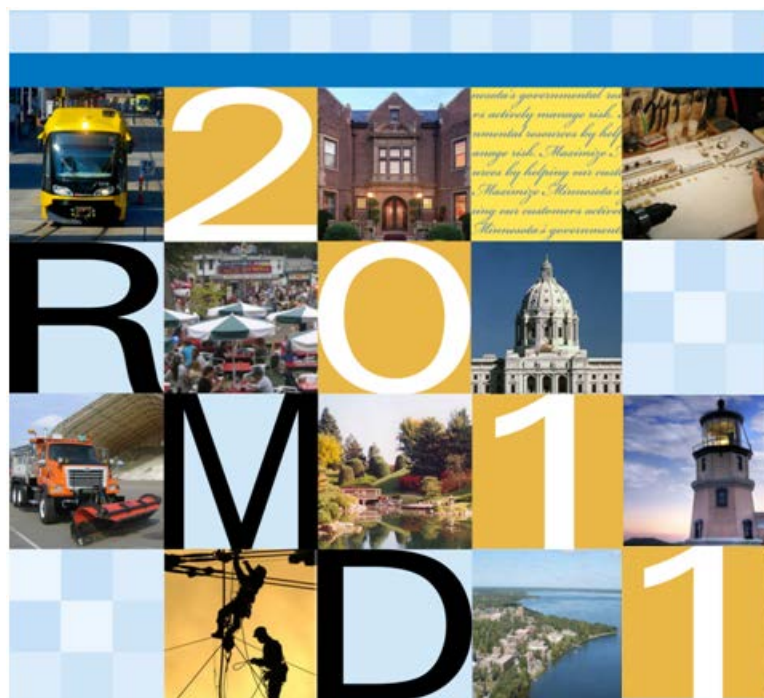


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Risk Management Division

Property and Casualty Program

Annual Report
State Fiscal Year 2011



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.

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Executive Summary

FY2011 marked a year of new developments for the Risk Management Division (RMD):

- On July 1, RMD went “live” with a new website, consolidating information and useful tools into one package from our property and casualty, workers’ compensation, and safety programs. Easy access to forms, publications, and programs is a key feature of the new website, and customers are already finding that information is much more intuitive.
- The Risk Management Fund (RMF) proudly welcomed its 100th customer, Minnesota State Retirement System. Comprehensive coverage for their property and general liability exposures is now in place. The RMD is looking forward to the day when all state agencies are insured for property and casualty coverages.
- Liz Houlding, formerly the Workers’ Compensation Division Manager became the RMD Director. Liz’s first priority was to continue to work with RMD staff and AON eSolutions on the development of the new Risk Management Information System (RMIS). Once implemented, the new RMIS will be able to provide more meaningful claim feedback to customers, and drive down operating costs for the division by reducing the number of legacy systems into a more comprehensive system.

After several years of total incurred losses ranging from \$2.6 million to a daunting \$4.4 million, FY2011 took a turn in the right direction, with total incurred losses dropping to \$1.1 million – the lowest since FY2007. We are optimistic that the progress made on the loss control front is paying off. A FY2011 fourth quarter combined loss ratio of less than 100 percent was achieved for all lines of business – auto liability, auto physical damage, general liability, and property. Additionally, the claim count has seen marked improvement over the past five years, which is also a positive sign.

Next year marks a notable occasion - RMD’s 25th anniversary! As we move from one era to the next, we envision even more new developments to better serve our customers and to assist them in reducing risk through proactive and innovative risk, loss control, and claims management practices.

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Risk Management Fund Advisory Committee

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Minnesota Management and Budget

