, 2020, MOPERM did not have any amount reserved for this claim in the statements of net position.

MOPERM is seeking review of the appellate court decision by the Missouri Supreme Court. As of the date of this report, no court has determined any factual issue pertaining to the allegations of bad faith against MOPERM. The courts have only addressed MOPERM's sovereign immunity to this claim. MOPERM's attorneys have raised substantive defenses to the allegations of bad faith, particularly that the appellate court's opinion for the first time holds an agency of the state formed by the General Assembly and performing traditional government functions to not be protected by sovereign immunity for its actions. MOPERM and its attorneys are relatively confident of a successful outcome in this case. The appellate court's decision, if it stands as is, has significant negative precedential impact beyond the amount in question in this case.

## REQUIRED SUPPLEMENTARY INFORMATION

### Supplementary Schedule of 2011-2020 Loss Development Information

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, 2020. 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 2011-2020 Loss Development Information, Continued  
Year ended December 31,

|  | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          | 2020          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Fiscal year ended:   |               |               |               |               |               |               |               |               |               |               |
| (1) Contribution and investment revenue:   |               |               |               |               |               |               |               |               |               |               |
| Earned   | \$ 19,366,692 | \$ 19,309,387 | \$ 20,402,355 | \$ 21,779,552 | \$ 21,991,334 | \$ 22,508,769 | \$ 23,607,351 | \$ 22,332,672 | \$ 23,489,544 | \$ 25,488,439 |
| Ceded  | (1,447,161)   | (1,639,866)   | (1,744,482)   | (1,852,432)   | (1,916,934)   | (1,700,131)   | (2,522,207)   | (4,429,782)   | (4,344,962)   | (2,232,661)   |
| Net earned   | 17,919,531    | 17,669,521    | 18,657,873    | 19,927,120    | 20,074,400    | 20,808,638    | 21,085,144    | 17,902,890    | 19,144,582    | 23,255,778    |
| (2) Unallocated expenses   | 2,366,185     | 2,489,258     | 2,669,851     | 2,962,782     | 3,051,943     | 3,176,652     | 3,295,614     | 3,321,263     | 3,485,226     | 3,694,041     |
| Policy year ended:   |               |               |               |               |               |               |               |               |               |               |
| (3) Contribution refunds, cumulative   | -             | -             | -             | -             | -             | -             | -             | -             | -             | -             |
| (3) Estimated incurred loss and loss adjustment expense, end of policy year:                                 |               |               |               |               |               |               |               |               |               |               |
| Incurred   | 12,233,711    | 10,763,247    | 11,666,726    | 12,436,173    | 12,955,049    | 23,377,682    | 21,735,197    | 26,475,860    | 27,101,043    | 27,368,862    |
| Ceded  | (753,284)     | (101,048)     | (308,872)     | (138,327)     | (674,060)     | (103,215)     | (1,565,208)   | (2,331,916)   | (25,647)      | (368,159)     |
| Net incurred   | 11,480,427    | 10,662,199    | 11,357,854    | 12,297,846    | 12,280,989    | 23,274,467    | 20,169,989    | 24,143,944    | 27,075,396    | 27,000,703    |
| (4) Net paid losses (cumulative) as of:  |               |               |               |               |               |               |               |               |               |               |
| End of policy year   | 5,385,430     | 2,954,358     | 2,953,383     | 3,429,124     | 3,745,745     | 3,995,418     | 4,582,995     | 4,107,686     | 4,705,911     | 3,366,782     |
| One year later   | 7,166,940     | 4,088,118     | 4,271,256     | 5,556,737     | 5,120,963     | 5,883,568     | 7,691,060     | 7,562,403     | 6,667,895     | -             |
| Two years later  | 10,392,180    | 6,657,025     | 6,913,884     | 8,849,610     | 8,664,274     | 10,508,302    | 11,620,038    | 8,351,875     | -             | -             |
| Three years later  | 14,727,920    | 8,397,325     | 9,368,411     | 13,414,187    | 11,161,378    | 11,494,743    | 15,938,625    | -             | -             | -             |
| Four years later   | 15,693,487    | 9,217,546     | 11,581,950    | 19,668,008    | 13,487,836    | 12,119,474    | -             | -             | -             | -             |
| Five years later   | 16,001,183    | 12,447,819    | 14,381,852    | 21,406,603    | 16,680,367    | -             | -             | -             | -             | -             |
| Six years later  | 16,204,081    | 12,620,922    | 15,523,707    | 22,164,470    | -             | -             | -             | -             | -             | -             |
| Seven years later  | 16,408,700    | 12,716,676    | 15,523,707    | -             | -             | -             | -             | -             | -             | -             |
| Eight years later  | 16,538,493    | 12,816,164    | -             | -             | -             | -             | -             | -             | -             | -             |
| Nine years later   | 16,739,842    | -             | -             | -             | -             | -             | -             | -             | -             | -             |
| (5) Re-estimated ceded loss and loss adjustment expense  | (1,266,160)   | (273,511)     | (558,925)     | (350,689)     | (788,638)     | (184,236)     | (2,480,871)   | (1,225,936)   | (169,808)     | (368,159)     |
| (6) Re-estimated incurred loss and loss adjustment expense:  |               |               |               |               |               |               |               |               |               |               |
| End of policy year   | 11,174,983    | 10,662,199    | 11,357,854    | 12,297,846    | 12,280,989    | 23,274,467    | 20,169,989    | 24,143,943    | 27,075,395    | 27,000,703    |
| One year later   | 12,396,804    | 10,656,543    | 11,255,187    | 12,250,430    | 12,372,649    | 27,565,422    | 21,344,752    | 25,846,130    | 23,434,987    | -             |
| Two years later  | 14,399,011    | 10,654,114    | 11,247,424    | 17,687,310    | 18,305,431    | 18,229,678    | 27,340,106    | 23,575,505    | -             | -             |
| Three years later  | 14,399,011    | 13,932,748    | 13,780,962    | 22,538,991    | 21,403,002    | 16,873,691    | 24,058,205    | -             | -             | -             |
| Four years later   | 17,020,515    | 13,932,748    | 16,032,996    | 24,459,456    | 19,164,487    | 15,786,604    | -             | -             | -             | -             |
| Five years later   | 17,020,515    | 13,932,747    | 18,994,453    | 23,924,511    | 18,574,636    | -             | -             | -             | -             | -             |
| Six years later  | 16,953,529    | 14,317,366    | 19,905,289    | 23,529,379    | -             | -             | -             | -             | -             | -             |
| Seven years later  | 18,023,968    | 13,147,130    | 17,793,997    | -             | -             | -             | -             | -             | -             | -             |
| Eight years later  | 16,702,506    | 13,033,005    | -             | -             | -             | -             | -             | -             | -             | -             |
| Nine years later   | 16,761,768    | -             | -             | -             | -             | -             | -             | -             | -             | -             |
| (7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year | 5,281,341.37  | 2,370,806.39  | 6,436,143.29  | 11,231,533    | 6,293,647     | (7,487,863)   | 3,888,216     | (568,439)     | (3,640,409)   | -             |

