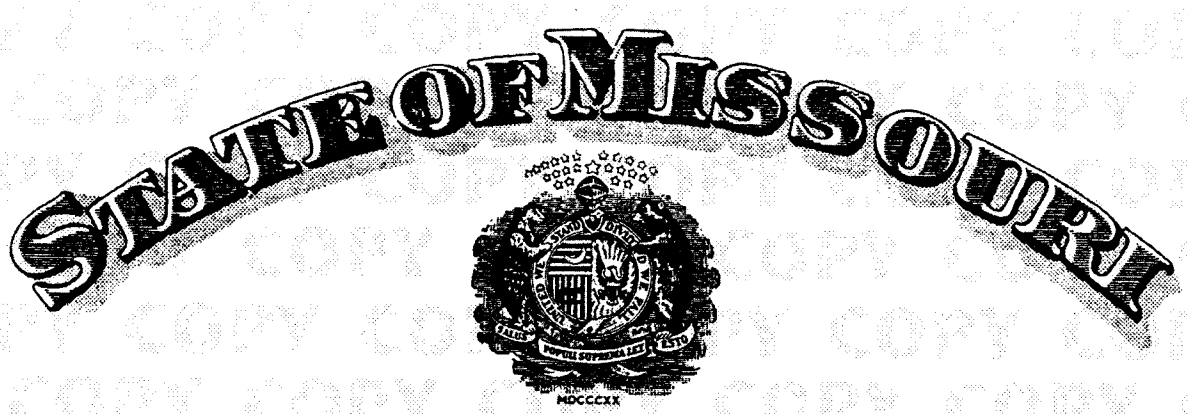


DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

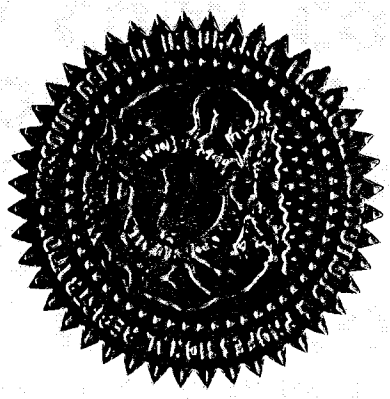
RE: Examination Report of Missouri Intergovernmental Risk Management Association as of June 30, 2006

ORDER

After full consideration and review of the report of the financial examination of Missouri Intergovernmental Risk Management Association for the period ended June 30, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Missouri Intergovernmental Risk Management Association, 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 mentioned in the General Comments and/or 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 April 27, 2007.



DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

FINANCIAL EXAMINATION

Missouri Intergovernmental Risk Management Association

AS OF
JUNE 30, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

SALUTATION 1

SCOPE OF EXAMINATION 1

Period Covered 1
Procedures 1

COMMENTS PREVIOUS EXAMINATION 2

HISTORY 3

General 3
Capital Stock 3
Dividends 3
Management 3
Conflict of Interest 4
Corporate Records 4
Acquisitions, Mergers and Major Corporate Events 4
Surplus Debentures 4

SERVICE PROVIDERS 5

Ward North America, Inc. 5
Lockton Companies of St. Louis Inc. 5

FIDELITY BOND AND OTHER INSURANCE 5

EMPLOYEE BENEFITS 5

INSURANCE PRODUCTS AND RELATED PRACTICES 6

Territory and Plan of Operation 6
Policy Forms and Underwriting 6
Advertising and Sales Materials 6
Treatment of Policyholders 6

REINSURANCE 7

Assumed 7
Ceded 7

ACCOUNTS AND RECORDS 7

FINANCIAL STATEMENTS 8

ASSETS 9

LIABILITIES AND MEMBERS' FUND BALANCES 9

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE 10

NOTES TO FINANCIAL STATEMENTS 11

EXAMINATION CHANGES 12

GENERAL COMMENTS AND/OR RECOMMENDATIONS 13

SUBSEQUENT EVENTS 13

ACKNOWLEDGMENT 14

VERIFICATION 14

SUPERVISION 14

February 27, 2007
Columbia, Missouri

Honorable Doug Ommen, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Mr. Ommen:

