

# STATE OF MISSOURI



## DEPARTMENT OF COMMERCE & INSURANCE

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

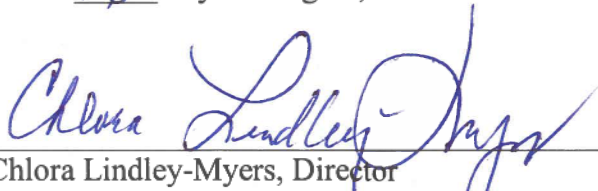
### ORDER

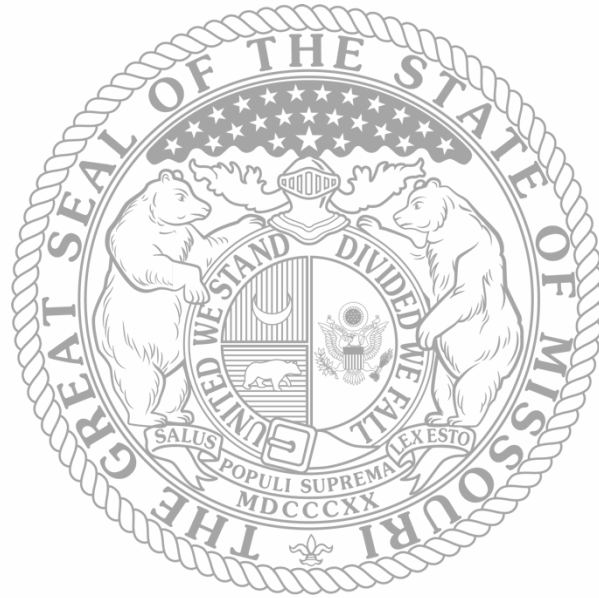
After full consideration and review of the report of the financial examination of St. Louis Area Insurance Trust for the period ended June 30, 2023, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Commerce and Insurance 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, history, corporate records, management and control, territory and plan of operations, accounts and records, financial statements, comments on the financial statements, subsequent events and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of St. Louis Area Insurance Trust as of June 30, 2023, be and is hereby ADOPTED as filed and for 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 Comments on the Financial Statement and/or Summary of Recommendations section of such report; and (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 26<sup>th</sup> day of August, 2024.



  
Chlora Lindley-Myers, Director  
Department of Commerce and Insurance



REPORT OF  
FINANCIAL EXAMINATION OF

# ST. LOUIS AREA INSURANCE TRUST

AS OF  
JUNE 30, 2023

STATE OF MISSOURI  
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
PERIOD COVERED.....	1
PROCEDURES.....	1
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>1</b>
<b>COMPANY HISTORY</b> .....	<b>2</b>
GENERAL.....	2
DIVIDENDS AND ASSESSMENTS .....	2
MERGERS AND ACQUISITIONS .....	2
<b>MANAGEMENT AND CONTROL</b> .....	<b>3</b>
BOARD OF DIRECTORS .....	3
OFFICERS.....	3
COMMITTEES.....	3
CORPORATE RECORDS.....	3
SERVICE PROVIDERS .....	4
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>4</b>
<b>GROWTH OF COMPANY</b> .....	<b>5</b>
<b>FUND BALANCE (SURPLUS)</b> .....	<b>5</b>
<b>REINSURANCE</b> .....	<b>5</b>
ASSUMED .....	5
CEDED .....	5
<b>ACCOUNTS AND RECORDS</b> .....	<b>6</b>
INDEPENDENT AUDITOR .....	6
EXTERNAL ACTUARY .....	6
<b>FINANCIAL STATEMENTS</b> .....	<b>7</b>
ASSETS.....	8

LIABILITIES AND SURPLUS .....	8
STATEMENT OF REVENUES AND EXPENSES.....	9
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS .....</b>	<b>10</b>
<b>FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION .....</b>	<b>11</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>11</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>11</b>
<b>ACKNOWLEDGMENT .....</b>	<b>12</b>
<b>VERIFICATION.....</b>	<b>12</b>
<b>SUPERVISION .....</b>	<b>13</b>

Jefferson City, MO  
July 15, 2024

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Commerce and Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

