



**THE COMMONWEALTH OF MASSACHUSETTS**  
**OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION**

**DIVISION OF INSURANCE**

***REPORT OF EXAMINATION***

**OF THE**

**INDEPENDENT SCHOOLS COMPENSATION CORPORATION**

**Andover, Massachusetts**

**as of December 31, 2007**

**NAIC GROUP CODE 0000**  
**NAIC COMPANY CODE 00005**  
**EMPLOYER ID NO. 04-3149237**

# INDEPENDENT SCHOOLS COMPENSATION CORPORATION

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**COMMONWEALTH OF MASSACHUSETTS**  
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**NONNIE S. BURNES**  
COMMISSIONER OF INSURANCE

June 5, 2009

The Honorable Nonnie S. Burnes  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Office of Consumer Affairs and Business Regulation  
Division of Insurance  
One South Station  
Boston, Massachusetts 02110-2208

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 152, Section 25I and other applicable statutes, an examination has been made of the financial condition and affairs of

**INDEPENDENT SCHOOLS COMPENSATION CORPORATION**

at its main office located at 10 New England Business Center, Suite 303, Andover, Massachusetts 01810. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Independent Schools Compensation Corporation (hereinafter referred to as (“Group”) was last examined by the Massachusetts Division of Insurance (“Division”) as of December 31, 2004. The Division made the present examination by authority of Section 25I, Chapter 152 of Massachusetts General Laws (“MGL”) and Section 67.15 of Commonwealth of Massachusetts Regulation 211. The examination covers the period from January 1, 2005 through December 31, 2007 including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

During the examination, the transactions of the Group were reviewed and tested to the extent deemed necessary. The Group is audited annually by Shores, Tagman, Butler & Company, P.A. an independent certified public accounting firm. The firm expressed unqualified opinions on the Group’s financial statements for the calendar years 2005 through 2007. Work papers of the Group’s independent certified public accounting firm and an actuarial report on unpaid loss and loss adjustment expense reserves prepared by Towers Perrin, the Group’s independent consulting actuary, were made available to the examiners and were utilized to the extent considered appropriate.

The examination included a review of the general operations of the Group, treatment of its members and claimants, and the financial condition of the Group as of December 31, 2007. In addition, the corporate records were reviewed to ascertain compliance with MGL. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The report of examination is written on an exception basis. Explanations of and details pertaining to various phases of the examination will be found herein. Unless it is specifically noted otherwise, all references to the Group’s accounts, activities, and transactions are as of December 31, 2007.

For a summary of findings contained within this report, refer to the Comments and Recommendations Section on page 10 of this report.

### **Status of Prior Examination Findings**

The examination included a review to verify the current status of any exception conditions commented upon in the previous Report of Examination, and those exceptions are included in this report.

## **HISTORY**

The Group was organized within the Commonwealth of Massachusetts to constitute a workers' compensation self-insurance group under MGL, Chapter 152, Section 25E through 25U with its initial fiscal year beginning on April 1, 1992. The Group was created as a not-for-profit association to make available workers' compensation coverage for those engaged in the Massachusetts construction industry.

Throughout the operating period under review, the Group, by a written administrative service agreement, has engaged Meadowbrook/TPA Associates ("Administrator") to perform and manage the day-to-day activities of the Group.

## **MANAGEMENT**

Pursuant to the bylaws, the affairs of the Group shall be managed by the board of directors, who shall have and may exercise all the powers of the Group except those powers reserved to the members by law, the articles of organization or the bylaws. To assist in the management of the Group, the board of directors shall appoint an Administrator to perform and manage the day-to-day activities of the Group. The board shall have the power to adopt and issue rules, regulations, policies and procedures, which shall be binding upon the members and the Administrator.

### *Annual Meeting*

According to the bylaws, the annual meeting of the members shall be held on the first Thursday of March or such date as may be designated by the board of directors.

### *Board of Directors*

Pursuant to Item (1) of MGL, Chapter 152, Section 25J, every workers' compensation self-insurance group shall be operated by a board of directors which shall consist of not less than three persons whom the members of a group elect for stated terms of office. At least two of the directors shall be employees, officers, or directors of members of the Group. Per MGL Chapter 152, Section 25J and 211 CMR 67.07 (1), all directors shall be residents of Massachusetts or officers of corporations authorized to do business in Massachusetts. Independent Schools Compensation Corporation is composed of two classes of members, A and B. Class A consists of smaller educational institutions and Class B consists of larger educational institutions. Class A members shall be represented by not less than seven directors and up to six directors shall be employees, officers, or directors of Class A members. Class B members shall each be permitted to appoint one (1) representative to the board of directors, provided that no more than five (5) directors shall be employees, officers or directors of Class B members.

