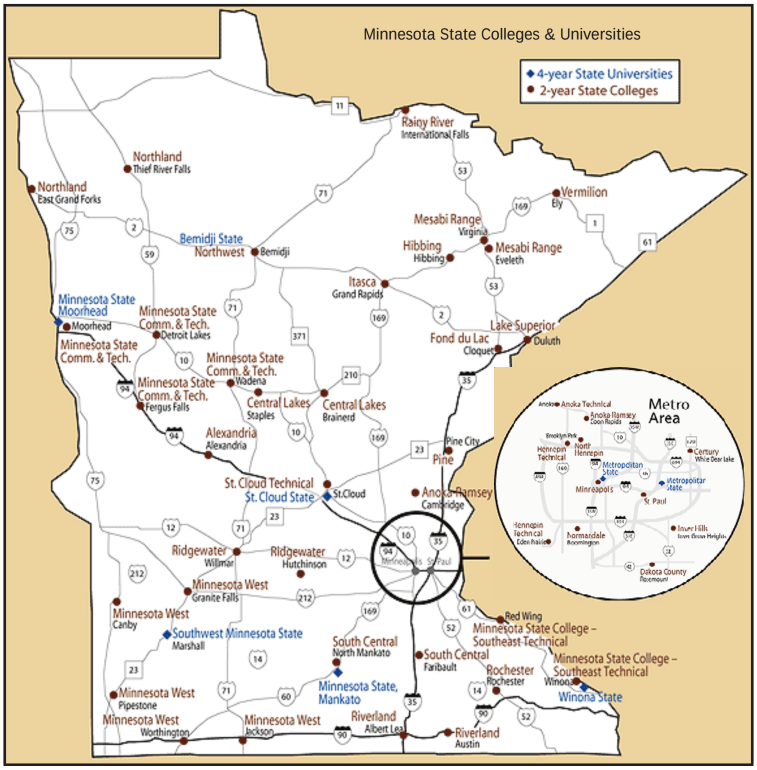
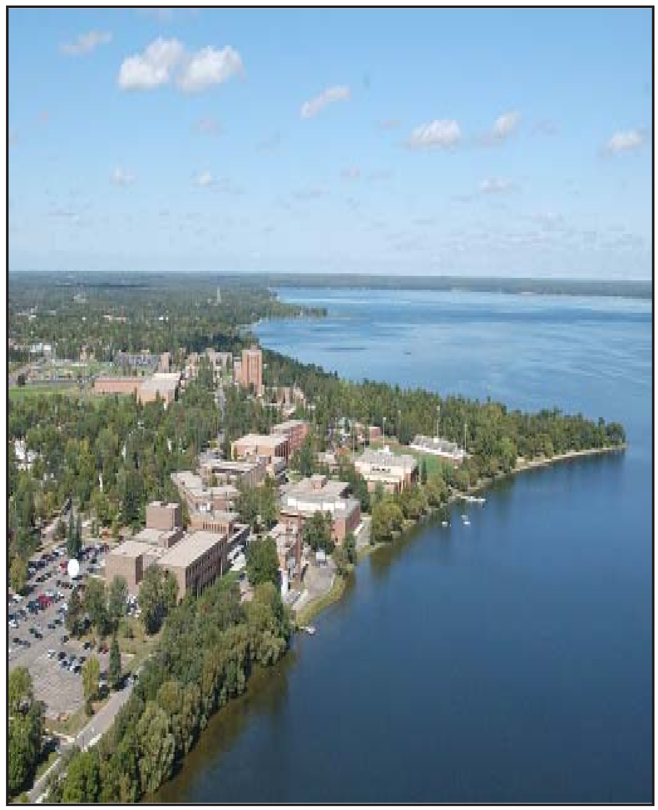


Annual Report
Fiscal Year 2005

Risk Management Division



North meets South
Bemidji State University, Bemidji (above)
Winona State University, Winona (left)

309 Administration Building, 50 Sherburne Avenue, St. Paul, MN 55155
http:/www.mainserver.state.mn.us/risk

TABLE OF CONTENTS

Risk Management Division Mission Statement

Preserve Minnesota's governmental assets by managing risk.

Goals/Strategies

Reduce risk by using proactive risk management techniques
Maintain financial stability
Deliver comprehensive, cost-effective, insurance services

Vision

Our vision is to be a leader in providing high quality risk and insurance management products and services to our customer base and to be recognized as a leader in the state and insurance community.

COMMISSIONER'S STATEMENT

Achievement can be measured in many ways – the score in a sporting event, the bottom line in a business or, in the Department of Administration, the many ways in which we help our customers succeed. Exemplifying our recently restated mission - "We help our customers succeed" - Risk Management Division has been helping its customers in innumerable ways since its founding in 1986.

As Risk Management concludes a second decade of operations, its 11-member staff is constantly striving to seek, develop, and implement opportunities that can help their customers deliver efficient, cost-effective services to Minnesota citizens and businesses. This past year has been a banner year for the operation, including these highlights:

- Enhanced and ongoing property loss control efforts continue to yield benefits for customers, including a 28 percent reduction in the state's reinsurance premium and an increase, from $750 million to $1 billion, in available coverage.
- An increased emphasis on casualty loss control in the automobile liability line in response to a difficult 2005 fiscal year. As a result, state fleet managers will be reviewing current practices and procedures and assisting in the development of a coordinated, consistent policy for state vehicle use.
- The addition of handling non-insured tort claims (except employment practices liability) as a new business line for customers. The division, which expanded its staff by one position to handle the new line, is currently analyzing historical information regarding the state's exposure in non-insured tort claims with an eye toward developing an insurance program for these claims.
- Continued involvement in the insurance planning phase for the Northstar Commuter Rail project.

But numbers and programs tell only a part of this success story. The insurance business, even in state government, is first and foremost about people. There is no better example of this than the Minnesota State Fair, which has been a Risk Management client since 1991.

This past August, I had the opportunity to work with the Risk Management staff at the State Fair for two days. Their dedication and commitment, both in risk mitigation and loss coverage, is absolutely inspiring. They have a seemingly innate ability, not only to spot potential problems, but are able to resolve them immediately through outstanding relationships with Fair staff and law enforcement personnel. And when that rare accident does occur, it's no small wonder that they are held in such high esteem by State Fair management and by law enforcement and emergency services personnel who work at the Fair, as they are "on the spot," assessing the situation, comforting possible victims, offering assistance, and ensuring that every possible action is taken to alleviate the situation.

Risk Management today writes more than $8.5 billion in state property coverage. While this number alone speaks volumes about Risk Management's commitment to the success of its customers, it all just comes down to being there, anticipating potential problems, and helping customers avoid risks that could jeopardize the citizens' investment in their state.

Dana B. Badgerow

Dana B. Badgerow, Commissioner
Department of Administration

DIRECTOR'S MESSAGE

We are pleased, in this annual report, to pay tribute to and highlight our largest customer – Minnesota State Colleges and Universities. This has been a rewarding relationship for the Risk Management Division (RMD) over the years and we want to express how much we appreciate this extraordinary partnership.

I would like to personally thank the RMD staff for their superb efforts this last year. In addition, kudos go to the Risk Management Advisory Committee members and Department of Administration management for their help and support.

In this report, we point out the positive accomplishments and changes that were made throughout the year. RMD's achievements are directly related to superior customer participation in proactive programs like loss control, timely and accurate claims reporting, and the acceptance of new programs that are designed to improve preservation of state properties, as well as address security and life safety issues. It is a fact that, without customer "buy-in," the division has a much more difficult, if not impossible, task trying to achieve its objectives. The Risk Management Fund (RMF) has become a positive example of a state program that works for its clients and has been a financial benefit to the taxpayers.