### **St. Louis Area Insurance Trust**

hereinafter referred to as such, as SLAIT, or as the Company. Its administrative office is located at 1715 Deer Tracks Trail, Suite 230, St. Louis, Missouri, 63131. The fieldwork for this examination began on January 30, 2024, and concluded on the above date.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The Missouri Department of Commerce and Insurance (DCI) has performed a single-state financial examination of SLAIT. The last examination of the Company by the DCI covered the period of July 1, 2013, through June 30, 2018. The current examination covers the period of July 1, 2018, through June 30, 2023, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

#### **Procedures**

This examination was conducted using the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri. Standard examination procedures were modified as necessary under the circumstances.

### **SUMMARY OF SIGNIFICANT FINDINGS**

#### **Understated Reserves (Page 10)**

Reserves reported in the June 30, 2023, financial statements for loss and loss adjustment expenses (LAE) for the Company's workers' compensation and liability business were deficient by \$2,176,733 based on a review by DCI's internal actuary.

#### **Claims Accruals (Page 10)**

Two invoices for health insurance claims incurred in the exam period were not accrued as liabilities in the June 30, 2023, financial statements. Total allocated costs of \$574,931 for the two invoices should have been reported as liabilities.

#### **Ceded Reserves and Reinsurance Receivables (Page 10)**

As of June 30, 2023, the asset for ceded loss and LAE reserves was overstated by \$3,272,780, while reinsurance receivables were understated by \$3,272,780. Although each error was material on an individual basis, there was zero impact to surplus on a combined basis.

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

## **COMPANY HISTORY**

### **General**

The Company 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, 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 for the purposes of providing a self-insured workers' compensation program for political subdivisions of Missouri.

During 2009, the Company began offering health insurance on a self-insured basis. The Company operates under the provisions of Sections 537.600 to 537.650 RSMo (Sovereign Immunity).

### **Dividends and Assessments**

SLAIT tracks the net profits or losses of each policy year for both the workers' compensation and liability plan and the health insurance plan. As the claims for each policy year become fully developed, the Board of Directors determines whether to pay distributions if a surplus exists, or to require an assessment if a deficit exists.

There were no surplus distributions approved for the workers' compensation and liability plan during the examination period. Surplus distributions for the health insurance plan were approved by the Board of Directors in the following amounts during the examination period:

Fiscal Year	Distribution Amount
2018-2019	\$ 350,000
2019-2020	440,000
2020-2021	1,484,207
2021-2022	0
2022-2023	1,076,507

The Articles of Association allow for special assessments in addition to normal premiums up to \$300,000 per member, upon approval by the Board of Directors. There were no special assessments approved during the examination period.

### **Mergers and Acquisitions**

The Company was not party to any mergers or acquisitions during the examination period.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The management of the Company is vested in a Board of Directors, which is appointed by the members. The Company's Bylaws specify that the Board of Directors shall consist of twelve members that are appointed in staggered, three-year terms. The Board of Directors elected and serving, as of June 30, 2023, were as follows:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>	<b><u>Member City</u></b>
Bola Akande	City Administrator	Brentwood
Kevin Bookout	City Administrator	Bridgeton
Matt Conley	City Administrator	St. Ann
Mike Geisel	City Administrator	Chesterfield
Amy Hamilton	City Manager	Richmond Heights
Doug Harms	City Administrator	Des Peres
Mark Perkins	City Administrator	Creve Coeur
Gregory Rose	City Manager	University City
Robert Shelton	City Administrator	Town & Country
Kris Simpson	City Administrator	Crestwood
Eric Sterman	City Administrator	Ballwin
Matt Zimmerman	City Manager	Hazelwood

### **Officers**

The officers elected and serving, as of June 30, 2023, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Bola Akande	Chairperson
Gregory Rose	Vice Chairperson
Doug Harms	Treasurer
John Charpie	Secretary

### **Committees**

The Bylaws allow for the formation of committees, but do not require any specific committees of the Board of Directors. The only formally appointed committee during the examination period was a Nominating Committee to recommend candidates for the Board of Directors.

