STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

RE: Examination Report of St. Louis Area Insurance Trust as of June 30, 2008

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

ORDER

After full consideration and review of the report of the financial examination of St. Louis Area Insurance Trust for the period ended June 30, 2008, 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 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 St. Louis Area Insurance Trust, 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 September 2, 2009.

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

REPORT OF

FINANCIAL EXAMINATION

St. Louis Area Insurance Trust

AS OF

JUNE 30, 2008

FILED
SEP 12 2009
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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St. Louis, MO
June 11, 2009

Honorable John Huff, Director
Missouri Department of Insurance
Financial Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Mr. Huff:

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

St. Louis Area Insurance Trust

also referred to as "SLAIT" and as the "Trust." The examination was conducted at the office of the Trust's service company at 1001 Highlands Plaza Drive West, Suite 500, St. Louis, Missouri 63110, telephone number (314) 444-1937. This examination began on April 29, 2008, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior financial examination of St. Louis Area Insurance Trust was performed as of June 30, 2005. The examination was conducted by an examiner from the state of Missouri.

The current financial examination covers the period from July 1, 2005, through June 30, 2008. The examination was conducted by an examiner from the state of Missouri.

This examination also included material transactions and/or events occurring after June 30, 2008.

Procedures

This examination was conducted using the practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri.

Comments Previous Examination

The general comments and recommendations in the previous examination report and the Trust's response and/or subsequent action taken by the Trust are listed below.

1. Comment: Solvency Protection

The Trust should continue its commitment to the thorough review of claim reserves via external actuarial analysis and internal assessment to ensure the stabilization of members' fund equity.

Trust's Response:

The Trust will continue this commitment by having an annual actuarial valuation performed for the purpose of estimating expected loss reserves for prior policy years and for calculating loss rates for the coming year. In addition, these estimates will be reviewed a second time as part of the financial auditing process. Finally, at every meeting of the Board of Directors the Financial Statement of the Trust will be reviewed and substantial time will be spent reviewing liability claims which have been reserved for $35,000 or more, and worker's compensation claims which have been reserved for $75,000 or more.

Current Findings:

The Trust has complied with the recommendation.

2. Comment: Conflict of Interest

The Trust should initiate a procedure of acquiring copies of the conflict of interest statements filed annually by the officers and directors with the Missouri Ethics Commission.

Trust's Response:

It should be noted that not all Board Members are required to file such statements, but the Trust will institute a procedure to acquire copies of the statements of the Board Members who make such a filing.

Current Findings:

Chapter 537 RSMo (Risk Management for Public Entities) does not require completion of conflict statements. Although the Trust does not require its officers and directors to provide conflict of interest disclosure statements, because of their positions with their various communities each is required to file statements annually with the Missouri Ethics Commission or is subject to a city ethics ordinance.

3. Comment: Service Providers

The Trust must amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary authority given to BCA, Inc., to settle claims.

Trust's Response:

The agreement with BCA, Inc. relative to the discretionary settlement authority of $25,000 will be more clearly defined by the Trust in contracts with BCA, Inc.

Current Findings:

The Trust adopted a "Settlement Approval Procedure," which defines the settlement limits of the claims administrator as well as the approvals required at various levels of settlement above the claims administrator's authority. As this document is not a part of the contracts with BCA, Inc.,

it does not provide a contractual limitation on BCA, Inc. It is recommended that the Trust amend its contracts with BCA, Inc., to incorporate this document so that the discretionary authority given to BCA, Inc., to settle claims is contractually agreed upon.

4. Comment: Cash

The Trust should update its bank signature cards to notify the bank of the check signing limitations established by the Board of Directors in the Trust's internal procedure "98-1 Check Signing Procedures."

Trust's Response:

The Trust will update its bank signature cards and indicate the required number of signatures by check amount.

Current Findings:

The Trust updated its bank signature cards including an attachment which provides the bank the check signing limitations authorized by the Board of Directors.

5. Comment: Claims and claim adjustment expenses

The Trust should obtain an actuarial update using year-end loss numbers for the purpose of generating year-end reserves in addition to the annual actuarial report that is currently used for both the financial statement and rate setting purposes.

Trust's Response:

The primary reasoning behind this recommendation is negative loss development of approximately $325,000 that occurred between 12/31/04 and 1/31/06 and increasingly negative loss development that the Trust has experienced in its most recent years. Since a second actuarial report would cost in the range of $15,000, alternatives to such an update will be explored. It should be noted that the Board of Directors reviews the Financial Statement at each quarterly Board Meeting and is made a ware of reductions in the IBNR/Loss Development Factor, an indicator of worse than expected loss development. It should also be noted that when claims develop better than expected, the financial condition of the Trust is better than shown in the Financial Statement. The Board of Directors is also kept aware of this type of loss development.

