



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Midwest Public Risk of Missouri for the period ended June 30, 2014

**ORDER**

After full consideration and review of the report of the financial examination of Midwest Public Risk of Missouri for the period ended June 30, 2014, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Midwest Public Risk of Missouri as of June 30, 2014 be and is hereby ADOPTED as filed and for Midwest Public Risk of Missouri to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 7<sup>th</sup> day of January, 2016.



A handwritten signature in blue ink, appearing to read "John M. Huff", is written over a horizontal line.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

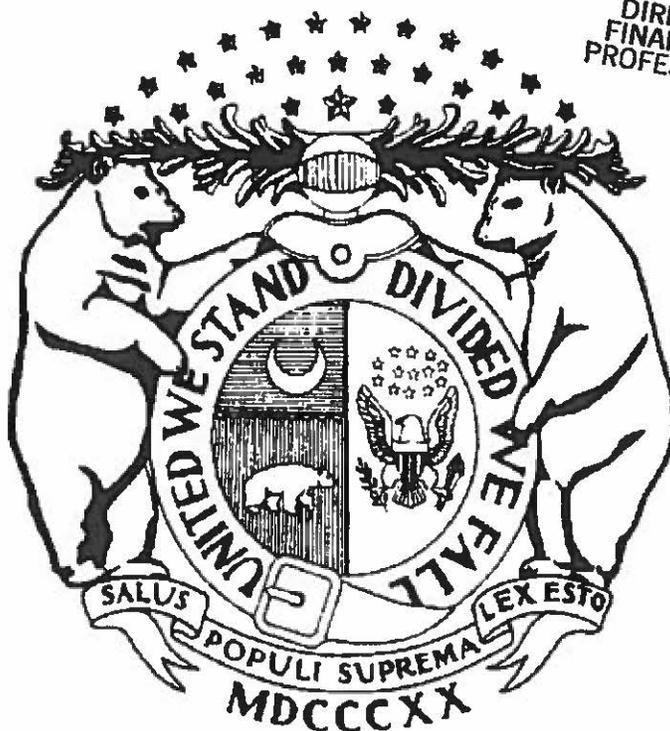
REPORT OF THE  
FINANCIAL EXAMINATION OF  
**Midwest Public Risk of Missouri**

AS OF  
June 30, 2014

**FILED**

JAN 1 9 2016

DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Independence, MO  
November 12, 2015

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65102

Director Huff:

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

**Midwest Public Risk of Missouri**

hereinafter referred to as such, as MPR-MO, or as the Association. Its administrative office is located at 19400 East Valley View Parkway, Independence, Missouri, 64055, telephone number 816-292-7500. The fieldwork for this examination began on January 12, 2015 and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed our single-state examination of MPR-MO. The last examination covered the period of July 1, 2005 through June 30, 2009. This examination covers the period of July 1, 2009 through June 30, 2014. This examination also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

**Procedures**

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (MO DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Association and evaluate system controls and

procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Association's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Association were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Association's financial statements.

This examination report includes significant findings of fact and general information about the Association and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Association.

### **Reliance Upon Others**

The examination relied heavily upon information provided by the Association and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Association's independent auditor, Conner Ash, P.C. of St. Louis, Missouri for its audits covering the periods from July 1, 2012 through June 30, 2013 and July 1, 2013 through June 30, 2014. Information relied upon included fraud risk analysis, attorney letters, narrative descriptions of processes, and control and substantive testing.

## **SUMMARY OF SIGNIFICANT FINDINGS**

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

## **ASSOCIATION HISTORY**

### **General**

Mid-America Regional Council Insurance Trust (MARCIT) was formed under Chapter 287 RSMo (Workers' Compensation Law) and began providing workers' compensation coverage on July 1, 1983 and health and dental coverage under the provisions of Chapter 255 RSMo (Not for Profit Corporation Law). Mid-America Regional Council Liability Insurance Trust (MARCLIT) was originally formed under the provisions of Chapter 537 RSMo (Political Subdivision

Assessable) and began providing property, casualty and liability coverage on December 31, 1984.

On June 6, 1991, the membership of MARCIT and MARCLIT approved the merger of both entities with the surviving entity being MARCLIT. Subsequent to the merger, MARCLIT changed its name to Mid-America Regional Council Insurance Trust. As a result of the merger, the Association began offering all lines of insurance under Chapter 537 RSMo. Effective July 1997, Mid-America Regional Council Insurance Trust changed its name to MARCIT.