### **Corporate Records**

The Company's Articles of Association and Bylaws were reviewed to determine compliance and the purpose of any amendments. There were no substantive amendments to the Articles of Association during the examination period. However, the Company filed amended Articles of Association on March 29, 2022, for the sole purpose of formalizing the correct corporate name with the Missouri Secretary of State. There were no amendments to the Bylaws in the examination period.

The minutes of the Board of Directors' and Membership Meetings were reviewed for proper approval of corporate transactions.

**Service Providers**

SLAIT does not have any employees. All business functions are outsourced to third parties. Below is a summary of the significant service providers utilized, as of June 30, 2023:

- **Thomas McGee, L.C.** – Administrator for overall management and operations of the Company. Also performs claims handling for workers' compensation and liability lines.
- **RightChoice Managed Care, Inc. dba Anthem Blue Cross and Blue Shield (Anthem)** – Insurance company for the health plan under an Administrative Services Only (ASO) agreement. Claims handling, provider networks, member services, and other services are provided. Stop-loss reinsurance is also included.
- **Phillip E. Pheiffer, CPA** – Provides accounting services, loss reserve calculations, and financial statement preparation services.
- **Pinnacle Actuarial Resources, Inc.** – Actuarial firm that provides estimates for loss and LAE reserves and premium rate recommendations.

**TERRITORY AND PLAN OF OPERATIONS**

Members of SLAIT must be political subdivisions of the State of Missouri with full-time, professional city management. As of June 30, 2023, the Company had 28 members that were all located within the St. Louis metropolitan area. The membership includes 25 cities, 2 emergency dispatch centers, and 1 commission. The largest member accounted for 10% of total premiums for the 2022-2023 policy year.

All members participate in the Company's workers' compensation and liability insurance plan. Liability coverages include automobile liability, general liability, and law enforcement liability. Member deductibles are \$500 per occurrence for automobile and general liability policies and \$2,500 per occurrence for law enforcement liability policies. Policy limits are \$3,000,000 per occurrence for liability coverages and Missouri statutory limits for workers' compensation coverage.

There are 24 members that participate in the SLAIT's health insurance plan. Under the Company's ASO agreement with Anthem, all claims for member enrollees are paid by Anthem. Anthem bills the Company for claim reimbursement on a weekly basis. The health plans available to member employees are preferred provider organization (PPO) plans and a health savings account (HSA) plan. Enrollee deductibles for PPO plans vary by member from \$250 to \$5,000, as elected by each member.

SLAIT operates on a fiscal year from July 1 to June 30. All policies issued to members have beginning and ending effective dates that correspond with the fiscal year. Below is a summary of earned premiums for the fiscal year from July 1, 2022, to June 30, 2023:

Line of Business	2022-23 Premiums	Percent of Total
Workers' Compensation	\$12,423,133	26.3%
Liability	2,919,241	6.2%
Health	31,938,467	67.5%
Total	\$47,280,841	100.0%



### GROWTH OF COMPANY

Membership was stable during the examination period. There were 29 members in the prior examination, as of June 30, 2018, and 28 members in the current examination, as of June 30, 2023. The table below shows the Company's direct written premiums for each fiscal year of the examination period.

Year	Written Premiums	Percentage Increase
2018	\$36,320,418	6%
2019	38,081,775	5%
2020	39,657,274	4%
2021	44,296,804	12%
2022	47,280,841	7%

### FUND BALANCE (SURPLUS)

Below is a yearly summary of the Company's reported fund balance (surplus) for the examination period:

As of Date	Surplus
June 30, 2019	\$6,555,255
June 30, 2020	6,741,620
June 30, 2021	1,943,037
June 30, 2022	5,494,729
June 30, 2023	9,208,003

The large decrease in surplus for the year ending June 30, 2021, was due to a large increase in the loss and LAE reserves for the workers' compensation and liability business. The reserve increase was determined by the external actuary.

The Company's Bylaws require the health business to have separate accounting from the workers' compensation and liability business. As a result, there is a separate fund balance (surplus) that is tracked for each of the two business segments. As of June 30, 2023, the workers' compensation and liability business had a surplus balance of (\$6,290,018) and the health business had a surplus balance of \$15,498,021. The Board of Directors' plans to utilize rate increases to eliminate the negative surplus for the workers' compensation and liability segment over several years instead of issuing member assessments.