Risk Management is in an enviable position regarding its ability to look at issues from an enterprise viewpoint. This capability should continue to be exploited, since it is a precious commodity that should never be taken for granted. RMD also enjoys a kinship with the state's Drive to Excellence initiative, where shared services are the vision of the future. Insurance knows no boundaries. RMF customers depend on each other for their overall underwriting results, which provides the necessary incentives to implement policies that serve the needs of all the customers in the Fund – a true "all for one; one for all" scenario.

There are also external issues that have a direct effect on the state's insurance programs. The hurricane seasons, that were so disastrous in the last two years, can have an adverse impact on reinsurance pricing everywhere because reinsurers can charge higher rates to pay back the extraordinary reinsurance losses occurring in the catastrophe exposed areas. Minnesota is considered a non-catastrophic territory, but reinsurance is a global commodity, so the poor loss experience in the south can increase reinsurance costs across the board. The challenge is to negotiate the best possible deal. At this time, the state's property loss experience is very good, which provides leverage against reinsurers getting their payback from Minnesota. This is also the reason why superior loss results are so important to keeping reinsurance costs at the absolute minimums.

RMD's new mission statement simply states "*Preserve Minnesota's assets by managing risk.*" It is understood that this mission cannot be accomplished without the joint participation and cooperation of our customers and RMD staff. This constructive reciprocal relationship is critical to whatever may be accomplished going forward.

The future looks bright for the RMD because the synergy that is needed to provide an efficient property and liability insurance program is currently in place. The ongoing challenge is to continue to raise the bar, appreciate, and take advantage of the positive circumstances that have evolved over the last nineteen years.

Phillip E. Blue, Director
Risk Management Division

FISCAL YEAR 2005 ANNUAL REPORT HIGHLIGHTS

- Property Reinsurance – negotiated a rate reduction of 28 percent while increasing coverage statewide from $750 million to $1 billion.

- Casualty Reinsurance – added a $5 million excess layer for extra-territorial and federal court liability exposures.

- Completed evaluation of Cyber insurance and will be adding coverage for RMF property and liability customers at no additional cost in FY06.

- Negotiated a five percent reduction in the Aviation renewal in January 2005.

- Achieved the newly established operational goal for marketing calls per quarter and exceeded the target goal for new accounts.

- Distributed in excess of $1.7 million in dividends to RMF policyholders for the auto liability, property, and general liability lines of business. Also calculated a dividend of $1.3 million for future distribution in FY06.

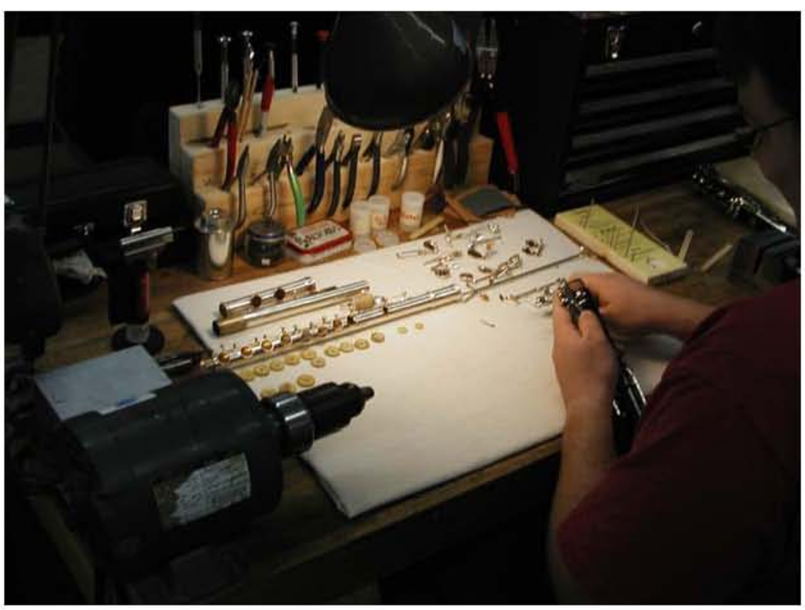
- Performed the first Infrared Thermography inspections to evaluate the safety of electrical wiring in state facilities.

- Assumed Non-insured Tort Claim adjusting (except for employment practices liability claims) from the Attorney General's Office.

- Reviewed and updated Continuity of Operations Plan for the Risk Management Division.

- RMD participated in the Northstar Commuter Rail insurance program, including the broker selection RFP.

- Hiawatha Light Rail line is fully operational, but the monitoring of the runoff insurance program was still active.



Musical Instrument Repair Program, MN State College-Southeast Technical, Red Wing

RISK MANAGEMENT FUND ADVISORY COMMITTEE


Frank Ahrens


Sieglinde Bier


Phillip Blue


Mary Lou Houde


Bill Hoyt


Tom Hugdahl


John King


Terry Lahti


Jan Larson


Peggy Lexau


Tim Morse


Mary Pittelko


Sheila Reger


John Sharffbillig


Gary Westman


Peter Young

Frank Ahrens
Department of Public Safety
Fiscal & Administrative Services

Sieglinde Bier
Minnesota State Colleges
and Universities

Phillip Blue
Department of Administration
Risk Management Division

Mary Lou Houde
Department of Commerce
Registration & Insurance

Bill Hoyt
Metropolitan Airports
Commission

Tom Hugdahl
3M Insurance Department
(Retired)

John King
Department of Corrections

Terry Lahti
Department of Natural
Resources

Jan Larson
Department of Administration
Financial Mgmt and Reporting

Peggy Lexau
Department of Finance

Tim Morse
Department of Administration
Travel Management Division

Mary Pittelko
State Agricultural Society
(State Fair)

Sheila Reger
Deputy Commissioner
Department of Administration

John Scharffbillig
Department of Transportation

Gary Westman
Department of Employee
Relations

Peter Young
University of St. Thomas

RISK MANAGEMENT DIVISION STAFF

Phillip Blue, Director
651.201.2585
phillip.blue@state.mn.us

Tom Chukel, Claims Manager
651.201.2592
tom.chukel@state.mn.us

Lea Shedlock, Sr. Claim Representative
651.201.2589
lea.shedlock@state.mn.us

Bryan Freeman, Sr. Claim Representative
651.201.2586
bryan.freeman@state.mn.us

Erica Richards, Claim Representative
651.201.2590
erica.richards@state.mn.us

Denise McGovern, Administrative Support
651.201.2588
denise.mcgovern@state.mn.us

Caroline Wisniewski, Office Manager
651.201.2595
caroline.wisniewski@state.mn.us

Gay Scharpen, Sr. Insurance Analyst
651.201.2587
gay.scharpen@state.mn.us

Marlys Williamson, Underwriting/Mktg Mgr.
651.201.2591
marlys.williamson@state.mn.us

David Agren, Sr. Underwriter
651.201.2594
david.agren@state.mn.us

Carol Morgan, Underwriting Risk Specialist
651.201.2593
carol.morgan@state.mn.us

Back Row (left to right): Bryan Freeman, Tom Chukel, Gay Scharpen,, Phil Blue, Dave Agren, Lea Shedlock
Front Row: Denise McGovern, Caroline Wisniewski, Erica Richards, Marlys Williamson, Carol Morgan