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

Missouri Intergovernmental Risk Management Association

also referred to as "MIRMA" or the "Association." The examination was conducted at the Association's home office at 3002 Falling Leaf Court, Columbia, Missouri 65201, telephone number (573) 817-2554. This examination began on January 29, 2007, and concluded on February 27, 2007.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of Missouri Intergovernmental Risk Management Association was performed as of June 30, 2002 and was conducted by an examiner from the state of Missouri.

The current financial examination covers the period from July 1, 2002, through June 30, 2006, and was conducted by an examiner from the state of Missouri.

This examination also included material transactions and/or events occurring after June 30, 2006.

Procedures

This examination was conducted using the guidelines set forth by applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri.

The workpapers of the Association's independent auditor, Hochschild, Bloom & Company LLP, were made available to the examiner and were relied upon to the extent deemed appropriate. Standard examination procedures were modified as necessary under the circumstances.

COMMENTS PREVIOUS EXAMINATION

Listed below are the comments and recommendations taken from the prior examination report as of June 30, 2002. The responses or actions taken by the Association are also described below.

1. Comment: Conflict of Interest

It is recommended that the Association require all directors and officers to sign conflict of interest disclosure statements annually.

Association Response:

MIRMA will prepare and require Board Members to sign Conflict of Interest Statements annually.

Current Findings:

The Association has not fully complied with this recommendation. Disclosure statements were obtained in 2003 and 2007, but were not obtained in the intervening years. The Association should initiate a procedure of obtaining conflict of interest statements on an annual basis.

2. Comment: Unclaimed Property

It is recommended that the Association document its procedures regarding unclaimed properties in written form to help ensure continued effectiveness in locating owners of stale checks.

Association Response:

MIRMA will include a section in its Financial Management Policy which will document its procedures regarding unclaimed property.

Current Findings:

The Association adopted a written policy during the examination period that establishes procedures for locating owners of checks. This policy was included in the Financial Management Policy.

3. Comment: Disaster Recovery Plan

It is recommended that a disaster recovery plan be developed and implemented for this business.

Association Response:

MIRMA will develop and adopt a disaster recovery plan.

Current Findings:

The Association implemented a disaster recovery plan during the current examination period.

HISTORY

General

The Missouri Intergovernmental Risk Management Association was formed as a self-insurance pool to cover workers compensation and property and casualty claims for its members. The Association provides multi-line coverage (individual lines are not available) to municipalities and municipally owned utilities throughout Missouri. MIRMA was formed under the provisions of Chapter 287 RSMo (Workers' Compensation) and Chapter 537 RSMo (Risk Management for Public Entities) and was incorporated July 1, 1981.

On June 30, 1983, the Missouri Division of Insurance issued the Association a certificate of authority to operate as an assessable political subdivision plan pursuant to Sections 537.620 to 537.650 RSMo (Political Subdivision Assessable).

Capital Stock

MIRMA is a not-for-profit entity and has no capital stock.

Dividends

The Association does not pay dividends, but does provide credits on previously paid assessments. No credits were provided during the current examination period.