## INDEPENDENT SCHOOLS COMPENSATION CORPORATION

The term of office for each director shall be three years or until his or her successor is elected and qualified. A director may serve for an unlimited number of years.

In satisfaction of the cited statute and in compliance with the bylaws, duly elected members of the board of directors as of December 31, 2007, were as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>
Cornelius N. Bakker, Jr.	Derby Academy and Riverview School
Jock Burns	The Pingree School
Katherine Cannon	Clark University
Linda M. Church	Wellesley College
William J. Conley	The College of the Holy Cross
Edward J. Gotgart	Hillside School
Richard Myers	Smith College
Peter Shea	Amherst College
Donald L. Vincent	Retired
W. Ted Wade	Bartlett School
Karen M. White	Independent School Consultant
Paul Wykes	Sturbridge Village

The bylaws do not specify the number of meetings to be held during the year. The minutes indicated that a quorum was obtained at all board of directors meetings held under the period of examination.

### *Committees of the Board of Directors*

The board of directors may elect or appoint one or more committees. Any committee, which the powers of the board are delegated, shall consist solely of directors. The board established a Claim and Loss Control Committee for the purpose of monitoring the claims activity, formulating loss control policies, and identifying cost containment opportunities. The board also established Investment and Audit Committees.

### *Officers*

In accordance with the bylaws, the President, Treasurer and Clerk must be elected annually by the directors at the first meeting held after the annual meeting. The President and Treasurer must be directors. The Clerk shall be a resident of Massachusetts unless the Group has a resident agent duly appointed for the purpose of service of process. As of December 31, 2007 all officers were also directors.

The elected officers and their respective titles at December 31, 2007 are as follows:

<u>Name</u>	<u>Title</u>
Cornelius N. Baker, Jr.	President
Donald L. Vincent	Treasurer
Edward J. Gotgart	Clerk
Linda Murphy Church	Vice President

### Administrator

The board of directors of the Group appointed the Administrator in accordance with its bylaws, MGL Chapter 152 Section 25E, and 211 CMR 67.02. The Administrator is a Michigan corporation with its principal place of business in Andover, Massachusetts. The Administrator provides claims, accounting, underwriting, premium billing and collection and other administrative services to the Group.

### Conflict of Interest

As noted in Question 16 of the General Interrogatories of the 2007 Annual Statement, the Group does have an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

### CORPORATE RECORDS

#### *Articles of Incorporation and Bylaws*

The bylaws and articles of organization and amendments thereto were read. The minutes of the board of directors were reviewed for the period under examination. For that period, votes and authorizations were found to be in order and the records indicated that the Group appeared to be conducting its affairs in compliance with its bylaws and the laws of the Commonwealth of Massachusetts.

### **GROWTH OF THE GROUP**

The growth of the Group for the years 2005 through 2007 is shown in the following schedule which was prepared from the Group's Annual Statements, including any changes as a result of the examination:

Year	Gross Written Premium	Admitted Assets	Accumulated Dividends
2007	\$7,812,393	\$16,508,155	\$10,416,095
2006	7,212,858	14,169,381	7,912,035
2005	6,310,370	11,495,654	5,105,158

### **TERRITORY AND PLAN OF OPERATION**

The Group is a self-insurance group permitted to transact business only in the Commonwealth of Massachusetts.

### **DISASTER RECOVERY and BUSINESS CONTINUITY**

The Administrator has a formal disaster plan for the continuity of the Group's business operations in the event of a disaster. The total recovery effect is governed by the Meadowbrook/TPA Associates' Disaster Recovery Plan. That plan was made available to the examiner for review and determined to have addressed adequately the process in which to resume certain critical business functions of the Group.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Administrator maintains fidelity coverage with an authorized Massachusetts insurer, consistent with MGL Chapter 152 Section 25G. The aggregate limit of liability provides coverage above the prescribed minimum set forth by the National Association of Insurance Commissioner's ("NAIC") schedule of suggested minimum amounts of fidelity insurance.

The Group has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers authorized in the Commonwealth of Massachusetts and was in force as of December 31, 2007. The Group, in compliance with regulatory requirements, had a security deposit pledged to the Commonwealth of Massachusetts in the amount of \$850,000.