CUSTOMER AGENCIES AND POLITICAL SUBDIVISIONS

Administrative Hearings, Office of
Agriculture, Department of
Amateur Sports Commission
Anoka County
Attorney General
Building Codes & Standards
Center for Criminal Justice &
 Law Enforcement
Chicano Latino Affairs Council
Chiropractic Examiners, Board of
Communications Media
 Central Mail
 DocuComm
 ReComm
Corrections, Department of
Dakota County
Dentistry, Board of
Developmental Disabilities Council
Education, Department of
Electricity, Board of
Emergency Medical Services Regulatory Board
Employment and Economic Development
 Department of
Environmental Assistance, Office of
Financial Management & Reporting
Gambling Control Board
Governor's Office
Health, Department of
Higher Education Facilities Authority
Higher Education Services Office
Housing Finance Agency
Human Rights, Department of
Human Services, Department of
Indian Affairs Council
Insurance Fraud Prevention, Division of
InterTechnologies Group
Investment Board
Iron Range Resources
Judicial Standards, Board of
Labor & Industry, Department of
Lawyers Professional Responsibility Board
Management Analysis
Marriage & Family Therapy, Board of
Medical Practice, Board of
Metropolitan Airports Commission
Metropolitan Council
Metropolitan Radio Board
Military Affairs, Department of
Minnesota State Academies
MN State Lottery
MN State Colleges and Universities
 - all facilities
MN Technology
National Sports Center
Natural Resources, Department of
Nursing, Board of
Nursing Home Examiners BENHA, Board of
Office Supply Connection
Ombudsman for Mental Health &
 Mental Retardation
Perpich Center for Arts Education
Pharmacy (ASU), Board of
Physical Therapy, Board of
Plant Management
Podiatric Medicine, Board of
Pollution Control Agency
Port Authority of the City of St Paul
Psychology, Board of
Public Defense, Board of
Public Employees Retirement Association
Public Safety, Department of
Public Service, Weights & Measures
Revenue, Department of
Risk Management
Secretary of State
Social Work, Board of
STAR Program
State Agricultural Society (State Fair)
State Architect's Office
State Armory Building Commission
State Arts Board
State Auditor
State Energy Office
State Treasurer, Office of
Supreme Court – State Court Administration
Supreme Court – Board of Law Examiners
Surplus Services
Teachers Retirement Association
Technology, Office of
Transportation, Department of
Travel Management
Veterans Affairs
Veterans Homes Board – all locations
Veterinary Medicine, Board of
Zoological Board

*Green highlight denotes counties with insured customers

SAFETY PROGRAMS

The RMD continues to emphasize the importance of safety through several programs. These efforts began shortly after formation of the RMF, but were accelerated following a major fire in 2001.

COPE

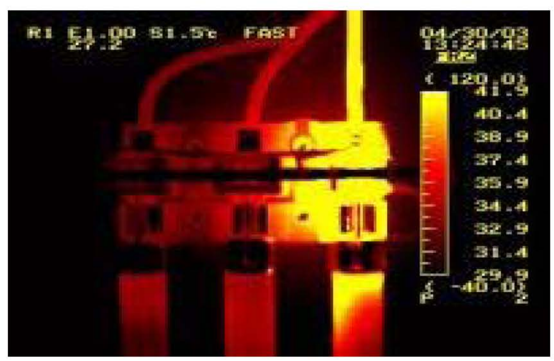
COPE is an insurance acronym referring to the construction, occupancy, protection, and exposure for a particular building. A COPE visit consists of a physical survey of the facility that is conducted by a property loss control consultant who is under contract with the broker that the RMD uses to place its excess property insurance. A member of the RMD accompanies the property loss control consultant on the survey. The purpose of a COPE survey is to identify deficiencies relating to property protection and life safety. These deficiencies are presented to the facility in a recommendation format. The RMD requires that the identified issues be corrected in a timely manner. For FY05, COPE surveys were conducted at five MnSCU campuses, three correctional facilities, and one capitol complex building.

Infrared Electrical Systems Surveys

This is a new safety process that was started in FY05. Electrical distribution components are designed to operate within a specific temperature range. When the operating temperature exceeds the designed level, damage or failure may occur. An Infrared Electrical Systems Survey involves the use of thermal imaging equipment to locate and identify anomalies within the electrical distribution system of a building. Anomalies include faulty connections, overloaded circuits, or other problems that have the potential for an unscheduled shut down, serious damage to equipment, or being a fire source. The results of the infrared survey are communicated to the facility, including the required corrective action. As mentioned, components are designed with an optimum temperature range, and infrared camera equipment detects those components that are operating outside of the normal temperature range.

Pictured below is an example of the thermal image produced by the infrared camera. In this three-phase connection, the left and center phases are operating within the normal range; however, the phase on the right is overheating under the present electrical load.

The connections appear normal in this photo



The yellow area indicates a "hot spot" in this panel

Appraisals

The RMD, in cooperation with the property reinsurance broker, has conducted property appraisals at a number of state agency and MnSCU locations. This process provides a more accurate reflection of the replacement cost for our customers' property. Through FY05, properties valued at close to $2 billion have been appraised.

DIVIDENDS

The FY05 dividend of $1,361,289 was calculated as of June 30, 2005, and declared and paid in FY06. This brings the total dividends to $11,396,493. FY05 dividends and total dividends from inception of the program, by line of insurance, are as follows:

	Calculated in FY05	Total Dividends
Auto Liability	$ 696,424	$6,282,775
General Liability	664,865	3,088,777
Property Insurance	0	2,024,941
	$1,361,289	**$11,396,493**

The following outlines the dividend strategy exercised by the RMF:

- Dividend declarations vary by the line of insurance and the maturity or conclusion of claims. Property losses have the shortest maturity and dividend pay out period. There is a 25 percent dividend declaration 24 months after the close of the policy year, with the remaining amount being paid 36 months after the close of the policy year.
- Automobile liability losses take longer than property losses to mature and be paid. Dividends are declared 36 months after the close of the policy year, based on the experience of that year, and are paid out over a four-year time period (35 percent, 25 percent, 25 percent, and 15 percent respectively).
- General liability takes the longest time to mature - 48 months - before the first dividend declaration. However, the pay out pattern is the same as automobile liability (35 percent, 25 percent, 25 percent, and 15 percent respectively). Exhibit 1 illustrates dividend pay out percentages by line of business.

Exhibit 1

Dividend Pay Out Pattern in Years after Policy Year is Closed

Line of Business	Dividends Start Date	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
Property	24 mos. after fiscal year closes	0%	0%	25%	75%	0%	0%	0%	0%	100%
Auto Liability	36 mos. after fiscal year closes	0%	0%	0%	35%	25%	25%	15%	0%	100%
General Liability	48 mos. after fiscal year closes	0%	0%	0%	0%	35%	25%	25%	15%	100%

Dividends represent the return of premium for superior loss and expense experience. Premium funds collected are invested by the state's Board of Investment. The difference between premium and investment income, less deductions for incurred losses and loss adjustment expenses, administrative expenses, and reinsurance costs, equals the amount of funds that are eligible for dividend declaration. The evaluation process to determine the amount of dividends , if any, that will be paid involves the analysis of each line of insurance. This analysis takes into account the RMF's performance for each line of business for each policy year. If there is a positive balance and sufficient development time has elapsed, a dividend is determined for that year and line of business.

In the event of unsatisfactory experience, it is possible that no dividend will be declared or a favorable year's dividend will be used to offset the poor experience. This approach creates a more level dividend over time, and also minimizes the possibility of a premium assessment, which can be very disruptive to an agency's budget planning.

LINES OF INSURANCE DISCUSSION

Auto Liability

Auto liability provides liability coverage for injuries to others and/or damage to their property (bodily injury and property damage liability) arising out of an insured's ownership or use of motor vehicles, as specified in Minnesota Statute § 65B.

The five-year auto liability experience is shown in Exhibit 2 – net of dividends (losses are valued at the end of 12 months and at June 30, 2005 for each of the years).

After relatively favorable experience over the previous five years, 2005 became a notably horrendous year. One part of this equation is the ever-increasing costs to repair vehicles. However, the major problem area in FY05 was several catastrophic auto accidents. As a result, RMD will be convening a committee of managers from the largest of the state's agency fleets. Their mission will be to focus on safety and reduction of the frequency and severity of accidents in the future. This effort also has the objective of reducing premiums through more proactive loss control for the state's auto fleet.

Exhibit 2

Auto Liability

Year	Number of Accidents	Number of Vehicles	Frequency per 100 Vehicles	Average Cost per Vehicle Accident	Combined Ratio at 12 Months	Combined Ratio as of 6/30/2005
2005	528	13,887	3.8 %	$5,972	166%	166%
2004	585	13,551	4.3%	$1,819	72%	67%
2003	585	14,086	4.2%	$2,337	64%	86%
2002	614	13,860	4.4%	$1,867	65%	67%
2001	702	12,810	5.5%	$2,090	59%	79%

As a cautionary note, the overall combined loss and expense ratio can vary significantly from one year to the next since one or two serious accidents can have a tremendous impact on loss experience.