Larry Freund
Department of Public Safety
Fiscal and Administrative Services

Todd Haglin
Department of Transportation

Wendy Hearn
Best Buy Corporation

Mary Lou Houde
Department of Commerce
Registration and Insurance

Elizabeth Houlding
Department of Administration
Risk Management Division

Bill Hoyt
Metropolitan Airports Commission

Keswic Joiner
Minnesota State Colleges and Universities

John King
Department of Corrections

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

Dave Schiller
Department of Natural Resources

Andrew Whitman
University of Minnesota

Customer Agencies and Political Subdivisions

Agriculture, Department of	Human Resources, Dept of Administration
Amateur Sports Commission	Human Services, Department of
Animal Health, Board of	Indian Affairs Council
Attorney General	Information Policy Analysis Division, Dept of
Barber Examiners, Board of	Administration
Behavioral Health & Therapy, Board of	Insurance Fraud Prevention Division, Dept of
Chino Latino Affairs Council	Commerce
Chiropractic Examiners, Board of	Investment Board
Commissioner's Office, Dept of Administration	Iron Range Resources Agency
Corrections, Department of	Judicial Standards, Board of
Cosmetologist Examiners, Board of	Labor & Industry, Department of
Council on Black Minnesotans	Lawyers Professional Responsibility Board
Dentistry, Board of	Management Analysis and Development,
Developmental Disabilities, Dept of	Minnesota Management and Budget
Administration	Marriage & Family Therapy, Board of
Dietetics & Nutrition Practice, Board of	Materials Management Division - Bookstore
Education, Department of	& State Register, Dept of Administration
Emergency Medical Services Regulatory Board	Mediation Services, Board of
Employment and Economic Development,	Medical Practices, Board of
Department of	Metropolitan Airports Commission
Enterprise Minnesota	Metropolitan Council
Enterprise Technology, Office of	Metropolitan Emergency Services Board
Explore Minnesota Tourism	Military Affairs, Department of
Firefighter Training and Education, Board of	Minnesota Historical Society
Fleet & Surplus Services, Dept of Administration	Minnesota Judicial District Courts (Trial Courts)
Gambling Control Board	Minnesota Racing Commission
Governor's Office	Minnesota Sentencing Guidelines Commission
Health, Department of	Minnesota State Academies
Higher Education Facilities Authority	Minnesota State Council on Disability
Higher Education, Office of	Minnesota State Retirement System
Housing Finance Agency	MN Legislature – Office of the Revisor of
Human Rights, Department of	Statutes

MN State Lottery	Public Services, Weights & Measures
MN State Colleges and Universities – all facilities	Public Utilities Commission
Natural Resources, Department of	Real Estate & Construction Svcs, Dept of
Nursing, Board of	Administration
Nursing Home Administrators, Board of	Revenue, Department of
Examiners for	Risk Management, Dept of Administration
Ombudsman for Mental Health and	Secretary of State
Developmental Disabilities	Social Work, Board of
Ombudsperson for Families, Office of	STAR Program, Dept of Administration
Optometry, Board of	State Agricultural Society (Minnesota State Fair)
Pennington County	State Arts Board
Perpich Center for Arts Education	State Armory Building Commission
Pharmacy (ASU), Board of	State Auditor
Physical Therapy, Board of	Supreme Court – State Court Administration/
Plant Management Division & Central Mail,	Law Library/Court of Appeals
Dept of Administration	Supreme Court – Board of Law Examiners
Podiatric Medicine, Board of	Teachers Retirement Association
Pollution Control Agency	Transportation, Department of
Port Authority of the City of Saint Paul	Veterans Affairs – Central Office
Psychology, Board of	Veterans Homes, Veterans Affairs
Public Defense, Board of	Veterinary Medicine, Board of
Public Employees Retirement Association	Water and Soil Resources, Board of
Public Safety, Department of	Zoological Gardens

The Year in Review

Reinsurance

The property program, covering close to \$12 billion in real and personal property, saw a 2 percent rate increase for the FY2011 term. Although there were no program enhancements for FY2011, there have been periodic improvements in terms and conditions throughout the eight years that the program has been in effect, which have afforded greater protection for the RMF.

The excess casualty program sustained a modest premium increase of less than 1 percent. This was due to a reduction in the retention (deductible), from \$1.5 million to \$1 million, for the separate excess auto liability policy for MN State Colleges and Universities (MnSCU). Additionally, since the RMF received the direct benefit from the retention reduction on the MnSCU policy, the RMF funded the premium for this policy amendment (approximately \$20,000).

Purchased Insurance

After receiving a 35 percent rate reduction in FY2009, the renewal rate for the state's aviation program remained flat for FY2010 and FY2011. All indications are that the current aviation program rate is still about as low as the current insurance marketplace will bear.

Public Project



Central Corridor Light Rail Transit

Photo courtesy of Metropolitan Council

The RMD continues to represent the state on the Risk Management Advisory Committee (RMAC) for the construction of Central Corridor Light Rail Transit. Because conventional casualty insurance was obtained by the contractors for the Transit Project, in lieu of an Owner Controlled Insurance Program (OCIP), the RMAC's involvement in insurance procurement and associated administrative tasks has been limited to builder's risk coverage. Construction-related life safety risks are managed by the contractors' safety professionals and those of the Transit Project. By means of a coordinated effort, they focus on the safety of both construction personnel and the public.