Effective July 1, 2009, MARCIT was reorganized into three separate legal entities: Midwest Public Risk of Missouri (MPR-MO), a public entity risk coverage pool providing coverage to Missouri public entities; Midwest Public Risk of Kansas (MPR-KS), a public entity risk coverage pool providing coverage to Kansas public entities; and Midwest Public Risk (MPR-Mgmt), a not-for-profit administrative corporation that provides administrative services to MPR-MO and MPR-KS. Effective with its July 1, 2009 inception, MPR-MO offered employee benefits, workers compensation and property and liability coverages to its Member entities. MPR-KS initially offered only employee benefits coverage for its Member entities but effective December 31, 2011, MPR-KS expanded its services to also offer property and liability coverages.

### **Contribution Refunds**

As a member-owned Association, MPR-MO does not have stockholders to whom it might pay dividends; but, MPR-MO can, as circumstances warrant, pay contribution refunds to members. No refunds were paid to Members of the Employee Benefits Fund during the examination period. The contribution refunds paid by the Association to Members of the Workers' Compensation and Property and Liability Funds during the examination period were as follows:

| Fiscal Years-<br>Ended | Employee<br>Benefits Fund | Workers'<br>Compensation<br>Fund | Property and<br>Liability Fund | Total     |
|------------------------|---------------------------|----------------------------------|--------------------------------|-----------|
| 2010                   | 0                         | 0                                | 0                              | 0         |
| 2011                   | 0                         | 963,347                          | 0                              | 963,347   |
| 2012                   | 0                         | 991,238                          | 0                              | 991,238   |
| 2013                   | 0                         | 976,551                          | 909,112                        | 1,885,663 |
| 2014                   | 0                         | 0                                | 666,613                        | 666,613   |

### **Mergers and Acquisitions**

Effective July 1, 2009, MARCIT was reorganized into three separate legal entities, MPR-MO, MPR-KS, and MPR-Mgmt, as described in the General subsection of Association History section above.

## MANAGEMENT AND CONTROL

### **Board of Directors**

The Articles of Incorporation and Bylaws require eleven Directors to be elected to the Board of Directors. Directors serve three-year staggered terms and may not serve more than two consecutive terms. Board service by Directors who are appointed to fill the remainder of an unexpired term does not apply for this limitation. Directors must be full time employees of an MPR-MO Member entity. The Directors elected and serving as of June 30, 2014 were as follows:

| <b><u>Director</u></b> | <b><u>Member Affiliation</u></b>                                 |
|------------------------|--|
| David Haugland         | City Manager, Excelsior Springs, Missouri                        |
| Camille Knowles        | Human Resources Director, Greene County, Missouri                |
| Amy Brusven            | Director of Human Res. & Loss Control, City of Liberty, Missouri |
| Nancy Weitzel-Burry    | Human Resource Director, Mid-America Regional Council            |
| Keith Moody            | City Administrator, Harrisonville, Missouri                      |
| Mary Robinson          | Director of Human Resources, Platte County, Missouri             |
| Jaime Rehmsmeyer       | Human Resources Director & City Clerk, Grain Valley, Missouri    |
| Mahesh Sharma          | City Manager, City of Raytown, Missouri                          |
| Cindy Leigh            | Human Resources Specialist, Osage Beach, Missouri                |
| J.D. Kehrman           | City Manager, Nevada, Missouri                                   |

As of June 30, 2014, the Board of Directors consisted of ten members, rather than eleven, due to the resignation, effective June 18, 2014, of Jamie Rouch, Finance Director of Branson, Missouri. An immediate appointment was not made by the Board to fill Ms. Rouch's position. Instead, the positions of Ms. Rouch and Mr. Haugland, whose term had ended, were filled at the October 31, 2014 Member meeting by the election of incoming Directors, Meredith Hauck, Assistant City Manager of Raymore, and Robert Kottman, Superintendent of the Brunswick R-2 School District.

### **Officers**

The Bylaws state that the Board of Directors shall annually elect from its membership a Chair, a Vice-Chair, a Secretary, and a Treasurer. The Bylaws also state that the Board of Directors shall appoint a President/CEO who is responsible to the Board of Directors for the proper administration and conduct of all Programs and Services offered by MPR-MO. All agents, employees and independent contractors shall report to the Board of Directors through the President/CEO and shall be supervised by the President/CEO. The current President/CEO, Terry Norwood, was appointed and has been serving in that position since 2005. There are no other Association officers elected or appointed by the Board.

