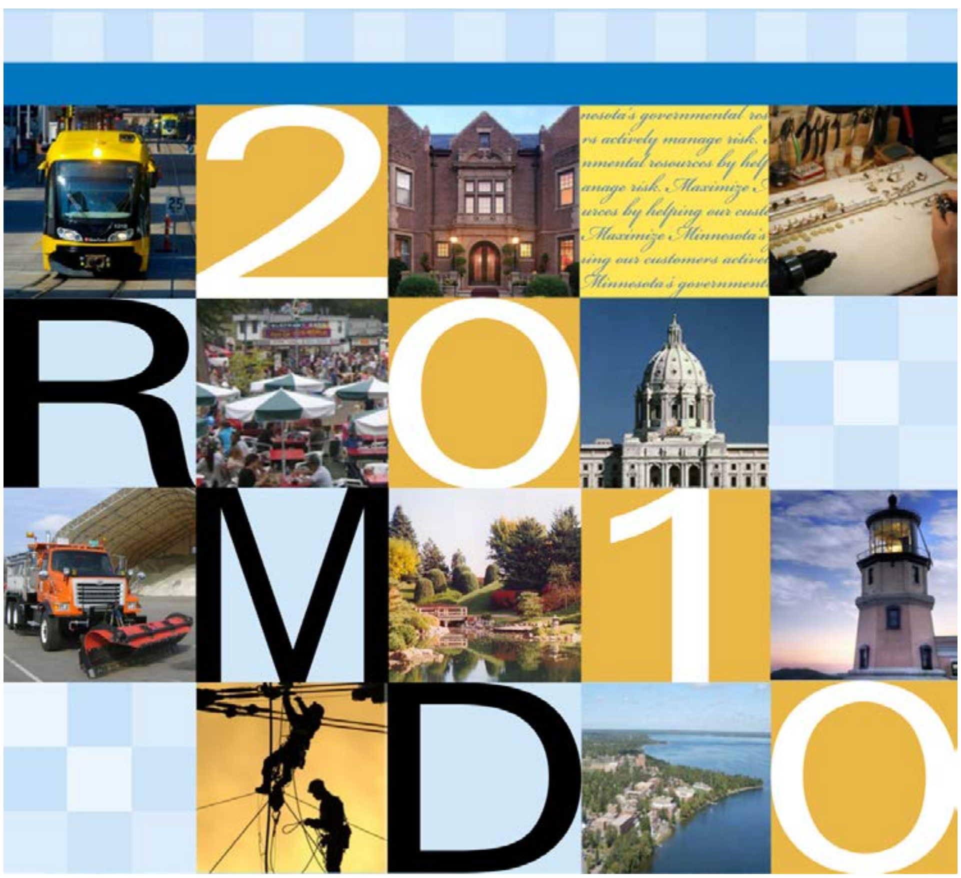
Risk Management Division

Property and Casualty Program

Annual Report

State Fiscal Year 2010



Risk Management Division Annual Report FY 2010

Risk Management Division Mission Statement

Maximize Minnesota's governmental resources by helping our customers actively manage risk.

Goals and Strategies

Reduce risk through proactive and innovative risk, loss control and claims management practices.

Maintain financial stability and a safe, productive workforce.

Deliver comprehensive, cost-effective property, liability and workers' compensation products, and related services.

Vision

RMD will deliver highly valued risk and claims management products and services to our customers at below market rates and will help provide a safe workplace where employees thrive.

Risk Management Division Annual Report FY 2010

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Executive Summary

A *turn of events* best summarizes Risk Management Fund (RMF) activities for FY2010:

- The property program was poised to increase rates by 8 to 10 percent for the FY2010 policy term, until final hour negotiations lessened the blow, resulting instead in a 3.53 percent increase – a $100,000 savings from the original proposal.

- While in the path of a mile-wide F4 tornado that ripped through the Northern MN city of Wadena on June 17, 2010, MN State Community and Technical College (Wadena campus) suffered significant property damage. This claim, estimated at approximately $4 million, caused upward pressure to incurred losses. The FY2010 incurred property losses total $4,441,033; the largest it's been in the past eight years.

- Although property incurred losses rose steadily in all but two of the last eight years, the claim count has taken a dramatic dip. In fact, the FY2010 property claim count (59 claims) has not been this low since FY1998 when it was 39. Considering that the insurable property values were less than $4 billion in FY1998, as compared to over $11 billion in FY2010, this dramatic drop in the claim count is quite a feat.