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
Reconciliation of Claims Liabilities by Type of Contract  
Year ended December 31,

The schedule below presents the changes in claims liabilities for the past two years for MOPERM's two types of contracts:

|   | Liability            |                      | Property          |                   |
|---|----------------------|----------------------|-------------------|-------------------|
|   | 2020                 | 2019                 | 2020              | 2019              |
| Loss and loss adjustment expense reserves, beginning of year                    | \$ 74,074,617        | \$ 68,397,533        | \$ 611,354        | \$ 1,111,500      |
| Incurred loss and loss adjustment expenses:                                     |                      |                      |                   |                   |
| Provision for insured events – current year                                     | 25,012,284           | 24,985,118           | 1,988,419         | 2,090,278         |
| Provision for insured events – prior years                                      | (12,222,059)         | (1,392,030)          | (209,220)         | (812,081)         |
| Total incurred loss and loss adjustment expenses                                | <u>12,790,225</u>    | <u>23,593,088</u>    | <u>1,779,199</u>  | <u>1,278,197</u>  |
| Payments:   |                      |                      |                   |                   |
| Loss and loss adjustment expenses attributable to insured events – current year | 2,024,186            | 2,992,889            | 1,342,596         | 1,713,023         |
| Loss and loss adjustment expenses attributable to insured events – prior years  | 10,629,516           | 14,923,115           | 497,395           | 65,320            |
| Total payments  | <u>12,653,702</u>    | <u>17,916,004</u>    | <u>1,839,991</u>  | <u>1,778,343</u>  |
| Loss and loss adjustment expense reserves, end of year                          | <u>\$ 74,211,140</u> | <u>\$ 74,074,617</u> | <u>\$ 550,562</u> | <u>\$ 611,354</u> |