Auto Physical Damage

Auto physical damage provides coverage for damage to owned vehicles. Two basic types of physical damage coverage are generally provided for owned vehicles – collision and comprehensive. Collision coverage insures against damage from collision with another vehicle or object, as well as from overturning. Comprehensive coverage provides protection against damage from other perils such as hail, fire, vandalism, and flood.

One of the key measuring criteria for Auto Physical Damage is the percent of subrogation (losses recovered from third parties) to paid losses. Historically, the RMF has recovered approximately 22 percent of its paid losses on an average basis. This is compared to insurance industry statistics (A.M. Best's *Aggregates and Averages)* that indicate that the insurance industry recovers about 11 percent. The development of subrogation recoveries is relatively slow, so current years are not totally developed for ultimate subrogation recovery dollars. Therefore, subrogation dollars for current years like FY05 and FY04 will continue to increase as time goes by. RMD's superior subrogation results are largely due to the outstanding efforts of the claims unit. Exhibit 3 reflects the subrogation to paid losses for the last five years.

Exhibit 3

Auto Physical Damage

Year	Number of Accidents	Number of Vehicles	Paid Losses as of 6/30/05	Subrogation Recovered as of 6/30/05	Subrogation Recovery as a Percent of Paid Losses as of 6/30/05
2005	537	8,783	$558,207	$ 83,165	15%
2004	341	8,563	$599,125	$106,723	18%
2003	390	8,200	$602,967	$134,912	22%
2002	457	6,857	$592,545	$117,466	20%
2001	410	6,244	$629,434	$163,185	26%
Avg.	427	7,229	$596,456	$121,090	20%

Property/Boiler & Machinery/Crime

Property – *Property insurance is first-party coverage, as opposed to liability insurance, which is described as third-party coverage. The RMF provides coverage for damage to the insured's (first-party) property caused by an insured peril. The coverage is written on an "all risk" of direct physical loss basis – coverage for all perils not specifically excluded by the policy. Examples of covered perils include, but are not limited to, damage caused by fire, windstorm, hail, collapse, theft, vandalism, flood, earthquake, business interruption, and other unforeseen causes of loss. The RMF property program also provides builder's risk coverage.*

Boiler and Machinery – *Although it is called Boiler and Machinery Insurance, businesses with no boilers on premises have a significant exposure. What is referred to as "boiler insurance" provides important coverage for machinery as well; i.e., building maintenance equipment, like air conditioners, furnaces, and production machinery. Equipment breakdowns and electrical damage losses are relatively commonplace occurrences. They are not covered under property insurance policies; rather, they are covered under boiler and machinery. Coverage includes loss sustained by the boilers or the machinery itself, damage to other property, and business interruption (use and occupancy) losses.*

Crime – *The RMF provides coverage for both employee dishonesty and money and securities losses. Employee dishonesty coverage insures against loss to the agency as a result of employee dishonesty or fraud. Money and securities coverage provides protection for losses occurring inside the insured's premises, or while outside the insured's premises, if the money and securities are in the care and custody of an employee or partner. In addition, coverage applies over and above the limits purchased by an armored car service for loss in transporting the insured's money or securities. Coverage does not extend to any property other than money and securities.*

The five-year property experience is shown in Exhibit 4 – net of dividends (losses are valued at the end of 12 months and at June 30, 2005 for each of the years).

This was an outstanding year for the property line. We believe the emphasis on Loss Prevention over the past three years is becoming evident in the claims results. The 2005 Combined Loss & Expense Ratio is at its all-time lowest (56 percent). The loss ratio has not been this favorable since the RMF transitioned from a primarily monoline automobile insurance fund to a full-line property/casualty insurance fund in FY95. Hats off to our policyholders!

Upon maturity, loss ratios initially below 100 percent will climb to that level since any unallocated premiums – those not earmarked for loss payments and expenses – are returned to policyholders in the form of a dividend, resulting in a combined loss and expense ratio of 100 percent.

Exhibit 4

Property/Boiler & Machinery/Crime

Year	Number of Claims	Insurable Values (000's)	Frequency per $1 Million of Insurable Values	Average Cost per Claim	Combined Ratio at 12 Months	Combined Ratio as of 6/30/2005
2005	134	$7,899,744	1.7%	$22,299	56%	56%
2004	125	$7,727,906	1.6%	$35,370	85%	82%
2003	124	$7,360,891	1.7%	$30,917	80%	87%
2002	114	$6,225,663	1.8%	$17,330	129%	113%
2001	161	$5,397,570	3.0%	$14,863	112%	101%

General Liability

General liability protects the insured against a claim alleging bodily injury or property damage, as specified in Minnesota Statutes §§ 3.732 and 3.736. The coverage includes defense costs, awards, or settlements associated with lawsuits brought by third parties who are injured or sustain property damage as a result of the insured's operations or while on the insured's premises.

This has also been an outstanding year for General Liability results. Proactive premises management practices, prompt claims reporting, and early investigations enable us to better control this line. By proactive premises management, we mean prompt snow removal, prompt sanding and salting, and documenting the work as it progresses. This enables the state to demonstrate it is making all reasonable efforts to assure the safety of our visitors. As a result, the state's legal liability is controlled and minimized. We thank our customers for their efforts put forth in this area.

The last five years of general liability loss experience is shown in Exhibit 5 (losses are valued at the end of 12 months and for June 30, 2005 for each of the years). Due to the use of multiple general liability rating bases, claim frequency data is not germane.

Exhibit 5

General Liability

Year	Number of Claims	Average Cost per Claim	Combined Ratio at 12 Months	Combined Ratio as of 6/30/2005
2005	134	$3,470	34%	34%
2004	134	$2,100	21%	40%
2003	140	$4,740	46%	60%
2002	141	$3,615	40%	71%
2001	170	$2,134	33%	68%

Other Lines of Insurance

Other lines of commercial insurance offered by the RMF include inland marine, garagekeeper's legal liability, and homeowner's warranty.

Inland Marine – *RMF Inland Marine policies are designed to provide specialized coverage or lower deductible options. They cover goods in transit, except trans-ocean, as well as certain types of personal property that are transportable, i.e., floater policies that cover equipment, laptop computers, tools, fine arts, musical instruments, and cameras.*

Garagekeeper's Legal Liability – *Auto dealers and garage operators can be held legally liable for loss or damage to customers' vehicles should they fail to exercise the degree of care required of them. The care, custody, and control exclusion in the general liability policy creates the need for garagekeeper's insurance. Garagekeeper's legal liability provides coverage for an agency that has vehicles in their "care, custody, or control." Examples include valet parking and garage operations. Some technical colleges have auto mechanic programs, and this coverage is apropos to those institutions.*

Homeowner's Warranty – *Homeowner's warranty coverage is designed to provide coverage for defects caused by faulty workmanship or defective materials. Minnesota State Colleges and Universities institutions offering construction career programs have an interest in homeowner's warranty coverage.*

Inland marine, garagekeeper's legal liability, and homeowner's warranty are included in the property line for premium and loss reporting purposes.

Purchased Insurance

In some instances, when providing insurance coverage to RMD's customers, it is more expedient to utilize the conventional insurance marketplace rather than the RMF. In such cases, the RMD works closely with customers to determine the appropriate insurance coverages and then obtains the necessary policies through its worldwide broker and insurance contacts.