- Changes to the excess casualty program, including an FY2010 reduction in the retention from $1.2 million to $1 million and the placement of MN State Colleges and Universities under a standalone program in late FY2009, turned what could have been a 3 percent rate increase into a 1 percent rate decrease.

Whether the above *turn of events* proved positive or negative for the RMF, they served as a strong budget stabilizer for our customers. When an event turns sour for the RMF, such as the occurrence of a large claim, state agencies are shielded from the negative financial impact. On the other hand, when positive events occur, agencies receive the benefit, either in the form of reduced rates and/or increased dividends.

Safety and loss control remain at the forefront of our initiatives. Loss control inspections of state facilities, in cooperation with our property reinsurer, are minimizing the likelihood that fire, water damage, and other perils will impair state properties. Our *Alert* newsletter continually features timely articles pertaining to defensive driving, property loss conservation, workplace safety, as well as other commentary intended to assist state agencies in their quest to manage risk. The 3rd annual State Safety and Loss Control Conference, held in October 2009, gave 150 attendees from 23 state agencies professional development tools and training they can implement to carry out the conference theme, Partners for a Safer State.

To our customers who give us the opportunity to provide insurance coverage, claims management services, vendor/contractor insurance requirements, safety and loss control services, and advocacy in settling claims in the absence of insurance, ***thank you*** for the privilege to serve you!

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Fiscal and Administrative Services

Katherine Barondeau
Minnesota Management and Budget

Ryan Church
Department of Administration
Risk Management Division

Todd Haglin
Department of Transportation

Mary Lou Houde
Department of Commerce
Registration and Insurance

Bill Hoyt
Metropolitan Airports Commission

Tom Hugdahl
3M Insurance Department (Retired)

Keswic Joiner
Minnesota State Colleges and Universities

John King
Department of Corrections

Terry Lahti
Department of Natural Resources

Tim Morse
Department of Administration
Fleet and Surplus Services

Mary Pittelko
State Agriculture Society
(State Fair)

Billi Sanders
Department of Administration
Financial Management and Reporting

Andrew Whitman
University of Minnesota

Customer Agencies and Political Subdivisions

Agriculture, Department of

Amateur Sports Commission

Attorney General

Barber Examiners, Board of

Behavioral Health and Therapy, Board of

Center for Criminal Justice and Law Enforcement

Chino Latino Affairs Council

Chiropractic Examiners, Board of

Commissioner's Office, Department of Administration

Corrections, Department of

Cosmetologist Examiners, Board of

Council on Black Minnesotans

Dentistry, Board of

Developmental Disabilities Council, Department of Administration

Dietetics and Nutrition Practice, Board of

Education, Department of

Emergency Medical Services Regulatory Board

Employment and Economic Development, Department of

Enterprise Minnesota

Enterprise Technology, Office of

Explore Minnesota Tourism

Fleet and Surplus Services, Department of Administration

Gambling Control Board

Governor's Office

Health, Department of

Health Professional Services Program

Higher Education Facilities Authority

Higher Education, Office of

Housing Finance Agency

Human Rights, Department of

Human Resources, Department of Administration

Human Services, Department of

Indian Affairs Council

Information Policy Analysis Division, Department of Administration

Insurance Fraud Prevention Division, Dept of Commerce

Investment Board

Iron Range Resources Agency

Judicial Standards, Board of

Labor and Industry, Department of

Lawyers Professional Responsibility Board

Management Analysis and Development, Minnesota Management and Budget

Marriage and Family Therapy, Board of

Materials Management Division, Bookstore and State Register, Department of Administration

Mediation Services, Bureau of

Medical Practices, Board of

Metropolitan Airports Commission

Metropolitan Council

Metropolitan Emergency Services Board

Military Affairs, Department of

Minnesota Historical Society

Minnesota Judicial District Courts (Trial Courts)

Minnesota Management and Budget

Minnesota Racing Commission

Minnesota Sentencing Guidelines Commission

Minnesota State Academies

Minnesota State Council on Disability

Minnesota Legislature, Office of the Revisor of Statutes

Minnesota State Lottery

Minnesota State Colleges and Universities, all facilities

Natural Resources, Department of

Nursing, Board of

Nursing Home Administrators, Board of Examiners for

Ombudsman for Mental Health and Developmental Disabilities

Ombudspersons for Families, Office of

Optometry, Board of

Pennington County

Perpich Center for Arts Education

Pharmacy (ASU), Board of

Physical Therapy, Board of

Plant Management Division and Central Mail, Department of Administration

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 Services, Weights and Measures Division