Management

Pursuant to its articles of association and bylaws, a board of directors consisting of ten members manages the Association. The directors are elected annually for staggered three-year terms. Members serving at June 30, 2006, were:

Name	Occupation	Membership
David E. Dews	City Manager	City of De Soto, MO
Dolores Grannemann	City Clerk	City of Herman, MO
Denise Kohl	Administrative Assistant	City of Vandalia, MO
Dennis Walsh	Asst. City Administrator/ Director of Finance	City of Wentzville, MO
Patrick Bonnot	Assistant to Director of Administration	City of Fulton, MO
Stephanie Lewis	City Clerk	City of Glasgow, MO
Myrna Van Deusen	City Administrator/Clerk	City of Licking, MO
Phillip Shatzer	Superintendent of Operations	City of Paris, MO
Dan Watkins	General Manager	City of Rolla, MO
Joe Aid	Public Information/Safety Officer	City of West Plains, MO

Officers serving as of June 30, 2006, were:

Name	Title
David E. Dews	Chairman of the Board
Dolores Grannemann	Vice-Chairman of the Board
Denise Kohl	Secretary
Dennis Walsh	Treasurer
David C. Epps	Executive Director

Conflict of Interest

The Association began a procedure of obtaining conflict of interest disclosure statements from its officers and directors during the current exam period, but only obtained disclosure statements for 2003. The Association should initiate a procedure of acquiring these statements on an annual basis.

Corporate Records

The articles of association, bylaws and minutes of board meetings and annual membership meetings of the Association were reviewed. One amendment to the articles of association and three amendments to the bylaws were made during the exam period. The amendment to the articles requires members that terminate their membership to wait twelve months after the termination becomes effective before re-applying for membership. The amendments to the bylaws clarified language regarding possible coverage conflicts between MIRMA's Coverage Outline and its excess treaties; eliminated coverage declination for claims not filed within the required period while establishing a 25% deductible on these claims; and established meeting attendance standards for board members and the consequences for failure to meet those standards. All amendments were properly filed with the Department of Insurance, Financial Institutions and Professional Registration.

The minutes of all board meetings and annual membership meetings were reviewed. Those minutes were detailed and appeared to properly document and approve applicable corporate events and transactions. The board passed a resolution acknowledging the previous Report of Financial Examination during its January 31, 2003 meeting.

Acquisitions, Mergers and Major Corporate Events

There have been no acquisitions, mergers or major corporate events during the period under examination.

Surplus Debentures

The Association does not have any surplus debentures issued or outstanding.

SERVICE PROVIDERS

The Association has entered into contracts with service providers to provide various services. A description of the primary services provided and fees paid during the examination period are described below.

Ward North America, Inc.

Ward North America, Inc. (Ward) provides claims processing and payment services to the Association. Currently, a staff of six works out of the Association's office. Claims are processed on Ward's claims system. Ward is also responsible for making claim payments out of MIRMA's bank account. Fees paid to Ward are based on expenses incurred. Fees paid during the four year period covered by this examination ranged from $424,738 to $543,642.

Lockton Companies of St. Louis Inc.

The Association contracts with Lockton Companies of St. Louis Inc. to provide insurance brokerage services and assistance in the placement of excess insurance coverages. Fees paid for brokerage services during the four year period covered by this examination ranged from $140,000 to $160,000.

FIDELITY BOND AND OTHER INSURANCE

The Association is protected by a crime policy with a $1,000,000 limit and a $10,000 deductible. MIRMA's property and casualty risks are self-insured with additional protection provided by the excess insurance coverages purchased for the protection of its members.

EMPLOYEE BENEFITS

MIRMA has eight full-time employees. The Association offers a wide range of benefits to employees including life and disability insurance, health insurance, paid holidays, sick leave, a retirement plan and a voluntary tax deferred compensation plan.

MIRMA provides its employees with a defined contribution pension plan that provides retirement benefits to all eligible employees. MIRMA's contributions to the plan are based upon length of service, with employees becoming eligible for the program after 1,000 hours of employment. No other obligations relating to this pension plan exist.

MIRMA also offers a deferred compensation plan to employees. Participation in the plan is voluntary and the Association does not match any portion of employee contributions.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Association is licensed by the Department of Insurance, Financial Institutions and Professional Registration under Chapter 537 RSMo (Risk Management for Public Entities) and Chapter 287 RSMo (Workers' Compensation). Membership in the Association consists of 67 municipalities and municipally owned utilities in Missouri. The Association provides coverage to its members under five major categories; General Liability, Automobile Liability, Property, Crime and Workers' Compensation. Members must take all the coverages offered in the protection package.