Current Findings:

The Trust obtains a calendar year end reserve analysis to help establish the rates to apply to the next fiscal year. As part of the analysis a projection is made of the fiscal year end reserves. When establishing the fiscal year end reserves for the financial statements the Trust uses the actuary's estimate of IBNR and reflects changes in the claims reserves. This appears reasonable.

HISTORY

General

St. Louis Area Insurance Trust was formed in August of 1998 through a merger of two separate trusts, formerly known as the Property and Casualty Trust of St. Louis, Inc. (PACT) and the St. Louis Area Insurance Trust (predecessor trust).

PACT was formed on February 10, 1987, under the provisions of Chapter 537 RSMo (Risk Management for Political Subdivisions) for the purpose of providing a voluntary self-insured liability program for political subdivisions of Missouri.

St. Louis Area Insurance Trust (predecessor trust) was formed in August of 1986 under the provisions of Chapter 287 RSMo (Workers Compensation Law) for the purposes of providing a self-insured workers' compensation program for political subdivisions of Missouri.

Capital Stock

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

Dividends

SLAIT maintains the members' fund balance account by policy year. The board of directors has the authority to determine how to distribute any remaining balance when all claims for a policy year are closed. The board of directors declared and paid surplus distributions of the following amounts during the exam period:

Fiscal Year	Distribution Paid
2005	$1,009,007
2006	$500,000
2007	-0-

Management

The Board of Directors consists of twelve members as authorized by the Bylaws. At least three of the Directors must be representatives of the smallest half of the Trust's members (based on payroll). Members serving as of June 30, 2009, were as follows:

Name	Business Affiliation	Term Expires
Robert Kuntz	City Administrator City of Ballwin	7/1/2009
Marty Corcoran Chairperson	City Manager City of Maplewood	7/1/2009
Michael Herring	City Administrator City of Chesterfield	7/1/2009

Steve Wylie	City Manager City of Webster Groves	7/1/2009
David Watson	Director of Finance City of Maryland Heights	7/1/2010
Amy Hamilton	City Manager City of Richmond Heights	7/1/2010
George Liyeos	City Administrator City of Rock Hill	7/1/2010
Robert Shelton	City Administrator City of Frontenac	7/1/2010
Julie Feier Secretary Treasurer	City Manager City of University City	7/1/2011
Craig Owens	City Manager City of Clayton	7/1/2011
Douglas Harms	City Administrator City of Des Peres	7/1/2011
Mark Perkins Vice Chairperson	City Administrator City of Creve Coeur	7/1/2011

Officers serving as of June 30, 2008, were as follows:

Name	Office
Marty Corcoran	Chairperson of the Board
Mark Perkins	Vice Chairperson of the Board
Julie Feier	Secretary / Treasurer

Conflict of Interest

Chapter 537 RSMo (Risk Management for Public Entities) does not require completion of conflict of interest statements. Although the Trust does not require its officers and directors to provide conflict of interest disclosure statements, because of their positions with their various communities each is required to file statements annually with the Missouri Ethics Commission or is subject to a city ethics ordinance.

Corporate Records

A review was made of the Articles of Association and the Bylaws. In addition, the minutes of the board of directors were reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events during the examination period.

Surplus Debentures

The Trust has not issued any surplus debentures.

SERVICE PROVIDERS

General

The Trust has entered into contracts with service providers to provide various insurance, accounting and administrative services. A description of the services provided and fees paid to each provider are described below.

The Daniel and Henry Co. (D&H)

D&H is a full-service insurance agency that operates on the basis of shared resources. D&H's individual brokers share common facilities, overhead and expenses. Stephens and Associates, Inc. is the broker within D&H responsible for managing SLAIT.

D&H provides the following brokerage, administrative and loss control services for SLAIT under two Administrative Services contracts, one for the provision of services pertaining to workers compensation coverage and the other for the provision of services pertaining to liability coverage:

Brokerage Services
These services include updating underwriting information, developing marketing strategy, submitting requests for reinsurance premium quotes to excess markets and insurance policy review.

Administrative Services
These services include attending board of directors meetings and keeping minutes of those meetings, preparation of loss runs, various clerical duties for legal, accounting and loss control services, invoicing of members for premium assessments and other miscellaneous services.

Loss Control Services
D&H provides SLAIT with a comprehensive loss control program. This program includes facilities inspection, loss control audits, safety committee assistance and presentation of various educational seminars.