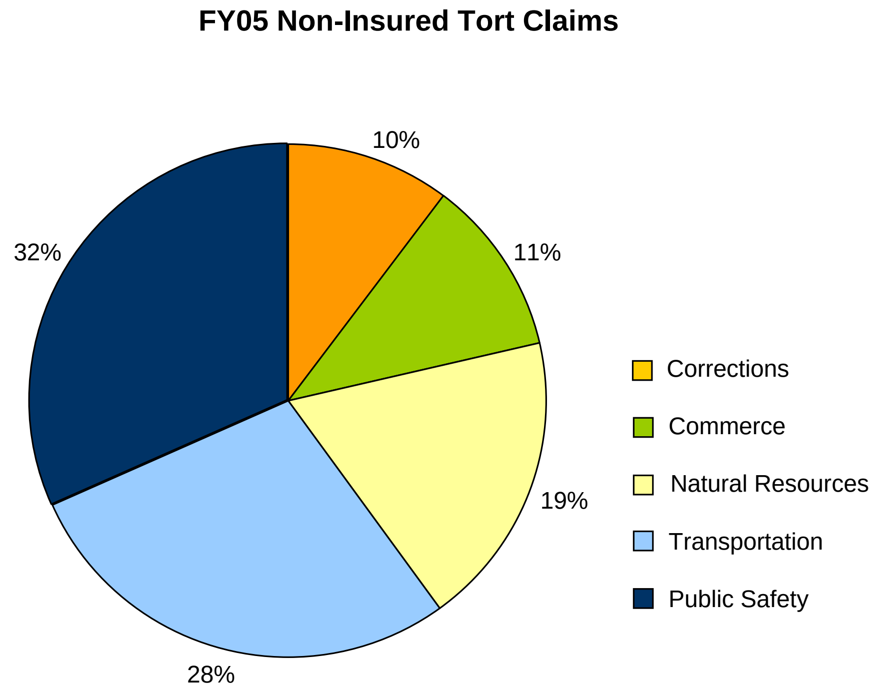
Purchased insurance is another example of complimentary insurance services the RMD provides to its customers. Over the last 19 years, Risk Management has been successful in becoming the "one-stop shop" as far as property and casualty insurance requirements for the State of Minnesota are concerned. This spectrum of services ranges from administering the RMF, obtaining purchased insurance, evaluating insurance issues, establishing contractual insurance requirements, receiving and issuing certificates of insurance, to training and consulting on property and casualty insurance matters. The RMD has made great strides in becoming the focal point for the state's property and casualty insurance needs.

NON-INSURED TORT CLAIMS

From territorial times to statehood, up to the Wendell Anderson administration, the state enjoyed Sovereign Immunity. Under this principle, the state could not be held liable for property damage or injury sustained by the public. In the mid 1970's, this protection was severely restricted so the public could file claims against the state, and the state could become a party to a lawsuit. The Attorney General's staff handled these claims and lawsuits for the past thirty years.

As the RMD grew, through adding customers to its base of insureds, the Division also began handling all the claims for this expanding base of customers. Slowly, the number of claims handled by the Attorney General decreased, up to the point that when their last remaining Claims Officer retired in March, Risk Management formed a partnership with the Attorney General to handle all claims made against the state, with the exception of Employment Practices Liability claims. RMD now handles both insured and non-insured claims. Specific details of the new claims will be incorporated into the Risk Management Information System. As this database grows, we will be able to spot trends and become more proactive in managing and reducing risk for the benefit of these customers, as well as the public.

The following chart displays, by agencies with the most claims, their percentage of non-insured tort claims paid for FY05. These claims did not go into litigation.



REINSURANCE

Reinsurance – *Insurance for insurers, which mitigates the economic impact in the event of a loss.*

Reinsurance has been obtained to protect the RMF from catastrophic events and aggregation of losses in any given year.

By FY04, RMF property loss experience had recovered and showed signs of improvement following adverse FY02 loss experience. This, coupled with the softening of the reinsurance market, reduced the cost of reinsurance. The timing of both events led to the RMF being able to obtain reinsurance from a public entity-specific property reinsurer at a substantial cost savings. As an added benefit, loss control services were included in the reinsurance price.

In FY05, we saw further improvements in our public entity-specific property reinsurance program – a 28 percent premium reduction – despite higher total insurable values, as well as increased limits for key coverages. The significant cost savings generated by the property reinsurance renewal, as well as increasing concerns pertaining to out-of-state vehicle use, rekindled an interest in casualty reinsurance after a two-year hiatus. An excess casualty policy was obtained in FY05 that covered extra-territorial and federal court liability exposures.

Balancing the cost benefits of reinsurance represents an unending challenge. Negotiating and acquiring the best reinsurance program for the RMF will always be a significant priority.

LOOKING AHEAD

As our customers' operations change, so do their exposures. To meet our customers' needs, the RMD strives to ensure that the probability of loss as a result of these changes is minimized through insurance and other risk management techniques. In some instances, we simply need to increase the limits on the coverages that we already provide to our customers. In other instances, only a new and unique coverage will fit the bill. We look ahead with anticipation as we manage the new and changing exposures of our customers.

Cyber Insurance

Cyber insurance refers to a range of first- and third-party coverages designed for organizations relying on an internal computer network and for those involved in e-commerce and the internet. The internet has become the medium of choice for information dissemination by our customers and for the delivery of their products and services. Also, their internal computer networks are relied on more heavily. These changes in the manner in which our customers do business have increased the likelihood for computer-related errors and omissions, as well as computer crimes. Cyber-related exposures are rarely insured under a standard property-casualty insurance policy, which typically covers only tangible assets. Since cyber assets are considered intangible, they require more specialized coverage, which is found only in a cyber insurance policy. We have begun working closely with a conventional insurance company to obtain both first- and third-party cyber coverages for our existing customers.

Excess Casualty (Additional Layer)

The RMD currently has in force a $5 million excess casualty insurance policy for extra-territorial claims and federal cases that involve the Auto Liability and General Liability lines of business. This coverage is in excess of the $1 million per occurrence tort cap limit provided by the RMF. Since the July 1, 2004 purchase of the $5 million excess casualty policy, we have sounded the alarm even louder that the tort cap affords no protection outside Minnesota. With a growing number of customer operations involving out-of-state travel, we are encouraging stakeholders to consider larger limits – $5 million, or even $10 million, more. We anticipate that at least an additional $5 million excess casualty limit will be added to our program by FY06. Although we cannot rule out the fact that judgments in excess of these limits could occur, we believe an additional layer of protection is a proactive step in the right direction.

Auto Fleet Task Force

An Auto Fleet Task Force is being formed to examine auto fleet safety on a statewide basis. The task force will be comprised of representatives from a cross section of state agencies. Minimum fleet safety management standards will be drafted for statewide use. The task force is expected to hold its first meeting in early FY06.

Marketing

We will be afforded opportunities to provide insurance to new customers and new coverages for existing customers. Upon completion of the three new Capitol Complex office and lab buildings, Risk Management will add them to the property insurance program. We will again include marketing as an operational goal, with clear objectives pertaining to customer contact and the goal of expanding our customer base to ensure responsible management of the state's assets. The larger our base, the more favorable our reinsurance rates become, and the more affordable the program is for all our customers. That's what we're here for – to ensure the long-term financial security of our customers.

Broker Contract

Preparations are under way for the upcoming broker Request for Proposals (RFP). The current contract for broker and risk management services expires December 31, 2005. One or more brokers will be selected to service the RMF's property and casualty program needs.

SUMMARY OF OPERATIONS

In FY05, the RMD continued to provide four major areas of service to state departments, boards, bureaus, commissions, and component units of the State of Minnesota, as well as political subdivisions. Those services include:

- Managing the RMF, which operates as the state's internal insurance company. The RMF provides property and casualty insurance coverages tailored to meet our customers' needs.
- Purchasing commercial insurance to meet customers' needs when the placement of insurance coverage in the RMF may not be appropriate or cost effective.
- Providing risk management consulting and training services on a wide variety of issues.
- Providing internal underwriting, loss control, and claims expertise that are dedicated to the unique needs of our customers.

The RMD annually develops a business plan for each line of insurance underwritten by the RMF. Each line of insurance is evaluated for the development of losses, adjusting expenses, reinsurance expenses, and administrative expenses.