Public Utilities Commission

Real Estate and Construction Services, Department of Administration

Revenue, Department of

Risk Management Division, Department of Administration

Secretary of State

Social Work, Board of

STAR Program, Department of Administration

State Agricultural Society (Minnesota State Fair)

State Armory Building Commission

State Arts Board

State Auditor

State Energy Office

Supreme Court, State Court Administration

Supreme Court, State Court Administration/Law Library/Court of Appeals

Supreme Court, Board of Law Examiners

Teachers Retirement Association

Transportation, Department of

Veterans Affairs, Central Office, Department of

Veterans Homes Veterans Affairs

Veterinary Medicine, Board of

Water and Soil Resources, Board of

Zoological Board

The Year in Review

Reinsurance

The property program, insuring over $11 billion in real and personal property values, was originally set to increase rates by 8 to 10 percent for the FY2010 term. As a result of intensive final-hour negotiations, the program renewed at a 3.53 percent increase, a reduction of more than $100,000 from the original proposal.

The excess casualty program's retention (deductible) saw a decrease from $1.2 million in FY2009 to $1 million in FY2010, providing greater financial protection for the RMF. The retention decrease, coupled with the removal of MN State Colleges and Universities (MnSCU) from the excess auto liability coverage, offset a 3 percent rate increase and resulted in a premium savings of about 1 percent for the FY2010 term. (A separate extra-territorial auto liability insurance policy was secured in late FY2009 for MnSCU from a carrier that specializes in Higher Education exposures.)

Purchased Insurance

After receiving a 35 percent rate reduction in the prior year, the renewal rate for the state's aviation program remained stable. All indications are that the current aviation program rate is about as low as the current insurance marketplace will bear.

Public Projects

The Risk Management Division (RMD) represents the state on the Risk Management Advisory Committee (RMAC) for the construction of Central Corridor Light Rail Transit. The purchase of a builder's risk policy by the project owner was one of the RMAC's first orders of business. Although an Owner Controlled Insurance Program (OCIP) was initially considered for the casualty construction risks; ultimately, it was determined that conventional insurance provided by the contractors was best suited for the Transit Project. Construction continues to progress and service is slated to begin in 2014, linking downtown St. Paul with Downtown Minneapolis. A key risk management consideration is the elimination or reduction of construction-related inconveniences and impediments.

Photo courtesy of the Metropolitan Council

The "Big One" for FY10

On June 17, 2010, an F4 Tornado tore through the Northern Minnesota City of Wadena at 5:20p.m. There were several fatalities and dozens injured along the twister's 170 mile per hour path; a mile wide and ten miles long. Approximately 230 homes, numerous businesses, the area high school, and MN State Community and Technical College at Wadena were the victims. Arrangements were made to complete the summer program on site as well as off site and a determined effort went into making sure the college was ready for classes in the fall. The estimated damage to the college alone is in the range of $4 million dollars with the final amount still to be determined.

Property Claims Once Again Provide More Upward Pressure

We had a breather in FY07. For two out of the past three years we have had a claim that reaches our reinsurance coverage. Fortunately, this protection is in place.

Fiscal Year	Claim Count	Total Incurred Loss
FY04	134	$716,423
FY05	147	$244,203
FY06	175	$1,344,812
FY07	87	$153,289
FY08	99	$3,814,718
FY09	69	$3,163,195
FY10	59	$4,441,033

Photo courtesy of the MN State Community and Technical College at Wadena

Safety and Loss Control Programs

Fundamental to the mission of RMD is reducing risk through proactive and innovative risk, loss control and claims management practices. Toward this goal, the division provides policyholders with several free loss prevention services. These loss control programs assist policyholders in identifying property protection deficiencies and addressing life safety issues while achieving the ultimate goal of protecting public assets.

COPE

COPE, an acronym for construction, occupancy, protection and exposure, helps to make sure that state properties insured by the RMF are in compliance with fire and life safety requirements. The building-specific program features the COPE survey, which includes an examination of sprinkler and alarm systems, fire pumps, flammable liquid storage and other property exposures. The loss control consultant will make recommendations to bring the facility into compliance with current code.

Infrared Electrical Systems Survey

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. 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. Anomalies include faulty connections, overloaded circuits, or other problems that have the potential for unscheduled shutdowns, serious equipment damage, or to be a fire source.