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
Schedule of MOPERM's Proportionate Share of the Net Pension Liability  
Missouri State Employees' Retirement System  
Last 10 Fiscal Years\*

|   | December 31, 2020 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| MOPERM's proportion of the net pension liability  | 0.034%            | 0.032%            | 0.030%            | 0.033%            | 0.034%            | 0.035%            |
| MOPERM's proportionate share of the net pension liability   | \$ 2,129,232      | \$ 1,961,021      | \$ 1,676,043      | \$ 1,720,313      | \$ 1,579,883      | \$ 1,138,251      |
| MOPERM's covered payroll  | \$ 670,248        | \$ 630,623        | \$ 584,003        | \$ 650,280        | \$ 659,145        | \$ 686,195        |
| MOPERM's proportionate share of the net pension liability<br>as a percentage of its covered payroll | 317.68%           | 310.97%           | 286.99%           | 264.55%           | 239.69%           | 165.88%           |
| Plan fiduciary net position as a percentage of the total<br>pension liability                       | 55.48%            | 56.72%            | 59.02%            | 60.41%            | 63.60%            | 72.62%            |

Figures are based on a measurement date and actuarial valuation as of the end of the preceding fiscal year.

\*This schedule is ultimately required to show information for ten years. Only the data for years currently available is displayed.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
Schedule of MOPERM's Contributions for Pensions  
Missouri State Employees' Retirement System  
Last 10 Fiscal Years\*

|   | December 31, 2019 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Required contribution                                 | \$ 145,913        | \$ 127,449        | \$ 113,588        | \$ 110,353        | \$ 111,857        | \$ 116,447        |
| Contribution in relation to the required contribution | \$ 145,913        | \$ 127,449        | \$ 113,588        | \$ 110,353        | \$ 111,857        | \$ 116,447        |
| Contribution deficiency (excess)                      | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              |
| MOPERM's covered payroll                              | \$ 670,248        | \$ 630,623        | \$ 584,003        | \$ 650,280        | \$ 659,145        | \$ 686,195        |
| Contributions as a percentage of covered payroll      | 21.77%            | 20.21%            | 19.45%            | 16.97%            | 16.97%            | 16.97%            |

Note: This schedule is ultimately required to show information for ten years. Only the data for years currently available is displayed.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
Schedule of MOPERM's Proportionate Share of the Net OPEB Liability  
State Retiree Welfare Benefit Trust  
Last 10 Fiscal Years\*\*

|   | <u>December 31, 2020*</u> |    | <u>December 31, 2019*</u> |    | <u>December 31, 2018*</u> |
|---|---------------------------|----|---------------------------|----|---------------------------|
| MOPERM's proportion of the net OPEB liability   | 0.0395%                   |    | 0.0361%                   |    | 0.402%                    |
| MOPERM's proportionate share of the net OPEB liability                                      | \$ 698,661                | \$ | 632,558                   | \$ | 709,381                   |
| MOPERM's covered payroll  | \$ 632,421                | \$ | 581,922                   | \$ | 584,003                   |
| MOPERM's proportionate share of the net OPEB liability as percentage of its covered payroll | 110.47%                   |    | 108.70%                   |    | 121.47%                   |
| Plan fiduciary net position as a percentage of the total OPEB liability                     | 8.24%                     |    | 7.31%                     |    | 6.64%                     |

\*Based on a measurement date and actuarial valuation as of the end of the preceding fiscal year.

\*\*This schedule will ultimately contain 10 years of data.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND  
Schedule of MOPERM's Contributions for OPEB  
State Retiree Welfare Benefit Trust  
Last 10 Fiscal Years\*\*

|  | December 31, 2020* | December 31, 2019* | December 31, 2018* |
|--|--------------------|--------------------|--------------------|
| Required contribution                                  | \$ 32,610          | \$ 24,876          | \$ 27,110          |
| Contributions in relation to the required contribution | \$ 32,610          | \$ 24,876          | \$ 27,110          |
| Contribution deficiency (excess)                       | \$ -               | \$ -               | \$ -               |
| MOPERM's covered payroll                               | \$ 632,421         | \$ 581,922         | \$ 584,003         |
| Contributions as a percentage of covered payroll       | 5.16%              | 4.27%              | 4.64%              |

\*Based on a measurement date and actuarial valuation as of the end of the preceding fiscal year.

\*\*This schedule will ultimately contain 10 years of data.