An objective of the RMD is to maintain operating expenses well below the industry average for comparable insurance companies (as reported by A.M. Best in its annual publication *Aggregates and Averages*). FY05's operating expense ratio, at 13.8 percent, is the most favorable ratio of the last five years, and is 54 percent less than the industry average, for a difference in expenses of $1.1 million.

Exhibit 6

Summary of Operations

	FY01	FY02	FY03	FY04	FY05
Net Premium Written	$5,419,278	$5,585,401	$5,911,569	$6,309,145	$6,996,519
Industry average operation expense ratio	28.6%	30.5%	29.9%	29.5%	30.3%
Projected industry average operation expense based on RMD's actual premium	$1,549,914	$1,703,547	$1,767,559	$1,861,198	$2,119,945
Actual RMD operating expenses	$ 910,691	$ 950,542	$1,029,334	$ 941,969	$ 968,275
RMD operating expense ratio	16.8%	17.0%	17.4%	14.9%	13.8%

Exhibit 7

Self-Insurance Property and Casualty Underwriting Results

Premiums Earned by Line

	FY02	FY03	FY04	FY05
Auto Insurance				
Auto Liability	$2,473,245	$2,075,124	$2,040,527	$2,102,050
Auto Physical Damage	789,014	842,814	806,788	780,091
Garagekeeper's Legal Liability	35,147	34,456	33,743	33,500
Standard Commercial Insurance				
Property	$1,753,658	$4,187,342	$4,437,164	$4,696,156
Boiler & Machinery	215,887	152,662	154,573	167,778
General Liability	1,259,829	1,412,839	1,307,708	1,336,936
Crime	57,393	68,359	70,387	76,690
Other	314,530	309,263	320,632	360,638
Total Premiums Earned	$6,898,703	$9,082,859	$9,171,522	$9,553,839
Less Reinsurance Ceded	$1,336,742	$3,206,085	$2,903,662	$2,605,036
Total Net Premiums Earned	5,561,961	5,876,774	6,267,860	6,948,803
Plus Unearned Premium	23,440	34,795	41,285	47,716
Total Net Premiums Written	$5,585,401	$5,911,569	$6,309,145	$6,996,519

Combined Loss and Expense Ratio
(Before Dividends and IBNR)

	FY02	FY03	FY04	FY05
Auto Insurance				
Auto Liability	71%	89%	69%	178%
Auto Physical Damage	77%	70%	70%	86%
Garagekeeper's Legal Liability	18%	49%	12%	14%
Standard Commercial Insurance				
Property	1,360%	18%	21%	11%
General Liability	78%	62%	42%	35%
Boiler & Machinery	16%	7%	102%	9%
Crime	16%	51%	10%	22%
Other	45%	54%	63%	50%
Combined Loss Ratio **Before** Reinsurance	396%	47%	42%	59%
Combined Loss Ratio **After** Reinsurance	89%	73%	60%	78%

FINANCIAL POSITION DISCUSSION

Exhibit 7 illustrates a four-year comparison of the RMF's gross premiums earned and combined loss and expense results, by line of business, before IBNR and dividends. The loss experience of the RMF has been very steady and the results have been excellent. The combined ratio after reinsurance is the most significant result and, as the exhibit reflects, the "bottom line" results have been under 90 percent over the last four years.

FY05 total earned premium was up four percent over the previous year, with the biggest increase in the property line, which represents 68 percent of the total earned premium increase.

The single trend that needed managing in the FY05 program was the loss experience on the Auto Liability line of business. The adverse results were generated by large claims, both in-state and out-of-state.

The program, for the third year in a row, was able to avoid any severe property losses, after incurring two very large property losses in FY02. The superb response to the property loss control program by the state agencies insured in the RMF, and the emphasis Risk Management puts on property loss conservation, were major contributing factors to the property loss improvement over the last three years.

Total reinsurance costs decreased over 10 percent (approximately $299,000 in FY05) for the second straight year. The self-insured retention for property reinsurance remained at $2 million. Big contributors to lower reinsurance cost include softening of the reinsurance market's pricing and good results.

In FY05, casualty reinsurance was added back to the liability program. The amount of reinsurance purchased to protect against catastrophic exposure was $5 million at a cost of $339,000. This is especially positive when it is taken into account that the overall reinsurance costs decreased even with the addition of casualty reinsurance to the program.

Exhibit 8 indicates that, comparing FY04 to FY05, policyholder surplus (total net assets) decreased nine percent, or $594,300. We paid $1.729 million in dividends, which contributed to the reduction of policyholder surplus.

The dividend policy of the RMF is to return all underwriting profit and investment income to its policyholders, whenever economically feasible, so the results inure to our customers. The ultimate costs are losses, administrative expenses, adjusting expenses, and reinsurance costs, less investment income. In FY05, the RMF followed up the previous year's dividend payment of $1.7 million with a similar dividend distribution for this year.

The RMF must maintain a favorable financial position for the following reasons: (1) access to quality reinsurance, (2) adequate funding to assure liquidity in the event of unexpected adverse loss experience, and (3) a reasonable premium written to policyholders' surplus ratio. The current industry average of net premium written to policyholders' surplus is 1.09 to 1. The FY05 RMF's ratio was 1.24 to 1. A ratio of 1 to 1 or better would provide the greatest financial security, while a ratio in excess of 3 to 1 is considered a high premium to surplus ratio. The RMF's surplus to premium ratio is just slightly higher than the industry. This is a positive factor that contributes to a stronger RMF. In addition to the RMF's strong ratio, it utilizes reinsurance to guard against catastrophic losses, as well as the aggregation of losses.

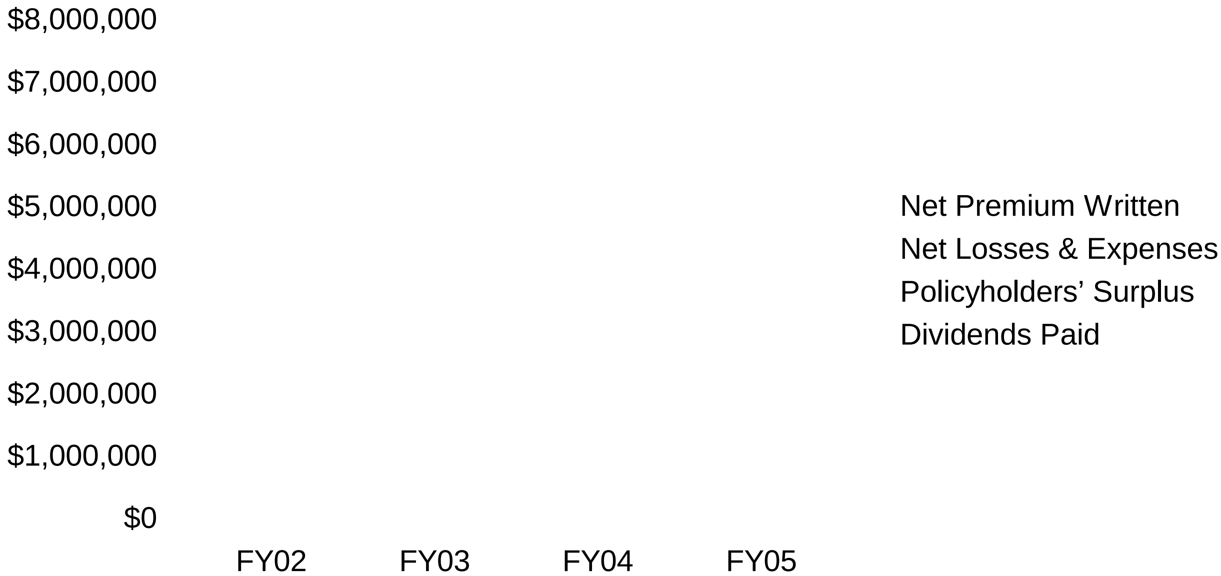
Exhibit 8 highlights the RMF's performance over the past four years, detailed for those four major items representing the financial integrity of the RMF – net premium written, net losses and expenses before incurred but not reported losses, policyholders' surplus, and dividends paid.