Appraisals

Accurate and current appraisals are important for maintaining an effective, efficient insurance program. With over $9 billion in state-owned real property under coverage by the RMF, it is critical that the monetary values of each property are an accurate reflection of the cost of replacing the building in the event of a catastrophic event. RMD utilizes the services of an independent, nationally recognized firm to physically survey state buildings and provide a formal property appraisal.

Automobile Fleet Safety

With approximately 13,500 on-road vehicles – from highway snowplow trucks to compact passenger cars – under coverage, automobile fleet safety is of paramount concern for the state. Minnesota's Model Fleet Safety Standards, introduced in 2006 and developed by RMD and its state agency partners, provide guidance for the safe use of state fleet assets. As a further step toward ensuring safe fleet operations, the state implemented a policy on drivers' license and record checks for state employees who drive state vehicles. The RMD provides state agencies with the record-check process at no charge.

Dividends

The FY2010 dividend of $515,252 was calculated as of June 30, 2010, and declared and paid in FY2011. This brings the total dividends paid to $16,811,822. FY2010 dividends and total dividends paid from inception of the program, by line of insurance, are as follows:

	Calculated in FY2010	*Total Dividends Declared*
Auto Liability	*$433,203*	*$7,770,651*
General Liability	*82,049*	*5,386,517*
Property Insurance	*0*	*3,654,654*
	$515,252	*$16,811,822*

Dividend declarations vary by the line of insurance and the maturity or conclusion of claims. The following outlines the dividend strategy exercised by the RMF:

- Property losses typically have the shortest maturity. Dividends are declared 24 months after the close of the policy year and are paid out over a four-year time period (25 percent each 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, resulting in a 48-month period before the first dividend declaration. However, the payout pattern is the same as automobile liability (35 percent, 25 percent, 25 percent, and 15 percent respectively).

Exhibit 1 illustrates dividend pay out percents by line of business.

Exhibit 1

Dividend pay out patterns 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%	25%	25%	25%	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 how much, if any, dividends 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.

Photo courtesy of the Minnesota Department of Employment and Economic Development

Division Summary of Operations

In FY2010, 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.

Key services include:

- Managing the RMF, which operates as the state's internal insurance company. The fund provides property and casualty insurance coverage tailored to meet the needs of customers.
- 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 for customers on a wide variety of safety, loss control, insurance and other issues.
- Providing internal underwriting, loss control, and claims expertise that best serve the unique needs of 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*). The five-year performance of the RMF, compared to industry averages, as illustrated in Exhibit 2, indicates that RMD has met its objective in each of the past five years, with all five years better than 37 percent lower than the industry. The RMF continues to experience a very stable expense ratio, resulting in a five-year savings of over $4.7 million.

Exhibit 2

Summary of Operations

	FY2006	FY2007	FY2008	FY2009	FY2010
Net Premium Written	$6,453,114	$6,654,412	$6,753,716	$6,935,118	$7,552,824
Industry average operation expense ratio	30.0%	30.9%	32.6%	32.7%	34.5%
Projected industry average operation expense based on RMD's actual premium	$1,935,934	$2,056,213	$2,201,711	$2,267,784	$2,605,724
Actual RMD operating expenses	$1,025,712	$1,208,208	$1,387,952	$1,393,453	$1,313,532
RMD operating expense ratio	15.9%	18.1%	20.5%	20.1%	17.4%
Savings to clients	$ 910,222	$ 848,005	$ 813,759	$ 874,331	$1,292,193
Five-year total savings	$4,738,51				

Underwriting Results

Exhibit 3

Self-Insurance Property and Casualty Underwriting Results

Premiums Earned by Line

	FY07	FY08	FY09	FY10
Auto Insurance				
Auto Liability	$2,676,529	$2,517,084	$2,477,376	$2,689,946
Auto Physical Damage	943,007	869,912	813,658	777,909
Garagekeeper's Legal Liability	31,177	31,629	32,609	32,782
Standard Commercial Insurance				
Property	$4,256,236	$4,516,741	$4,666,366	$5,256,858
Boiler & Machinery	108,491	107,656	159,985	191,873
General Liability	1,349,079	1,226,571	1,244,025	1,304,527
Crime	91,393	98,763	104,171	112,525
Other*	360,047	395,989	412,650	453,555
Total Premiums Earned	$9,815,959	$9,764,345	$9,910,840	$10,819,975
Less Reinsurance Ceded	$3,224,278	$3,079,747	$3,043,275	$3,346,374
Total Net Premiums Earned	6,591,681	6,684,598	6,867,565	7,473,601
Plus Unearned Premium	62,731	69,118	67,553	79,223
Total Net Premiums Written	$6,654,412	$6,753,716	$6,935,118	$7,552,824