### **EXCESS INSURANCE**

The Group maintains an excess insurance policy, the effect of which is to limit the net liability on workers' compensation and workers' and employers' liability claims through specific excess and aggregate excess insurance. The specific excess policy provides coverage equal to statutory benefit levels for workers' compensation and \$1,000,000 for employer's liability for each accident or disease (each employee) exceeding the Group's retained limit of \$500,000. The aggregate excess policy provides \$2,000,000 of coverage attaching at 6.86% of normal premium subject to a minimum aggregate retention of \$7,665,000.



## **ACCOUNTS AND RECORDS**

The trial balance, general ledger and audited financial statements provided by the Group were reviewed for the year ending December 31, 2007. The financial accounting records for the Group are processed and maintained electronically utilizing general accounting and claims management software, with certain supporting documentation maintained manually.

General ledger account balances were reconciled and traced to amounts reported in the Annual Statement for 2007. All balance sheet accounts with a category class of statutory ledger, non-ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. Selected income and expense allocations and postings were sampled and verified for reasonableness. No material exceptions were noted.

The internal control structure for the Group and for selected accounting streams was discussed with the Administrator through inquiry and through a review of the work performed by the Group's independent certified public accountants. It appears from responses and examination review that the operating environment is conducive to producing reliable accounting information.

The books and records of the Group are audited annually by independent certified public accounting firm, in accordance with 211 CMR 67.08.

## **FINANCIAL STATEMENTS**

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division as of December 31, 2007:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007

Statement of Income for the Year Ended December 31, 2007

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division as of December 31, 2007.

Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2007

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 14,667,003	\$ 0	\$ 14,667,003	
Cash and short term investments	1,598,400		1,598,400	
Subtotal cash and invested assets	16,265,403	0	16,265,403	
Investment income due and accrued	188,327		188,327	
Amounts recoverable from reinsurers	54,425		54,425	
<b>TOTAL ASSETS</b>	<b>\$ 16,508,155</b>	<b>\$ 0</b>	<b>\$ 16,508,155</b>	
 Liabilities				
Losses	\$ 4,429,261	\$ 0	\$ 4,429,261	
Loss adjustment expenses	883,167		883,167	
Commissions payable, contingent commissions and other similar charges	(2,425)		(2,425)	
Other expenses	92,127		92,127	
Taxes, licenses and fees	547,640		547,640	
Dividends declared and unpaid:				
Policyholders	10,416,095		10,416,095	
Ceded reinsurance premiums payable	146,110		146,110	
Aggregate write-ins for liabilities	5,186		5,186	
Total liabilities	16,517,161		16,517,161	
Aggregate write-ins for other than special surplus funds	(9,006)		(9,006)	
Surplus as regards policyholders	(9,006)	0	(9,006)	
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 16,508,155</b>	<b>\$ 0</b>	<b>\$ 16,508,155</b>	

Statement of Income  
For the Year Ended December 31, 2007

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 7,299,956	\$ 0	\$ 7,299,956	
Deductions:				
Losses incurred	2,199,846		2,199,846	
Loss expenses incurred	583,220		583,220	
Other underwriting expenses incurred	1,240,057		1,240,057	
Total underwriting deductions	<u>4,023,123</u>	<u>0</u>	<u>4,023,123</u>	
Net underwriting gain (loss)	<u>3,276,833</u>	<u>0</u>	<u>3,276,833</u>	
Net investment income earned	768,849		768,849	
Net realized capital gains (losses)	27,517		27,517	
Net investment gain (loss)	<u>796,366</u>	<u>0</u>	<u>796,366</u>	
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	4,073,199		4,073,199	
Dividends to policyholders	<u>4,073,199</u>		<u>4,073,199</u>	
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	0	0	0	
Federal and foreign taxes incurred	<u>0</u>		<u>0</u>	
Net Income	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	

## **COMMENTS AND RECOMMENDATIONS**

### **Investments Transactions**

Investment transactions are not approved by the board of directors. It is recommended that the board of directors approve the transactions on a quarterly basis.

For Information Purposes Only

## **ACKNOWLEDGMENT**

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Group and its Administrator to all examiners during the course of the examination.

The assistance rendered by the following Division examiners who participated in this examination is hereby acknowledged:

Arthur Hughes	Examiner III
Brian Knowlton	Examiner II
Linda Dow	Examiner II

Respectfully submitted,

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Maria Gannon, CFE  
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Commonwealth of Massachusetts  
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