The officers elected and serving as of June 30, 2014 were as follows:

**Officer – Board**

David Haugland

Camille Knowles

Amy Brusven

Nancy Weitzel-Burry

**Position with MPR-MO Board**

Chair

Vice-Chair

Secretary

Treasurer

**Officer – Staff**

Terry Norwood

**Position with MPR-MO**

President & CEO

**Committees**

MPR-MO does not have any formal committees, but MPR-Mgmt does have several advisory committees comprised of employees of MPR-MO and MPR-KS Member entities. The committees are advisory only and have no power to make decisions on behalf of the organizations.

Following are the advisory committees:

Benefits Advisory Committee

Finance Advisory Committee

Law Enforcement Liability Advisory Committee

Recreation & Parks Advisory Committee

Public Works Liability Advisory Committee

Superintendents Advisory Committee

**Corporate Records**

The Articles of Incorporation and Bylaws were reviewed. No changes were noted during the examination period.

The minutes of the Board of Directors' meetings and membership meetings were reviewed for proper approval of Association transactions. The Board of Directors generally holds regularly scheduled meetings four times a year. Additional meetings are held throughout the year as needed. In general, the minutes appear to properly reflect and document approval of the Association's major transactions and events for the period under examination.

**Holding Company, Subsidiaries and Affiliates**

The Association is member-owned and organized under the provisions of Section 537.620 - 537.650 RSMo (Political subdivisions may jointly create entity to provide insurance--entity created not deemed an insurance company or insurer). MPR-MO is not subject to Chapter 382 RSMo (Insurance Holding Companies).

Two entities appear to be affiliates of MPR-MO as defined by SSAP No. 25 (Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties); Midwest Public Risk of Kansas, Inc. and Midwest Public Risk. MPR-KS is a public entity risk coverage pool providing coverage to Kansas public entities. MPR-KS and MPR-MO have Risk Sharing Agreements described in the following section under which they pool all premiums and losses of the two entities for common programs. MPR-Mgmt is a not-for-profit administrative corporation which provides administrative services to MPR-MO and MPR-KS under the Management Agreement described in the following section. MPR-Mgmt's Board of Directors is comprised of members of MPR-MO and MPR-KS.

### **Transactions with Affiliates**

MPR-MO is a party to the significant agreements with affiliates outlined below.

1. Type: Revised Risk Sharing Agreement (Employee Health and Dental Program)  
 Parties: MPR-MO and MPR-KS  
 Effective: December 31, 2011. Replaced substantially similar agreement dated July 1, 2009.  
 Terms: MPR-MO and MPR-KS operate their separate Employee Health and Dental Programs, now referred to as their Employee Benefits Programs, in a jointly administered arrangement to obtain a larger risk sharing base and achieve cost savings from common administration. MPR-MO and MPR-KS each agree to pay contributions to the joint Employee Benefits Program Fund as determined necessary for its operations for each Program year. MPR-MO and MPR-KS are each jointly and severally liable for all liabilities arising in the common administration of the Employee Benefits Program Fund. MPR-Mgmt provides the necessary management and administrative services for the Programs under the Management Agreement described in #3 below.
  
2. Type: Risk Sharing Agreement (Property and Liability Program)  
 Parties: MPR-MO and MPR-KS  
 Effective: December 31, 2011.  
 Terms: MPR-MO and MPR-KS operate their separate Property and Liability Programs in a jointly administered arrangement to obtain a larger risk sharing base and achieve cost savings from common administration. MPR-MO and MPR-KS each agree to pay contributions to the joint Property and Liability Program Fund as determined necessary for its operations for each Program year. MPR-MO and MPR-KS are each jointly and severally liable for all liabilities arising in the common administration of the Property and Liability Program Fund. MPR-Mgmt provides the necessary management and administrative services for the Programs under the Management Agreement described in #3 below.
  
3. Type: Management Agreement (Shared Programs)  
 Parties: MPR-MO and MPR-Mgmt. MPR-KS has a similar but separate Management Agreement with MPR-Mgmt.  
 Effective: December 31, 2011. Replaced substantially similar agreement dated July 1, 2009.