Combined Loss and Expense Ratio
(Before Dividends and IBNR)**

	FY07	FY08	FY09	FY10
Auto Insurance				
Auto Liability	52%	63%	88%	42%
Auto Physical Damage	72%	88%	79%	91%
Garagekeeper's Legal Liability	38%	24%	16%	17%
Standard Commercial Insurance				
Property	15%	95%	85%	98%
General Liability	86%	70%	54%	26%
Boiler & Machinery	12%	13%	16%	14%
Crime	12%	13%	16%	14%
Other*	18%	44%	34%	21%
Combined Loss Ratio **Before** Reinsurance	41%	79%	77%	69%
Combined Loss Ratio **After** Reinsurance	61%	108%	112%	60%

*Other includes Inland Marine and Vendor Warranty.

** Incurred But Not Reported (IBNR) – Reserves for insured losses that have occurred but have not been reported to the insurer.

Financial Position Description

Four key measures are used to benchmark the Fund's past performance – net written premium, net losses and expenses, policyholder surplus, and the ratio of net premium written to policyholder surplus.

Net Premium Written (NPW)

Net premium written has remained steady over the past four years, with FY2010 increasing to $7.5 million. (Exhibit 4). In FY2010 the auto liability rates were increased by $20 per unit and property rates were increased by 5%.

Net Losses and Expenses

Net losses and expenses went from $7,412,866 in FY2009 to $5,139,326 in FY2010.

Policyholder Surplus

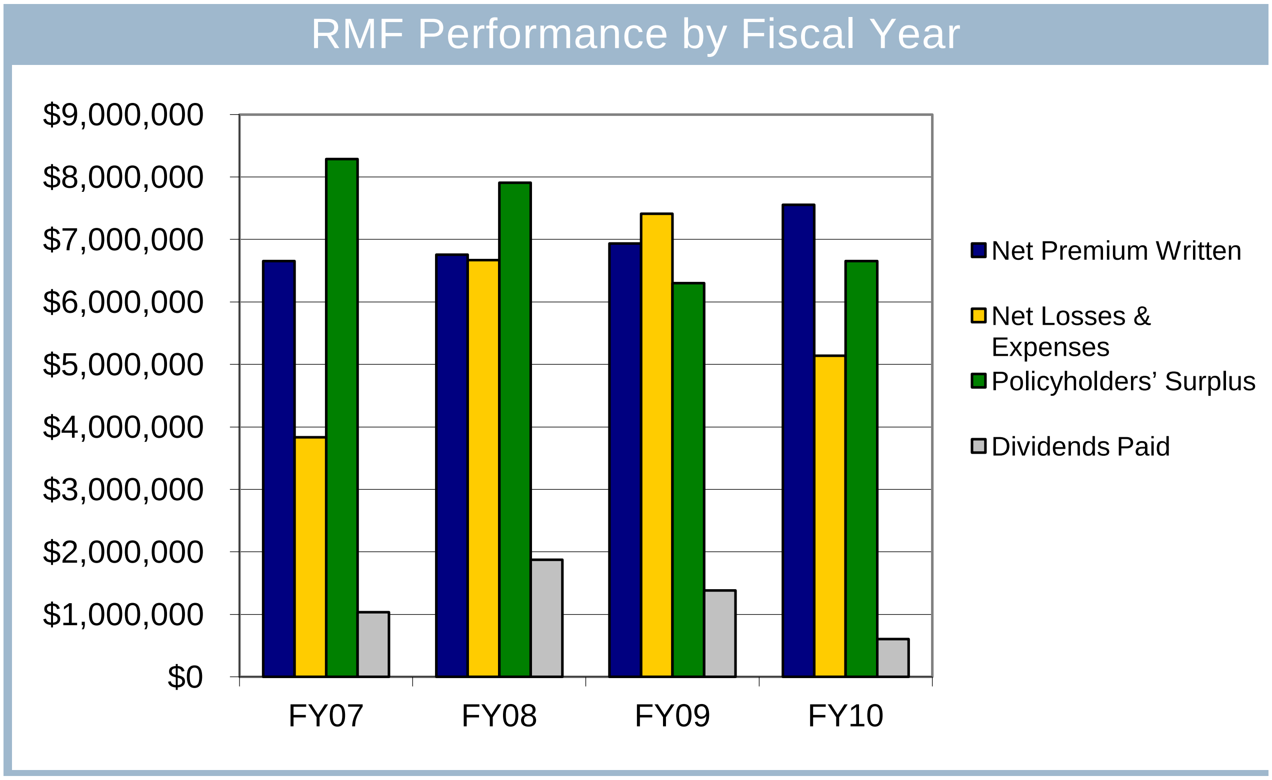
Policyholder surplus increased from $6.3 million in FY2009 to $6.7 million in FY2010. This increase is a result of improved loss experience.