### REINSURANCE

#### **Assumed**

The Company does not assume any business.

#### **Ceded**

The Company executes reinsurance agreements annually with effective dates that coincide with the fiscal year from July 1 to June 30. Separate reinsurance agreements are obtained to cover risks for workers' compensation, liability, and health insurance. The reinsurance agreements in effect for the fiscal year ending June 30, 2023, are described below.

Workers' compensation reinsurance is provided with an excess of loss agreement with Safety National Casualty Corporation. The agreement covers losses up to statutory limits in excess of the Company's retention of \$1,500,000 per accident. The current retention is an increase from the \$1,000,000 retention in effect, as of the prior examination date of June 30, 2018.

Liability reinsurance is provided with an excess of loss agreement with Safety National Casualty Corporation. The agreement covers losses up to \$2,400,000 in excess of the Company's retention of \$600,000 per occurrence. This level of retention and coverage is unchanged from the prior examination.

Reinsurance for the health insurance segment is provided on both an individual and aggregate stop-loss basis through an agreement with Healthy Alliance Life Insurance Company (HALIC). HALIC is a subsidiary of Anthem, which is the administrator of SLAIT's health insurance plan. The reinsurance agreement covers all losses for an individual member that exceed the Company's retention of \$300,000 per member, per year. The current retention is unchanged from the prior examination. The agreement also covers aggregate losses that exceed a calculated amount that is defined in the agreement terms. The aggregate coverage calculation is structured to cover any health insurance losses that exceed 125% of estimated losses per year. This aggregate retention percentage is unchanged from the prior examination.

The Company is contingently liable for all reinsurance 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 or policy.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The certified public accounting (CPA) firm UHY, LLP, located in St. Louis, Missouri, performed an audit of the Company's financial statements for all years of the examination period. CPA workpapers for the audit of the June 30, 2023, financial statements were reviewed and used in the course of the examination as deemed appropriate.

### **External Actuary**

Aaron Hillebrandt, FCAS, MAAA, CPCU, of Pinnacle Actuarial Resources, Inc., located in Bloomington, Illinois, provided an estimate of loss and LAE reserves at June 30, 2023. Reserve estimates for all prior years in the examination period were provided by actuaries from PricewaterhouseCoopers. However, as explained in Note 2 of the Comments on Financial Statement Items section, the Company recorded lower reserves, as of June 30, 2023, than were determined by the external actuary.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the financial statements filed by SLAIT with the Missouri Department of Commerce and Insurance and present the financial condition of the Company for the period ending June 30, 2023. The accompanying “Comments on Financial Statement Items” section reflects any examination adjustments to the amounts reported and should be considered an integral part of the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items” section. These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual financial statement item.

**ASSETS**

As of June 30, 2023

Bonds	\$ 7,230,714
Certificates of Deposit	2,199,787
Cash and Cash Equivalents	18,909,401
Interest Due and Accrued	12,663
Member Contributions Receivable	392,160
Reinsurance Receivables (Note 1)	1,626,893
Prepaid Expenses	1,774,432
<b>TOTAL ASSETS</b>	<b><u><u>\$32,146,050</u></u></b>

**LIABILITIES AND SURPLUS**

As of June 30, 2023

Loss and LAE Reserves (Note 1, 2, 3)	\$18,472,196
Surplus Distributions Payable	1,076,507
Advance Premiums	2,755,586
Member Contributions Payable	391,474
Accounts Payable	242,284
<b>TOTAL LIABILITIES</b>	<b><u><u>\$22,938,047</u></u></b>
<b>FUND BALANCE (SURPLUS)</b>	<b><u><u>\$ 9,208,003</u></u></b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u><u>\$32,146,050</u></u></b>

**STATEMENT OF REVENUES AND EXPENSES**

For the Year Ended June 30, 2023

Member Contributions	\$47,280,841
Ceded Premiums	(3,200,964)
Investment Income	884,581
<b>Total Revenues</b>	<b>\$44,964,458</b>
Loss and LAE Expenses	\$38,233,320
Surplus Distributions	1,076,507
Underwriting and Risk Management Expenses	1,275,599
Premium Taxes	125,146
Second Injury Fund Taxes	201,478
General and Administrative Expenses	339,134
<b>Total Expenses</b>	<b>\$41,251,184</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 3,713,274</b>