Somsen Hall, Winona State University

Winter Arch, Bemidji State University

Exhibit 8

RMF Performance by Fiscal Year



	FY02	**FY03**	**FY04**	**FY05**
Net Premium Written (NPW)	$5,585,401	$5,911,569	$6,309,145	$6,996,519
Net Losses & Expenses	4,970,164	3,599,563	3,694,938	5,405,373
Policyholders' Surplus	5,670,515	5,491,210	6,258,717	5,664,417
Dividends Paid	1,169,226	0	1,668,215	1,729,215
NPW to PH Surplus Ratio	1.02/1	1.08/1	1.01/1	1.24/1

Fire Training Program, Lake Superior College, Duluth

State of Minnesota
Risk Management Fund
Statement of Net Assets
June 30, 2005

	FY05	FY04
ASSETS		
CURRENT ASSETS		
Cash	15,824,570.51	14,460,048.40
Accounts Receivable	17,966.81	34,624.02
Prepaid Expenses	0.00	0.00
Prepaid Reinsurance	0.00	0.00
Prepaid Billback Insurance	237,935.45	234,193.41
Reinsurance Recoverable	200,000.00	135,000.00
Due from Other Funds	0.00	0.00
Total Current Assets	**16,280,472.77**	**14,863,865.83**
NONCURRENT ASSETS		
Capital Assets (Note 3)	14,180.72	14,180.72
Less: Accumulated Depreciation	(8,274.00)	(3,546.00)
Total Noncurrent Assets	5,906.72	10,634.72
TOTAL ASSETS	**16,286,379.49**	**14,874,500.55**
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	56,898.38	45,362.82
Salaries Payable	35,768.00	26,338.04
Claims Payable	5,405,209.00	3,744,758.00
Claims Payable – IBNR (Note 1)	4,668,362.00	4,396,719.00
Claims Payable – Reinsurance Due to Insureds	0.00	0.00
Due to Other Funds (Note 5)	80,995.04	62,682.17
Dividend Payable	0.00	0.00
Unearned Premium – Self Insurance	47,716.00	41,285.00
Unearned Premium – Billback	266,997.00	253,563.00
Compensated Absences Payable (Note 4)	7,513.01	2,688.05
Total Current Liabilities	**10,569,458.43**	**8,573,396.08**
NONCURRENT LIABILITIES		
Compensated Absences Payable (Note 4)	52,503.71	42,387.95
Total Noncurrent Liabilities	**52,503.71**	**42,387.95**
TOTAL LIABILITIES	**10,621,962.14**	**8,615,784.03**
NET ASSETS (Note 7)		
Invested in Capital Assets, Net of Related Debt	5,906.72	10,634.72
Unrestricted Net Assets	5,658,510.63	6,248,081.80
TOTAL NET ASSETS	**5,664,417.35**	**6,258,716.52**

State of Minnesota
Risk Management Fund
Statement of Revenues, Expenses & Changes in Net Assets
Year Ended June 30, 2005

	FY05 YTD	FY04 YTD
OPERATING REVENUES		
Insurance Premiums – Self Insurance	9,553,839.00	9,171,522.00
Insurance Premiums – Worker's Compensation	0.00	0.00
Insurance Premiums – Billback	1,127,097.00	816,378.00
Non-Insured Tort Claims	30,157.00	0.00
Consulting Services	1,838.00	3,238.00
Total Operating Revenues	**10,712,931.00**	**9,991,138.00**
OPERATING EXPENSES (Note 1)		
Claims – Self Insurance	4,754,608.41	3,063,085.66
Claims – Worker's Compensation	0.00	0.00
Claims – Billback	0.00	0.00
Claims – IBNR	271,643.00	(202,603.00)
Salaries & Benefits	727,996.15	718,943.09
Rent	33,084.40	33,424.40
Advertising	1,449.88	1,878.07
Repairs	133.76	0.00
Insurance	366.00	(943.00)
Insurance Premium – Billback	1,127,097.00	816,378.00
Insurance Premium – Self Insurance	2,605,036.00	2,903,662.00
Printing	5,146.08	12,317.81
Professional Services – Adjuster	193,539.87	187,569.68
Professional Services – Broker	18,000.00	19,500.00
Professional Services – Legal and Other	51,262.22	27,802.66
Computer Services	5,577.49	20,194.42
Communications	48,464.45	8,253.55
Travel	4,413.63	3,407.75
Other Operating Costs	4,080.54	13,179.37
Memberships and Employee Development	2,880.00	1,063.00
Supplies	25,116.13	24,249.83
Depreciation	4,728.00	3,546.00
Indirect Costs	46,076.00	55,152.00
Total Operating Expenses	**9,930,699.01**	**7,710,061.29**
OPERATING INCOME (LOSS)	**782,231.99**	**2,281,076.71**
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	352,683.83	154,644.72
Policyholder Dividend Expense	(1,729,214.99)	(1,668,215.00)
Crisis Management Grant	0.00	0.00
Total Non-Operating Revenues (Expenses)	**(1,376,531.16)**	**(1,513,570.28)**
CHANGE IN NET ASSETS	(594,299.17)	767,506.43
NET ASSETS, BEGINNING	6,258,716.52	5,491,210.09
Adjustment to Net Assets	0.00	0.00
NET ASSETS, ENDING	**5,664,417.35**	**6,258,716.52**

State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
Year Ended June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Risk Management Internal Service Fund utilizes full accrual accounting, pursuant to M.S. § 16A.055.

The Fund provides automobile liability, general liability, automobile physical damage, property, boiler and machinery insurance on real and personal property, business interruption, and other insurance coverage to state agencies. Insurance coverage generally coincides with the fiscal year, and revenue is recognized over the period of coverage. Coverage was first issued beginning January 1, 1987. The Fund also purchases reinsurance from reinsurance companies to protect itself from catastrophic losses and the aggregation of losses. The Fund also purchases commercial insurance at the request of state agencies and bills those agencies at cost; these revenues and expenses are referred to as “Billbacks” and are pro-rated over the lives of the various policies; those revenues and expenses are identified separately.

Expenses are based on data received from the MAPS accounting system, and from subsidiary records.

An estimated liability has been included for claims incurred but not reported (IBNR).

This financial statement includes claims information known as of June 30, 2005 for claims incurred prior to July 1, 2005.

2. LEGISLATION AND AUTHORITY

The Risk Management Internal Services Fund was created by Minnesota Laws 1986, Chapter 455, Section 3.

3. CAPITAL ASSETS

	Acquisition Cost	Accrued Depreciation
Balances as of 07/01/04	14,180.72	(3,546.00)
Additions		
Deletions		
Write-offs		
Current Depreciation		(4,728.00)
Balances as of 06/30/05	14,180.72	(8,274.00)

4. COMPENSATED ABSENCES

State employees accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in their collective bargaining agreements. This leave is liquidated in cash only at the time of separation from state employment. The accumulated leave is shown as a liability.

	Short Term	Long Term
Compensated Absences, Beginning Balance	2,688.05	42,387.95
Increases in Compensated Absences	4,824.96	10,115.76
Decreases in Compensated Absences	.	. .
Compensated Absences, Ending Balance	7,513.01	52,503.71

5. DUE TO OTHER FUNDS

In FY03, the Department of Administration became a participant in a new Worker’s Compensation plan. The previous Worker’s Comp plan for the Department of Administration, administered by Risk Management, had a surplus balance. Funds are returned to the appropriate division based on the status of outstanding claims.