Ratio of NPW to Policyholder Surplus

The insurance industry benchmark for the ratio of NPW to policyholder surplus is typically 2-to-1; the RMF ratio for FY2010 was 1.14-to-1. The Fund's ability to meet its current obligations remains strong.

Risk Management Fund Performance by Fiscal Year

Exhibit 4



	FY07	FY08	FY09	FY10
Net Premium Written (NPW)	$6,654,412	$6,753,716	$6,935,118	$7,552,824
Net Losses & Expenses [1]	3,835,254	6,670,792	7,412,866	5,139,326
Policyholders' Surplus	8,288,762	7,906,204	6,298,538	6,653,843
Dividends Paid	1,036,430	1,875,409	1,383,335	605,233
NPW to PH Surplus Ratio	.80/1	.85/1	1.10/1	1.14/1

[1] Historical numbers were adjusted to include changes in IBNR*
*Incurred But Not Reported (IBNR) – Reserves for insured losses that have occurred but have not been reported to the insurer.

Financials

State of Minnesota
Risk Management Fund
Statement of Net Assets
June 30, 2010

	FY10	FY09
ASSETS		
CURRENT ASSETS		
Cash	18,150,609.80	15,576,317.23
Accounts Receivable	20,959.66	27,025.77
Prepaid Expenses	400.00	30,315.83
Prepaid Billback Insurance	20,917.36	148,791.77
Reinsurance Recoverable	3,000,000.00	171,130.52
Total Current Assets	**21,192,886.82**	**15,953,581.12**
NONCURRENT ASSETS		
Capital Assets-Equipment, Furniture & Fixtures (Note 3)	14,180.72	14,180.72
Less: Accumulated Depreciation	(14,180.72)	(14,180.72)
Capital Assets-Software (IGCS) (Note 3)	594,193.47	250,372.62
Less: Accumulated Amortization	0.00	0.00
Total Noncurrent Assets	594,193.47	250,372.62
TOTAL ASSETS	**21,787,080.29**	**16,203,953.74**
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	104,703.62	101,349.78
Salaries Payable	49,384.33	50,962.55
Retainage Payable (Note 4)	34,387.20	0.00
Claims Payable	9,912,154.00	5,255,839.52
Claims Payable – IBNR (Note 1)	4,737,100.00	4,085,100.00
Due to Other Funds (Note 7)	9,447.86	9,925.39
Unearned Premium – Self Insurance	79,222.00	67,552.00
Unearned Premium – Billback	111,565.62	217,070.73
Compensated Absences Payable (Note 5)	4,534.21	7,058.82
Total Current Liabilities	**15,042,498.84**	**9,794,569.44**
NONCURRENT LIABILITIES		
Compensated Absences Payable (Note 5)	81,578.36	105,610.82
Net OPEB Obligation (Note 6)	9,159.68	5,235.35
Total Noncurrent Liabilities	**90,738.04**	**110,846.17**
TOTAL LIABILITIES	**15,133,236.88**	**9,905,415.61**
NET ASSETS (Note 8)		
Invested in Capital Assets, Net of Related Debt	559,806.27	250,372.62
Unrestricted Net Assets	6,094,037.14	6,048,165.51
TOTAL NET ASSETS	**6,653,843.41**	**6,298,538.13**

State of Minnesota
Risk Management Fund
Statement of Revenues, Expenses & Changes in Net Assets
For Period Ended June 30, 2010