Terms: MPR-Mgmt provides full management and administration on a day-to-day basis of the Shared Programs and Program Funds, currently the Employee Benefits Program and the Property and Liability Program. MPR-Mgmt is compensated pursuant to the adopted budgets of MPR-MO and MPR-KS. MPR-Mgmt’s Board of Directors shall be appointed from the members of MPR-MO and MPR-KS in proportion to the percentage of each entity’s contributions to the Funds except that MPR-MO and MPR-KS shall each be represented by a minimum of two members.

4. Type: Management Agreement  
 Parties: MPR-MO and MPR-Mgmt  
 Effective: December 31, 2011. Replaced substantially similar agreement dated July 1, 2009.  
 Terms: MPR-Mgmt provides full management and administration on a day-to-day basis of MPR-MO’s Workers’ Compensation Program and Program Fund. MPR-Mgmt is compensated pursuant to the adopted budget of MPR-MO. MPR-Mgmt’s Board of Directors shall be appointed from the members of MPR-MO and MPR-KS in proportion to the percentage of each entity’s contributions to the Funds except that MPR-MO and MPR-KS shall each be represented by a minimum of two members.

**TERRITORY AND PLAN OF OPERATIONS**

MPR-MO is licensed by the MO DIFP under the provisions of Section 537.620 RSMo. MPR-MO operates as a self-insured pool, providing to its members a variety of insurance coverages under the three individual programs of Employee Benefits, Property and Liability, and Workers’ Compensation. MPR-MO’s members are Missouri cities, counties, school districts, and other governmental entities. MPR-MO’s affiliate, MPR-KS, also operates as a self-insured pool providing coverage to its members, Kansas governmental entities. MPR-MO and MPR-KS pool their risks in the Employee Benefits and the Property and Liability programs under Risk Sharing Agreements. As of June 30, 2014, participation in the three programs was as follows:

| Program                | Total Number of Participating Members | Number of Participating MPR-MO Members | Number of Participating MPR-KS Members |
|------------------------|---------------------------------------|--|--|
| Employee Benefits      | 86                                    | 73                                     | 13                                     |
| Property and Liability | 86                                    | 74                                     | 12                                     |
| Workers Compensation   | 98                                    | 98                                     | 0                                      |

**REINSURANCE****General**

MPR-MO's premium activity on an earned and ceded basis for the period under examination is detailed below:

|                      | <b>FY 2010</b>      | <b>FY 2011</b>      | <b>FY 2012</b>      | <b>FY 2013</b>      | <b>FY 2014</b>      |
|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contributions Earned | \$44,735,148        | \$53,532,558        | \$49,787,823        | \$49,926,234        | \$49,606,897        |
| Ceded                | -1,741,116          | -1,777,049          | -1,940,419          | -2,892,076          | -3,507,276          |
| <b>Net Earned</b>    | <b>\$42,994,032</b> | <b>\$51,755,509</b> | <b>\$47,847,404</b> | <b>\$47,034,158</b> | <b>\$46,099,621</b> |

**Assumed**

MPR-MO does not assume any business. MPR-MO and MPR-KS do participate in a Risk Sharing Agreement whereby they pool all contributions and losses of the two entities for the Employee Benefits and Property and Liability Funds.

**Ceded**

The Association has property coverage under an excess of loss agreement through the Public Entity Property Insurance Program (PEPIP). The Property and Liability Pool maximum per occurrence retention is \$300,000. The reinsurer's maximum per occurrence liability limit is \$350,000,000. The reinsurer's maximum liability is subject to various sub-limits based on the specific types of insured properties.

The Association has casualty reinsurance coverage under two reinsurance arrangements. MPR-MO is a member of an association sponsored mutual captive insurance company, Government Entities Mutual, Inc. (GEM). Under a casualty excess of loss agreement with GEM, the Property and Liability Pool retains \$500,000 per loss occurrence and GEM is liable for losses in excess of the retention up to \$500,000 per loss occurrence. The Association has an additional excess of loss agreement with Munich Reinsurance America, Inc. (MunichRe). Under the agreement, MunichRe is liable for losses in excess of \$1,000,000 (the Pool's retention plus the GEM coverage), limited to the Missouri statutory award limits. MunichRe's aggregate annual limit is \$25,000,000 for the Pool.

MPR-MO has workers compensation coverage under an excess of loss agreement with Safety National Casualty Corporation (SNCC). MPR-MO retains either \$500,000 or \$750,000 per occurrence, depending on the employee's occupation, and SNCC is liable for the excess, limited to the statutory limit for workers compensation coverage and \$1,000,000 for employer liability. On an aggregate basis, SNCC provides up to \$1,000,000 in coverage after MPR-MO reaches the aggregate attachment point of \$20,831,991.