Policy Forms and Underwriting

The Association requires all municipalities and municipally owned utilities to sign a membership contract as a condition of membership. The membership contract documents the responsibilities of the Association and its members. All members also complete a membership questionnaire each year at renewal.

Assessments are largely a function of municipalities' payrolls. Adjustments are made based on loss prevention measures undertaken by the member and by the loss experience of the individual members. Credits on the assessments are given when the Association's income permits. No credits were authorized during the past year.

Advertising and Sales Materials

MIRMA does not try to grow by increasing the number of members each year, but rather attempts to increase the quality of its membership. Consequently it does not have a mass marketing program. Municipalities that are viewed as potential members are identified and marketing efforts are targeted toward those entities. MIRMA's marketing strategy consists primarily of attending conventions and meetings held by the City Clerks conferences and the Missouri Municipal League.

Treatment of Policyholders

Under Chapter 537 RSMo the Association is not required to maintain a log of complaints submitted by its members. However complaints or concerns from member municipalities are reviewed at board meetings.

REINSURANCE

Assumed

None

Ceded

The Association maintains excess insurance agreements with several insurance carriers to provide coverage for its insurance program offered to members. The per–occurrence coverage limits and MIRMA's retentions for the 2006 fiscal year were as follows:

Coverage	Limit	Retention
General Liability	$1,500,000	$1,000,000
Automobile Liability	$1,500,000	$1,000,000
Property, (including earthquake and flood)	$100,000,000	$500,000
Crime	$1,000,000	$10,000
Workers Compensation	Statutory	$1,000,000

The Crime limit shown above is for the entire Association; the Crime limit for an individual member is $100,000.

ACCOUNTS AND RECORDS

General

The Association's general ledger is maintained on a GAAP basis with a fiscal year end of June 30. The Association used Champion software for all of its financial and reporting needs during the examination period, but converted to Turning Point software in October 2006. An outside party, Ward North America, performs all claims processing functions. Monthly claims activity reports are generated and figures from those reports are manually entered into the general ledger. General ledger balances were traced to MIRMA's financial statements for each period under review.

The accounting firm of Hochschild, Bloom & Company LLP audits the Association annually. Current audit workpapers were reviewed during this examination and used to the extent deemed appropriate. Reserves and related actuarial items are reviewed and certified by The Tiller Consulting Group, Inc.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Association as of June 30, 2006, and the results of operations for the fiscal year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Association and noted in the workpapers for each individual financial statement item.

ASSETS

		Ledger Assets	Assets Not Admitted	Net Admitted Assets
Certificates of deposit		$ 13,275,665		$ 13,275,665
Debt securities		10,845,200		10,845,200
Repurchase agreements		130,000		130,000
Cash		1,144,114		1,144,114
Reimbursement receivable		12,714		12,714
Accrued interest		116,575		116,575
Prepaid items and other assets	**Note 1**	56,243		56,243
Insurance recoverable		112,176		112,176
Capital assets		465,434		465,434
Total Assets		$ 26,158,121	$ -	$ 26,158,121

LIABILITIES AND MEMBERS' FUND BALANCES

Liabilities		
Claims reserves	**Note 2**	$ 12,525,115
Reserve for unallocated loss asjustment expenses	**Note 2**	296,200
Accounts payable		159,955
Unearned member assessments		10,838,466
Accrued payroll expense		48,488
Note payable		191,586
Total Liabilities		$ 24,059,810
Member's Fund Balance		
Designated		$ 1,007,991
Undesignated		1,591,281
Examination changes		(500,961)
Total Member's Fund Balance		2,098,311
Total Liabilities and Member's Fund Balance		$ 26,158,121