	FY10 YTD	FY09 YTD
OPERATING REVENUES		
Insurance Premiums – Self Insurance	10,819,975.00	9,910,840.00
Insurance Premiums – Billback	1,234,614.45	1,096,786.00
Non-Insured Tort Claims	108,135.50	114,350.50
Consulting Services	800.00	1,200.00
Total Operating Revenues	**12,163,524.95**	**11,123,176.50**
OPERATING EXPENSES (Note 1)		
Claims – Self Insurance	4,533,513.70	5,485,583.76
Claims – IBNR	652,000.00	410,905.00
Salaries & Benefits	847,952.17	962,452.30
Rent	78,283.66	64,711.25
Advertising	0.00	0.00
Repairs	269.50	14,899.01
Insurance	169.60	144.20
Insurance Premium – Billback	1,234,614.45	1,096,786.00
Insurance Premium – Self Insurance	3,346,374.00	3,043,274.80
Printing	397.39	425.69
Professional Services – Adjuster	168,414.92	249,491.89
Professional Services – Broker	166,302.00	160,368.00
Professional Services – Legal and Other	153,790.59	65,290.13
Computer Services	72,804.07	57,344.39
Communications	10,722.69	10,274.07
Travel	2,485.15	5,710.74
Other Operating Costs	6,863.35	8,875.42
Memberships and Employee Development	4,228.18	3,648.24
Supplies	9,301.42	10,394.07
Depreciation	0.00	0.00
Indirect Costs	63,644.00	139,700.00
Total Operating Expenses	**11,352,130.84**	**11,790,278.96**
OPERATING INCOME (LOSS)	**811,394.11**	**(667,102.46)**
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	149,144.17	439,912.15
Policyholder Dividend Expense	(605,233.00)	(1,383,335.00)
Total Non-Operating Revenues (Expenses)	**(456,088.83)**	**(943,422.85)**
CHANGE IN NET ASSETS	355,305.28	(1,610,525.31)
NET ASSETS, BEGINNING	6,298,538.13	7,906,204.43
Adjustment to Net Assets (Note 9)	0.00	2,859.01
NET ASSETS, ENDING	**6,653,843.41**	**6,298,538.13**

State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
For Period Ended June 30, 2010

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, 2010 for claims incurred prior to July 1, 2010.

2. LEGISLATION AND AUTHORITY

The Risk Management Internal Services Fund was created by Minnesota Laws 1986, Chapter 455, Section 3. (MS . § 16B.85 Subd 2).

3. CAPITAL ASSETS

	Equipment, Furniture & Fixtures		Software	
	Acquisition Cost	Acc Depreciation	Acquisition Cost	Acc Amortization
Balance as of 07/01/09	14,180.72	(14,180.72)	250,372.62	0.00
Additions	0.00	0.00	343,820.85	0.00
Deletions	0.00	0.00	0.00	0.00
Depreciation	0.00	0.00	0.00	0.00
Balances as of 6/30/10	14,180.72	(14,180.72)	594,193.47	0.00

FY10 indicates the purchase of software for the new information Management System. The amortization of this system will begin when placed in service. All equipment, furniture & fixtures are fully depreciated as of 6/30/10.

4. RETAINAGE PAYABLE

On June 30, 2010 the total retainage payable on invoices related to the new Information System is $34,387.20. The retainage is 10% of the amount paid off the contract not including software licensing and hosting fees.

5. 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	7,058.82	105,610.82
Increases in Compensated Absences	0.00	0.00
Decreases in Compensated Absences	(2,524.61)	(24,032.46)
Compensated Absences, Ending Balance	4,534.21	81,578.36

6. NET OPEB OBLIGATION

During FY08, the State of Minnesota implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement requires the state to measure and report other postemployment benefits (OPEB) expenses and related liabilities.

Net OPEB Obligations, Beginning Balance	5,235.35
Increases in Net OPEB Obligations	3,924.33
Decreases in Net OPEB Obligations	0.00
Total Net Assets	9,159.68

7. DUE TO OTHER FUNDS

In FY03, the Department of Administration became a participant in a new workers’ compensation plan. As a result, the previous workers’ compensation plan, administered by RMD, has a surplus balance. Funds were returned to the appropriate divisions based on the status of outstanding claims except for those held by the RMD on behalf of the Health and Safety Committee. During the course of the previous workers’ compensation plan, .0025% of the premiums paid from the divisions had been allocated to the Department of Administration’s Health and Safety Committee. The $9,447.86 represents the remaining balance. These dollars are used to purchase supplies and/or memberships as needed.