The Association has an excess policy with Berkley Life and Health Insurance Company (Berkley) that covers medical and prescription drug risks of the Employee Benefits Pool (Pool).

Under the policy, the Pool retains \$375,000 per covered person as well as an additional aggregate annual retention of \$100,000. Berkley provides \$1,625,000 per covered person above the Pool retention.

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

### **FINANCIAL STATEMENTS**

The following financial statements are based on the Annual Financial Report filed by the Association with the MO DIFP and present the financial condition of the Association for the period ending June 30, 2014. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the Annual Financial Report and should be considered an integral part of the financial statements.

Assets

|   |                      |
|---|----------------------|
| Cash and cash equivalents                     | \$ 12,960,311        |
| Investments                                   | 37,534,030           |
| Accrued interest                              | 196,296              |
| Contributions due from members                | 890,836              |
| Due from other funds                          | 1,875,476            |
| Other assets                                  | 479,084              |
| Membership deposits                           | 1,179,872            |
| Excess insurance recoverable on unpaid losses | 1,692,090            |
| Note receivable – MPR campus                  | 3,118,999            |
| <b>TOTAL ASSETS</b>                           | <b>\$ 59,926,994</b> |

**Liabilities and Net Assets**

|  |                      |
|--|----------------------|
| Claim reserves                                   | \$ 15,576,913        |
| Reserve for unallocated loss adjustment expenses | 501,835              |
| Accounts payable                                 | 616,367              |
| Due to other funds                               | 120,394              |
| Loss control/wellness credit program liability   | 1,648,554            |
| Unearned contributions                           | 7,770,125            |
| <b>TOTAL LIABILITIES</b>                         | <b>26,234,188</b>    |
| <br>   |                      |
| NET ASSETS                                       | 33,692,806           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b>\$ 59,926,994</b> |

**Summary of Operations**

|   |                            |
|---|----------------------------|
| <b>Operating Revenues:</b>                |                            |
| Contributions earned                      | \$49,606,897               |
| <b>Operating Expenses:</b>                |                            |
| Losses and loss adjustment expenses       |                            |
| Paid                                      | 33,323,022                 |
| Change in reserves                        | (2,023,469)                |
| Excess insurance premiums                 | 3,507,276                  |
| Other insurance premiums                  | 25,216                     |
| Contribution taxes                        | 393,273                    |
| Claims administration fees                | 2,637,136                  |
| Loss prevention                           | 844,582                    |
| General and administrative                | 3,130,225                  |
| Rent expense                              | 544,185                    |
| Total operating expenses                  | <u>42,381,446</u>          |
| <b>Income from operations</b>             | <u><b>7,225,451</b></u>    |
| <b>Non-Operating Revenues</b>             |                            |
| Interest Income                           | 786,693                    |
| Net increase in fair value of investments | 890,653                    |
| Refund of contributions                   | (666,613)                  |
| <b>Total non-operating revenues</b>       | <u><b>1,010,733</b></u>    |
| <br>                                      |                            |
| <b>Increase in Net Assets</b>             | <u><b>\$ 8,236,184</b></u> |

**Net Asset Account**

|                                  |                             |
|----------------------------------|-----------------------------|
| Net assets, June 30, 2013        | \$ 25,456,622               |
| Increase in net assets           | <u>8,236,184</u>            |
| <br>                             |                             |
| <b>Net assets, June 30, 2014</b> | <u><b>\$ 33,692,806</b></u> |

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

No financial statement changes resulted from the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

There were no comments on financial statement items.

**SUBSEQUENT EVENTS**

There were no significant subsequent events noted from June 30, 2014 through the date of this report.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Midwest Public Risk of Missouri during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kim Dobbs, AES, CFE, and Laura Church, AFE, examiners for the MO DIFP, participated in this examination.

**VERIFICATION**

State of Missouri )  
County of Jackson )

I, Vicki L. Denton, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Midwest Public Risk of Missouri, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Vicki L. Denton  
Vicki L. Denton, CFE  
Examiner-In-Charge  
MO DIFP

Sworn to and subscribed before me this 10<sup>th</sup> day of November, 2015.

My commission expires: 8/26/17 Kimberley A. Rose  
Notary Public

**SUPERVISION**

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

Mark A. Nance  
Mark A. Nance, CFE, CPA  
Audit Manager  
MO DIFP