The \$957 million construction project is still on track, with service slated to begin in 2014, linking five major centers of activity in the Twin Cities region - downtown Minneapolis, the University of Minnesota, the Midway area, the state Capitol complex and downtown St. Paul.

A Year of Respite after Our Big Tornado Last Year

After the big tornado loss last year, we experienced better results in regards to total incurred losses this year. The number of claims increased but the value of the losses was significantly less than the previous year. The scattering of losses over the state resulted in no major loss events. The largest losses were due to our common property damage nemesis, water.

With the losses in FY2011 being quieter than the past three years, we stayed below our reinsurance limits and had a little breather from some of the more damaging loss events of the previous years.

Fiscal Year	Claim Count	Total Incurred Loss
FY05	147	\$ 244,203
FY06	175	\$ 1,347,158
FY07	87	\$ 153,289
FY08	99	\$ 3,764,718
FY09	76	\$ 2,606,225
FY10	63	\$ 4,443,093
FY11	79	\$ 1,101,767



Century College Foot Bridge

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 gratis 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.

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 shutdown, 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 10,900 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 additional charge.

Dividends

The FY2011 dividend of \$1,852,870 was calculated as of June 30, 2011, and declared and paid in FY2012. This brings the total dividends paid to \$18,664,692. FY2011 dividends and total dividends paid from inception of the program, by line of insurance, are as follows:

	Calculated in FY2011	Total Dividends Declared
Auto Liability	\$564,093	\$8,334,744
General Liability	397,021	5,783,538
Property Insurance	<u>891,756</u>	<u>4,546,410</u>
	\$1,852,870	\$18,664,692

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

- 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 payout percents 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%	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.



State Capital Building, WWII Dedication.

Division Summary of Operations

In FY2011, 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's that are 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 serves 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 \$5 million.

Exhibit 2

Summary of Operations

	FY2007	FY2008	FY2009	FY2010	FY2011
Net Premium Written	\$6,654,412	\$6,753,716	\$6,935,118	\$7,552,824	\$7,590,444
Industry average operation expense ratio	30.9%	32.6%	32.7%	34.5%	33.7%
Projected industry average operation expense based on RMD's actual premium	\$2,056,213	\$2,201,711	\$2,267,784	\$2,605,724	\$2,557,980
Actual RMD operating expenses	\$1,208,208	\$1,387,952	\$1,393,453	\$1,313,532	\$1,319,230
RMD operating expense ratio	18.1%	20.5%	20.1%	17.4%	17.4%
Savings to clients	\$ 848,005	\$ 813,759	\$ 874,331	\$1,292,193	\$1,238,750
Five-year total Savings	\$5,067,038				

Underwriting Results

Exhibit 3 Self-Insurance Property and Casualty Underwriting Results

	Premiums Earned by Line			
	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Auto Insurance				
Auto Liability	\$2,517,084	\$2,477,376	\$2,689,946	\$2,676,681
Auto Physical Damage	869,912	813,658	777,909	806,563
Garagekeeper's Legal Liability	31,629	32,609	32,782	33,014
Standard Commercial Insurance				
Property	\$4,516,741	\$4,666,366	\$5,256,858	\$5,351,533
Boiler & Machinery	107,656	159,985	191,873	179,171
General Liability	1,226,571	1,244,025	1,304,527	1,372,152
Crime	98,763	104,171	112,525	113,073
Other*	395,989	412,650	453,555	456,421
Total Premiums Earned	<u>\$9,764,345</u>	<u>\$9,910,840</u>	<u>\$10,819,975</u>	<u>\$10,988,608</u>
Less Reinsurance Ceded	\$3,079,747	\$3,043,275	\$3,346,374	\$3,473,620
Total Net Premiums Earned	6,684,598	6,867,565	7,473,601	7,514,988
Plus Unearned Premium	69,118	67,553	79,223	75,456
Total Net Premiums Written	<u>\$6,753,716</u>	<u>\$6,935,118</u>	<u>\$7,552,824</u>	<u>\$7,590,444</u>

Combined Loss and Expense Ratio

(Before Dividends and IBNR**)

	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Auto Insurance				
Auto Liability	59%	75%	48%	81%
Auto Physical Damage	88%	80%	84%	90%
Garagekeeper's Legal Liability	24%	16%	17%	13%
Standard Commercial Insurance				
Property	94%	62%	98%	25%
General Liability	70%	41%	37%	22%
Boiler & Machinery	13%	16%	14%	47%
Crime	13%	16%	14%	26%
Other*	<u>44%</u>	<u>30%</u>	<u>20%</u>	<u>69%</u>
Combined Loss Ratio Before Reinsurance	77%	61%	71%	45%
Combined Loss Ratio After Reinsurance	106%	88%	63%	66%

*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, policyholders' surplus, and the ratio of net premium written to policyholders' surplus.