8. 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	559,806.27
Unrestricted Net Assets	6,094,037.14
Total Net Assets	6,653,843.41

Schedule of Retained Earnings

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Beginning Retained Earnings	6,298,538.13	6,797,149.85	8,060,054.78	7,094,409.00
Prior Period Adjustment	0.00	0.00	0.00	0.00
Quarterly Net Income (Loss)	498,611.72	1,262,904.93	(965,645.78)	(440,565.59)
Ending Retained Earnings	6,797,149.85	8,060,054.78	7,094,409.00	6,653,843.41
Add: Capital Contributions	0.00	0.00	0.00	0.00
Reconciliation to Total Net Assets	6,797,149.85	8,060,054.78	7,094,409.00	6,653,843.41

9. ADJUSTMENTS TO NET ASSETS

During the 1st quarter of FY09, there was a prior period adjustment for $2,859.01 to reflect a reduction to expenses that were overstated in FY08. This was due to an amount owed to the RMD based on damage that occurred during their move in FY08.

Upper Midwest Insurance Services LLC

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Minnesota Department of Administration
Risk Management Division
Retained Liability Lines of Coverage

Statement of Actuarial Opinion
as of March 31, 2010

Identification

I, Kevin J. Moynihan, Principal, Upper Midwest Insurance Services, LLC am a Member of the American Academy of Actuaries and an Associate of the Casualty Actuarial Society. I meet the qualification standards to render a Statement of Actuarial Opinion ("Opinion") with respect to property and casualty loss and allocated loss adjustment expense ("ALAE") reserves. I have been retained by the Minnesota Department of Administration, Risk Management Division ("Division") to render this Opinion with respect to the Division's loss and ALAE reserves as of March 31, 2010.

Scope

The Division is responsible for the self-insurance program for the State of Minnesota ("State") which includes the automobile liability and general liability risks of the State. I have examined the reserves summarized below in Table A, as shown in the current Annual Report of the Division as prepared for filing with regulatory officials, as of March 31, 2010.

Table A
Net Loss and Allocated Loss Adjustment Expense Reserves

Line of Coverage	Low	Expected	High
Automobile Liability	$ 3,980,000	$ 4,241,000	$ 4,656,000
General Liability	$ 2,493,000	$ 2,701,000	$ 2,937,000
Total (Excl. Strike Force)	$ 6,473,000	$ 6,942,000	$ 7,593,000
Strike Force Only	$ 1,340,000	$ 1,340,000	$ 1,340,000
Total (Incl. Strike Force)	$ 7,813,000	**$ 8,282,000**	$ 8,933,000

In forming my opinion on the loss and ALAE reserves, I prepared an actuarial analysis using loss and ALAE data valued as of March 31, 2010. The actuarial analysis employs methodologies considered generally acceptable by the Casualty Actuarial Society.

Unallocated loss adjustment expense ("ULAE") reserves, if any, are outside the scope of this Opinion. The loss and ALAE reserves indicated above make no provision for ULAE reserves.

This Opinion is limited to loss and ALAE reserves. All other balance sheet or income statement items are excluded from the Opinion. The Opinion assumes that reserves are supported by valid assets, which have suitably scheduled maturities and adequate liquidity to meet cash flow requirements. Further, the Opinion assumes that any reinsurance is valid and collectible.

The Division does not discount its loss and ALAE reserves for the time value of money.

This Opinion makes no provision for future emergence of new classes of losses or types of losses that are not sufficiently represented in the historical data or which are not yet quantifiable. The Strike Force claims are an example of this type of claim.

An accrual outside the range of reserves indicated above in Table A will provide increased (decreased for the low range) conservatism in the form of a risk margin.

Actuarial projections involve estimates of future events. There can be no assurance that actual results will not differ, perhaps materially, from the estimates reflected above.

Review and Verification of Data

Responsible parties representing the Division have provided the necessary data. I have relied upon the accuracy and completeness of this data without independent audit or verification.

The data included:

- Paid and incurred loss and allocated loss adjustment expense data organized by individual claimant and organized by fiscal year.
- Exposure data organized by fiscal year.
- Per occurrence retention level by fiscal year

Expression of Opinion

In my opinion, the net loss and ALAE reserves indicated above in Table A:

- meet the requirements of the insurance laws of the State of Minnesota;
- are computed in accordance with generally accepted loss reserving standards and principles; and
- make a reasonable provision in the aggregate for all net unpaid loss and ALAE obligations of the Division under the terms of its policies and agreements.

This Opinion is based on information available to March 31, 2010.

Work Papers

Copies of the relevant work papers are kept at the Minnesota Department of Administration, 320 Centennial Office Building, 658 Cedar St., St. Paul which is the Division's principal office.

Kevin J. Moynihan ACAS MAAA
April 6, 2010

This report is a product of the Department of Administration Risk Management Division, which is solely responsible for its content. For additional information, please contact RMD.

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