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

<b>NOTE 1:</b>	<b>Reinsurance Receivables</b>	<b>\$ 1,626,893</b>
	<b>Loss and LAE Reserves</b>	<b>\$ 18,472,196</b>

Reinsurance receivables are amounts due from reinsurers for actual claims that have been paid, as of the financial reporting date. Ceded case reserves are amounts that will be due from reinsurers in the future based upon estimated claims to be paid after the financial reporting date. There were five claims with incorrect reinsurance receivable and ceded case reserves, as of June 30, 2023. The largest example is a claim settled prior to June 30, 2023, that resulted in a \$2.5 million reinsurance receivable but was incorrectly reported as a ceded case reserve in the financial statements. In total, reinsurance receivables were understated by \$3,272,780 for the five claims and ceded case reserves were overstated by the same \$3,272,780.

<b>NOTE 2:</b>	<b>Loss and LAE Reserves</b>	<b>\$ 18,472,196</b>
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The Company's external actuary estimated reserves of \$19,663,183, as of June 30, 2023, for workers' compensation and liability business. The external actuary's methodology was based upon an estimate of ultimate losses less a projection of paid losses. The Company's external accountant applied an unknown methodology to determine lower reserves of \$17,185,050 that were reported in the financial statements. Our examination determined reserves by using the external actuary's ultimate loss estimates and subtracting actual paid losses through June 30, 2023. Using this methodology, DCI's internal actuary calculated reserves of \$19,361,763, as of June 30, 2023, for workers' compensation and liability business. The reserves determined in the examination are slightly less than the external actuary's original estimate, but \$2,176,733 greater than the amounts in the financial statements.

<b>NOTE 3:</b>	<b>Loss and LAE Reserves</b>	<b>\$ 18,472,196</b>
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The Company did not record a liability for two Anthem invoices for claims incurred but unpaid at June 30, 2023. An Anthem invoice dated June 29, 2023, in the amount of \$515,495 was for claims paid and other activity for June 22-28, 2023. This invoice should have been fully accrued in the June 30, 2023, financial statements. An Anthem invoice dated July 6, 2023, in the amount of \$208,026 was for claims paid and other activity for June 29 to July 5, 2023. This second invoice should have been partially accrued for the prorated amount of \$59,436 in the June 30, 2023, financial statements, which is equivalent to the last two days of June 2023 for this invoice. An exam change was made to increase the loss and LAE reserves by \$574,931 for the unrecorded liability for the two Anthem invoices.

**FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION**

Reported Surplus at June 30, 2023			\$ 9,208,003
	<b>Increase</b>	<b>Decrease</b>	
Reinsurance Receivables (Note 1 above)	\$ 3,272,780	\$ -	
Loss and LAE Reserves (Note 1 above)	-	3,272,780	
Loss and LAE Reserves (Note 2 above)	-	2,176,733	
Loss and LAE Reserves (Note 3 above)	-	574,931	
Net Increase (Decrease) to Surplus			(2,751,664)
<b>Adjusted Surplus at June 30, 2023</b>			<b><u>\$ 6,456,339</u></b>

**SUMMARY OF RECOMMENDATIONS**

The Company has historically had the external actuary provide a projection of loss reserves approximately three months prior to the June 30 financial statements. The Company should schedule the external actuary to issue the actuarial report after the June 30 reporting date to allow for actuarially determined loss and LAE reserves to be recorded in the financial statements.

Invoices for health insurance claims for dates prior to the June 30 financial statements should be accrued as liabilities. Any invoices that overlap from June to July should be partially accrued at June 30 for the days on or prior to June 30.

The manual spreadsheet used to calculate reinsurance receivables and ceded case reserves should be improved to accurately determine each asset amount.