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' FUND BALANCE

Revenues	
Member assessments	$ 10,331,365
Interest income	814,538
Net increase (decrease) in fair value of investments	(637,600)
Total Revenues	10,508,303
Expenses	
Claims paid on current losses	1,937,443
Established claim reserves	4,087,908
Adjustment to prior year's claim reserves	888,663
Excess insurance and bond premiums	1,566,841
Insurance services:	
Claims adjustment	543,642
Brokerage fee	160,000
Loss control services	167,110
Off-site storage	3,637
Change in unallocated loss adjustment expenses	(5,600)
General and administrative	1,061,785
Taxes and fees	220,672
Risk management awards	91,810
Total Expenses	10,723,911
Excess of Revenues Over (Under) Expenses	$ (215,608)
Members' Fund Balance, Beginning of Year	$ 2,814,880
Excess of revenues over (under) expenses	(215,608)
Examination Changes	(500,961)
Members' Fund Balance, End of Year	$ 2,098,311

NOTES TO FINANCIAL STATEMENTS

Note 1	Prepaid items and other assets	$56,243

The Association's reported asset of $156,338 included tax payments totaling $100,095 that applied to expired periods. The reduction of this amount from the reported asset produces the above amount of $56,243.

Note 2	Claims reserves	$12,525,115
	Reserve for unallocated loss adjustment expenses	$296,200

The liabilities reported by the Association for claims and adjustment reserves were $12,136,849 and $283,600 respectively, which total $12,420,448. Although the Statement of Actuarial Opinion provided by the Association's actuary stated that the reported reserves made a reasonable provision for loss and loss adjustment expense reserves at June 30, 2006, the actuary's reserve projections were $12,525,115 for claims reserves and $296,200 for unallocated loss adjustment expenses, which totals $12,821,314, and represents a difference of $400,866 from the total reported. The four-month development of claims reserves from July 1, 2006 through October 31, 2006 show adverse development of $327,666 from the reported amount. This appears to show that the actuary's projections were more accurate than the reserves reported by the Association. Consequently exam changes were made to the above two liabilities that increased them to the amounts projected by the Association's actuary.

EXAMINATION CHANGES

Member's Fund Balance Per Trust			
Desginated			$ 1,007,991
Undesignated			1,591,281
Total Special Funds and Members' Fund Balance Per Trust			$ 2,599,272

		Decrease In Members Fund Balance	
Assets:	**Note 1**		
Prepaid items and other assets		(100,095)	
Liabilities:			
Claims reserves	**Note 2**	(388,266)	
Reserve for unallocated loss adjustment expense	**Note 2**	(12,600)	
Change in Special Funds and Members' Fund Balance			(500,961)

Special Funds and Member's Fund Balance Per Examination	
Designated	$ 1,007,991
Undesignated	1,090,320
Total Members' Fund Balance Per Examination	$ 2,098,311

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Comments Previous Examination – Conflict of Interest Page 2

The Association should initiate a procedure of obtaining conflict of interest disclosure statements on an annual basis.

SUBSEQUENT EVENTS

Bob Hall was appointed Executive Director on January 26, 2007. He was previously the Deputy Director and served as the Association's Finance Director since 1996.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Intergovernmental Risk Management Association during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Boone)

I, Richard J. Hayes, 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 the Association, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, or of such conclusions and recommendations as the examiner found were reasonably warranted by the facts.

Richard J. Hayes

Richard J. Hayes, CFE, FLMI
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 27th day of February, 2007.
My commission expires:

12/02/2010

TERRI L CRANE
Notary Public - Notary Seal
State of Missouri
Commissioned for Boone County
My Commission Expires: December 02, 2010
Commission Number: 06452281

Terri L. Crane

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 applicable regulations of the Missouri Department of Insurance and statutes of the Sate of Missouri has been confirmed.

Christiana Dugopolski

Christiana Dugopolski, CPA, CFE
Audit Manager
Missouri Department of Insurance