In FY04, the total Due To Other Funds of $62,682.17 is the summation of the following:
$25,378.00 to Developmental Disabilities Council,
$26,810.00 to Comm.Media, and
$10,494.17 to health and safety committee to purchase supplies from Phillips Medical System

In FY05, the total Due To Other Funds of $80,995.04 is the summation of the following:
$10,315.26 to health and safety committee to purchase supplies and/or memberships
$70,679.78 to Comm.Media

6. NET ASSETS

During FY02, the State of Minnesota implemented new accounting standards, as prescribed by the Governmental Accounting Standards Board (GASB). The standards include revised statement formats which resulted in the change from retained earnings to net asset reporting. For historical cost comparison, the total net assets and the retained earnings have been reconciled as shown below.

Invested in Capital Assets, Net of Related Debt	10,634.72
Unrestricted Net Assets	6,248,081.80
Total Net Assets	6,258,716.52

Schedule of Retained Earnings

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Beginning Retained Earnings	6,258,716.52	5,171,563.25	5,727,433.91	5,772,687.46
Prior Period Adjustment	0.00	0.00	0.00	0.00
Quarterly Net Income (Loss)	(1,087,153.27)	555,870.66	45,253.55	(108,270.11)
Ending Retained Earnings	5,171,563.25	5,727,433.91	5,772,687.46	5,664,417.35
Add: Capital Contributions	0.00	0.00	0.00	0.00
Reconciliation to Total Net Assets	5,171,563.25	5,727,433.91	5,772,687.46	5,664,417.35

STATEMENT OF ACTUARIAL OPINION
REGARDING THE STATE OF MINNESOTA
ASSUMED AUTOMOBILE AND LIABILITY OTHER THAN AUTO RETAINED LIABILITIES
AS OF MARCH 31, 2005

My name is Todd A. Gruenhagen and I am the Consultant and Managing Director of Green Hills Consulting, Inc., a Minnesota Corporation. Green Hills Consulting, Inc. is a worldwide actuarial & risk management consulting firm specializing in statistical solutions to actuarial analyses. I am an Associate of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. I meet the qualification standards of the American Academy of Actuaries for rendering an actuarial opinion on property and casualty loss and loss adjustment expense reserves.

Green Hills Consulting, Inc. has been retained by the State of Minnesota as their consulting actuary. One of the services we provide to the State of Minnesota is the evaluation of liabilities assumed under Minnesota Statutes, Chapter 3, Section 376, Subdivision 4, for automobile liability and liability other than auto exposures.

All loss data utilized in this analysis was provided to me via the State of Minnesota, Risk Management Division. I relied on the accuracy and completeness of the loss data without audit or independent verification. Exposure information was provided via the State of Minnesota, Risk Management Division. If the data is inaccurate or incomplete, these estimates may need to be revised.

The State of Minnesota's retained automobile liability for accident periods July 1, 1994 through March 31, 2005, listed by accident period as of March 31, 2005 are as follows:

		(1)	(2)	(3)	(4) =(3)-(2)	(5) =(1)-(3)	(6) =(4)+(5)
Accident Period Beginning:	 Ending:	Ultimates @3/31/2005	Paid Losses @3/31/2005	Incurred Losses @3/31/2005	Case O/S Reserves @3/31/2005	IBNR Reserves @3/31/2005	Total Reserves @3/31/2005
7/1/1994	6/30/1995	1,888,553	1,888,553	1,888,553	-	-	-
7/1/1995	6/30/1996	914,600	914,374	914,374	-	226	226
7/1/1996	6/30/1997	1,671,500	1,670,316	1,670,316	-	1,184	1,184
7/1/1997	6/30/1998	1,726,300	1,718,662	1,719,412	750	6,888	7,638
7/1/1998	6/30/1999	918,600	902,872	902,872	-	15,728	15,728
7/1/1999	6/30/2000	1,304,400	1,221,757	1,299,354	77,597	5,046	82,643
7/1/2000	6/30/2001	1,492,500	1,298,758	1,459,545	160,787	32,955	193,742
7/1/2001	6/30/2002	1,213,700	756,917	1,156,648	399,731	57,052	456,783
7/1/2002	6/30/2003	1,682,900	550,625	1,390,540	839,915	292,360	1,132,275
7/1/2003	6/30/2004	1,899,000	636,562	1,042,120	405,558	856,880	1,262,438
7/1/2004	3/31/2005	1,915,950	433,073	1,096,312	663,238	819,638	1,482,877
Totals:		16,628,003	11,992,469	14,540,045	2,547,676	2,087,958	4,635,534

The State of Minnesota's retained liability, other than auto liability for accident periods July 1, 1994 through March 31, 2005, listed by accident period as of March 31, 2005, are as follows:

		(1)	(2)	(3)	(4) =(3)-(2)	(5) =(1)-(3)	(6) =(4)+(5)
Accident Period Beginning:	Ending:	Ultimates @3/31/2005	Paid Losses @3/31/2005	Incurred Losses @3/31/2005	Case O/S Reserves @3/31/2005	IBNR Reserves @3/31/2005	Total Reserves @3/31/2005
7/1/1994	6/30/1995	56,902	56,902	56,902	-	-	-
7/1/1995	6/30/1996	150,800	150,753	150,753	-	47	47
7/1/1996	6/30/1997	260,300	242,445	260,288	17,844	12	17,855
7/1/1997	6/30/1998	211,900	210,722	210,722	-	1,178	1,178
7/1/1998	6/30/1999	207,300	175,100	203,332	28,232	3,968	32,200
7/1/1999	6/30/2000	138,800	97,759	137,100	39,341	1,700	41,041
7/1/2000	6/30/2001	706,000	519,630	686,892	167,262	19,108	186,370
7/1/2001	6/30/2002	674,500	537,407	633,664	96,257	40,836	137,093
7/1/2002	6/30/2003	832,400	468,749	734,035	265,286	98,365	363,651
7/1/2003	6/30/2004	469,300	74,733	182,450	107,716	286,850	394,567
7/1/2004	3/31/2005	501,600	17,011	75,232	58,221	426,368	484,589
Totals:		4,209,802	2,551,210	3,331,369	780,159	878,432	1,658,591

It is my opinion that the above estimated liabilities:

1. Are computed in accordance with commonly accepted actuarial loss reserving standards and methods and are fairly stated in accordance with sound actuarial principles.

2. Make a reasonable provision for all unpaid loss and allocated loss adjustment expense liabilities that the State of Minnesota assumes under Minnesota Statute 3.736, Subdivision 4 for automobile and liability other than auto exposures.

3. Are based on factors and data relevant to the State of Minnesota.

I believe that these reserves make a good and sufficient provision, in the aggregate, for all unpaid loss and allocated loss adjustment expense obligations of the State of Minnesota with respect to its retained liability exposures for the accident period July 1, 1994 through March 31, 2005. This opinion is based upon my best estimate of the ultimate loss and allocated loss adjustment expenses to be paid by the State of Minnesota and is based upon data available as of March 31, 2005.

Note that this estimate is based upon actuarial assumptions as to future contingencies deemed to be reasonable and appropriate under the circumstances. The reader of this Statement must realize that these projections involve estimates of future events and, as such, are subject to economic and statistical variations from the expected values. For these reasons, no absolute assurance can be given that the emergence of actual losses will correspond to the projections reflected in this report. However, I have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the reserve values. In today's environment, all entities are subject to the terrorist attack exposure. RMD's terrorist attack exposure cannot be reasonably estimated. Thus, only reserves excluding terrorist attacks are determined.

This opinion is provided to the State of Minnesota solely for the purpose of meeting its internal reporting obligations. Any other use is prohibited.

12 April, 2005
Date

/s/ Todd A. Gruenhagen

Todd A. Gruenhagen, ACAS MAAA
Green Hills Consulting, Inc.
2063 14th Avenue East
North Saint Paul, MN 55109-5102

Normandale Community College Japanese Garden, Bloomington, Minnesota

Admin Minnesota
DEPARTMENT OF ADMINISTRATION

Risk Management Division
Room 309 Administration Building
50 Sherburne Avenue
St. Paul, MN 55155-1401

Return service requested

First Class
U.S. Postage
PAID
Permit No. 171
St. Paul, MN