**SUBSEQUENT EVENTS**

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by St. Louis Area Insurance Trust during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

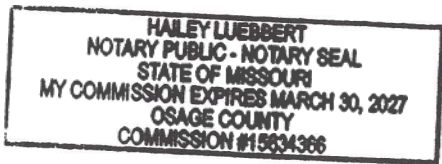
State of Missouri            )  
  )    ss  
County of Cole                )

I, Tim L. Tunks, 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 St. Louis Area Insurance 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.

*Tim Tunks*  
\_\_\_\_\_  
Tim L. Tunks, CPA, CFE  
Examiner-In-Charge  
Missouri Department of Commerce and  
Insurance

Sworn to and subscribed before me this 17<sup>th</sup> day of July, 2024.

My commission expires: March 30, 2027  
*Hailey Luebbert*  
\_\_\_\_\_  
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 the guidelines set forth by applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri has been confirmed.

*Michael R. Shadowens*

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Michael Shadowens, CFE  
Assistant Chief Financial Examiner  
Missouri Department of Commerce and  
Insurance



August 26, 2024

**SENT VIA EMAIL ONLY**

Missouri Department of Commerce & Insurance  
Attn: Hailey Luebbert, Exam Technician  
301 West High St, Room 530  
Jefferson City, MO 65101

Re: July 25, 2024 Examination Report

Dear Ms. Luebbert:

St. Louis Area Insurance Trust (SLAIT) is in receipt of your July 25, 2024 Examination Report. We understand this report will become a public document and we wish to provide a rebuttal to portions of the Audit.

Page 1 of the audit lists Summary of Significant findings and page 10 has comments that relate specifically to the Findings. Our rebuttal addresses the specific notes relating to the Findings.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

NOTE 1

There was no effect on fund balance from this finding. The accounting used by the Trust is consistent with the accounting used in prior years. We will continue to monitor how losses and the related excess insurance are reflected for financial reporting purposes.

NOTE 2

The actuary report used for the preparation of the June 2023 financial statements was prepared using data prepared as of December 2022. Subsequent to the preparation of that report, but before the release of the June 2023 financial statements, there were instances where paid or reserved claim loss amounts were increased. These increases **were** reflected in the June 2023 financial statements, therefore those statements reflected ultimate losses greater than those reflected in the actuary report (to emphasize, we are aware the total losses reflected in the December 2022 actuary report were understated as of June 2023, however those amounts were appropriately adjusted in the financial statement). There were seven claims in which paid or reserved claim loss amounts were approximately \$2,478,000 greater than those respective amounts in the December 2022 actuary report (there were various other less significant changes due to updating of paid and reserved claim amounts).

NOTE 3

We believe the total ultimate losses (paid claims, claim reserves payable, and the allowance for IBNR claims) for the 2023 policy year were fairly reported in the June



2023 financial statements. The combination of those three accounts was equal to the total amount of losses for the policy year determined by the management of the Trust. We agree the amounts referred to in the audit report were better characterized as claims payable rather than IBNR claims.

It should be noted that in the June 30, 2023 Financial Statement total ultimate medical claims for the 2022-23 policy year were projected to be approximately \$27,925,000. At March 31, 2024 they were \$27,926,822.

#### SUMMARY OF RECOMMENDATIONS

For the preparation of the June 2024 financial statements, we have scheduled the June 2024 actuary report to be available for inclusion in those financial statements. We will continue to review and analyze the financial statements and supporting documentation to ensure that all reported amounts are fairly stated.

Additionally, we would like to confirm that an independent accounting firm audited the financial statements of the Trust – and that the financial statements received an unqualified opinion - and that there was only a minor adjustment to reflect payroll audits, which are not available until several months after the end of the policy year. The independent auditors reported no misstatements of any of the paid or accrued/IBNR loss amounts for any policy years.

In summary, we appreciate the opportunity to respond to the Examination Report. We respect the Divisions comments, but believe our Financial Statement as of June 30, 2023 did represent the Trusts Financial Position accurately.

Sincerely,

A handwritten signature in black ink that reads "John Charpie". The signature is written in a cursive style.

John Charpie  
SLAIT Administrator  
816-830-0073  
jcharpie@thomasmcgee.com

cc: Gregory Rose, SLAIT Chairperson