Fees

Per the agreements the Trust paid D&H $175,000 during each year of the exam period.

BCA, Inc.

BCA, Inc. (BCA) is a Missouri licensed third party administrator. SLAIT and BCA are party to two contracts that stipulate that BCA shall perform various claims adjudication services for the Trust including maintaining claim files, performing investigations of reported claims, recommending reserves for each claim, settling all qualifying claims (within a discretionary settlement authority limit) and providing all necessary reports to excess reinsurers. One of the contracts pertains to settling workers compensation claims, the second pertains to liability claims.

The annual fees paid by the Trust to BCA, Inc., are adjusted each year. The fees paid were $194,611, $204,342, and $214,559 for the fiscal years ending June 2006 through June 2008, respectively.

Phillip E. Pfeiffer, CPA

The Trust contracts with Phillip Pfeiffer, Certified Public Accountant, to compile quarterly financial statements and other supplemental reports. The Trust paid $14,010 for these services for the 2007-2008 fiscal year.

FIDELITY BOND AND OTHER INSURANCE

The Trust is the named insured in a crime policy that provides coverage for employee dishonesty. Coverage of $500,000 is provided. The Trust also maintains Errors and Omissions coverage of $1,000,000 and a workers' compensation surety bond of $600,000. These coverages appear adequate for the protection of the Trust.

EMPLOYEE BENEFITS

The Trust does not have any employees. Members of the board of directors are reimbursed for actual expenses incurred for attendance at board meetings only. All other services are provided through contractual agreements with outside parties.

STATUTORY DEPOSITS

The Trust is not required to maintain a statutory deposit.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

SLAIT is a licensed self-insured trust by the Missouri Department of Insurance under Chapter 537 RSMo (Risk Management for Public Entities). Membership of the Trust is limited to municipalities located in the state of Missouri, or to entities created pursuant to Section 70.220 RSMo for the purpose of providing a common service that is provided by a municipality or public subdivision. Members of the Trust must be professionally managed (non-elected administrators) and cannot own public utilities. As of June 30, 2008, the Trust was funded by twenty-seven participating members.

Participating Members

As of June 30, 2008, the following twenty-five cities were members of the Trust:

Ballwin	Eureka	Olivette
Brentwood	Fenton	Richmond Heights
Bridgeton	Ferguson	Rock Hill
Chesterfield	Frontenac	St. John
Clayton	Glendale	Town and Country
Crestwood	Hazelwood	University City
Creve Coeur	Manchester	Webster Groves
Des Peres	Maplewood	
Ellisville	Maryland Heights	

As of June 30, 2008, the following entities created pursuant to Section 70.220 RSMo were also members of the Trust:

Clayton Recreation SWC
East Central Dispatch

Policy Forms and Underwriting Practices

The Trust issues four separate policy forms to its members. The policy forms provide general liability, employment practices liability, property, and auto coverage. The following schedule outlines the coverage, limits and deductibles for each policy form:

Policy		Limits	Deductible
Liability:	General	$2,500,000	$500
	Directors and Officers	$2,500,000	$500
	Automobile	$2,500,000	$500
	Employment Practices	$2,500,000	$1,000 + $100 per employee
Property:	General	Replacement Cost	$1,000
	Automobile	$50,000	$1,000

Advertising and Sales Materials

The Trust has minimal advertising. Most promotion is performed through personal contact.

Treatment of Policyholders

The Trust is not required under Chapter 537 RSMo to maintain a log of complaints submitted by policyholders. The Trust appears to address all concerns of its members.

REINSURANCE

Assumed

None.

Ceded

The Trust has excess reinsurance coverage for both workers compensation and liability coverage through The United States Fidelity and Guaranty Company and Discover Property and Casualty Insurance Company. Coverage for the policy years from 1995 to 2001 was provided by The United States Fidelity and Guaranty Company; subsequent policy years were reinsured by Discover Property and Casualty Insurance Company. The coverage provided and the Trust's retentions for the 2006-2008 policy years were as follows:

Liability Coverage

The coverage provided by the Trust is written on an occurrence basis for auto liability and on a claims-made basis for general liability. The limits and excess coverage regarding the liability coverage is as follows:

Coverage	Limit	Retention
General Liability	$2,500,000 each occurrence	$500,000
Personal & Advertising Injury	$2,500,000 each person	$500,000
Employee Benefit Liability	$2,500,000 each claim	$500,000
Business Auto Liability	$2,500,000 each accident	$500,000

Workers' Compensation

Coverage	Limit	Retention
Workers' Compensation	Statutory Limit	$600,000
Employers Liability	$1,000,000	$600,000

The Trust also maintains a self-funded reserve of $1,000,000 to pay for excess workers compensation losses. These funds are held in an escrow account and are restricted for this use. The funds cannot be removed without joint signature from a qualified person from the Trust and the Director of the Division of Workers' Compensation.

ACCOUNTS AND RECORDS

The Trust's financial statements are compiled on a quarterly basis by Phillip E. Pfeiffer, Certified Public Accountant. Audited financial statements are prepared annually by Conner Ash, P.C. The audit workpapers were used in the course of this examination as deemed appropriate. Reserves and related actuarial items reported in the audited financial statements are reviewed by the actuarial department of PricewaterhouseCoopers, LLP.

It was noted that although the Trust's investment guidelines state that no securities should have a maturity in excess of 36 months, two currently held securities were purchased with more than 36 months left to maturity.

It is recommended that the Trust comply with its investment guidelines and either purchase securities with a maturity within those guidelines or specifically approve and document any exceptions to the investment policy within the Board of Directors minutes.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Trust as of June 30, 2008, 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 Trust and noted in the workpapers for each individual financial statement item.

ASSETS

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Cash	$ 1,049,545		$ 1,049,545
Money market account	2,122,000		2,122,000
U.S. Government securities	10,224,792		10,224,792
Prepaid Expenses	9,000		9,000
Accrued interest receivable	63,292		63,292
Reinsurance recoverable on unpaid losses	81,365		81,365
Total Assets	$ 13,549,994	$ -	$ 13,549,994

LIABILITIES, SPECIAL FUNDS AND MEMBERS' FUND BALANCE

Liabilities	
Accounts payable and accrued expenses	$ 83,339
Unearned members' contributions	1,600,214
Claims and claim adjustment expense reserves	6,701,413
Total Liabilities	$ 8,384,966
Special Funds and Member's Fund Balance	
Members' fund balance	$ 4,165,028
Special funds - aggregate excess reinsurance reserve	1,000,000
Examination changes	-
Total Special Funds and Member's Fund Balance	5,165,028
Total Liabilities Special Funds and Member's Fund Balance	$ 13,549,994

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

Revenues	
Member assessments	$ 6,871,980
Change in fair value of investments	89,902
Interest income	585,898
Reimbursed deductibles	58,089
Total Revenues	7,605,869
Expenses	
Incurred claims and claims adjustment expenses	4,040,725
Premiums for excess reinsurance coverage	1,081,558
Insurance services	389,559
Workers' compensation taxes	199,721
General and administrative	81,052
Total Expenses	5,792,615
Excess of Revenues Over (Under) Expenses	$ 1,813,254
Members' Fund Balance, Beginning of Year	$ 2,351,774
Excess of revenues over (under) expenses	1,813,254
Contribution refund	-
Examination Changes	-
Members' Fund Balance, End of Year	$ 4,165,028

NOTES TO FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Prior Examination Comments ***Page 2***

The prior examination of the Trust recommended that the Trust amend its contracts with BCA, Inc. in order to clearly state the amount of the discretionary authority given to BCA, Inc., to settle claims.

The Trust adopted a "Settlement Approval Procedure," which defines the settlement limits of the claims administrator as well as the approvals required at various levels of settlement above the claims administrator's authority, but this document is not a part of the contracts with BCA, Inc., and does not provide a contractual limitation on BCA, Inc. The Trust should amend its contracts with BCA, Inc., to incorporate this document so that the discretionary authority given to BCA, Inc., to settle claims is contractually agreed upon.

Accounts and Records ***Page 9***

It was noted that although the Trust's investment guidelines state that no securities should have a maturity in excess of 36 months, two currently held securities were purchased with more than 36 months left to maturity.

The Trust should comply with its investment guidelines and either purchase securities with a maturity within those guidelines or specifically approve and document any exceptions to the investment policy within the Board of Directors minutes.

SUBSEQUENT EVENTS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the St. Louis Area Insurance Trust and its Administrator, Daniel and Henry Company, during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I swear on my oath 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 Trust, 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.

Wyatt Sample

Wyatt R. Sample, CFE
Examiner-in-Charge, Department of Insurance, Financial Institutions and Professional Registration

MONICA D. BILLUPS
Notary Public - Notary Seal
State of Missouri
St. Louis City
My Commission Expires July 26, 2009
Commission # 05457641

Sworn to and subscribed before me this 20th day of May.
My commission expires:
July 26, 2009

Monica D Billups
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, Financial Institutions and Professional Registration and statutes of the state of Missouri has been confirmed.

Michael K. Shadowens

Michael Shadowens, CFE
Audit Manager, Department of Insurance, Financial Institutions and Professional Registration