Net Premium Written (NPW)

Net premium written remained steady the past years at \$7.5 million. (Exhibit 4)

Net Losses and Expenses

Net losses and expenses went from \$5,139,326 in FY2010 to \$4,987,465 in FY2011.

Policyholders' Surplus

Policyholders' surplus increased from \$6.6 million in FY2010 to \$10.5 million in FY2011. This increase is a result of improved loss experience.

Ratio of NPW to Policyholders' Surplus

The insurance industry benchmark for the ratio of NPW to policyholders' surplus is typically 2 to 1. The RMF's ratio for FY2011 was .72 to 1. The fund's ability to meet its current obligations remains strong.

Risk Management Fund Performance by Fiscal Year

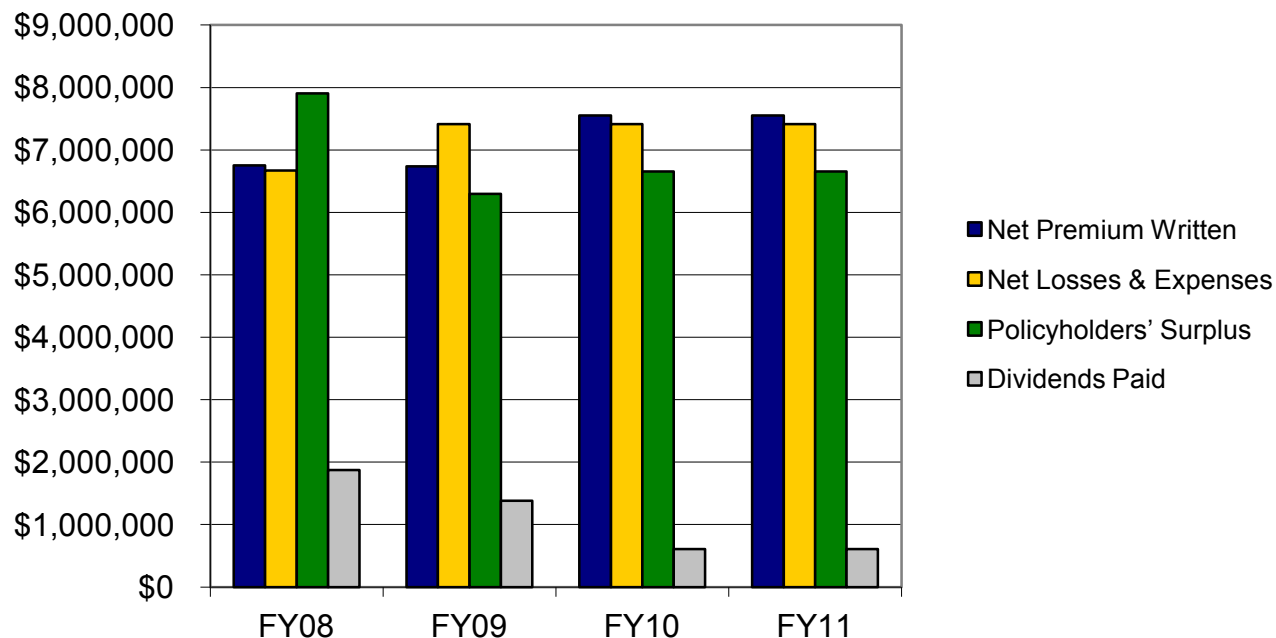


Exhibit 4

	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Net Premium Written (NPW)	\$6,753,716	\$6,935,118	\$7,552,824	\$7,590,444
Net Losses & Expenses ¹	6,670,792	7,412,866	5,139,326	4,987,465
Policyholders' Surplus	7,906,204	6,298,538	6,653,843	10,513,735
Dividends Paid	1,875,409	1,383,335	605,233	515,252
NPW to PH Surplus Ratio	.85/1	1.10/1	1.14/1	.72/1

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 – Property and Casualty Fund 410
Statement of Net Assets
June 30, 2011

ASSETS

	FY11	FY10
CURRENT ASSETS		
Cash	19,609,467.07	18,150,609.80
Accounts Receivable	19,319.50	20,959.66
Prepaid Expenses	0.00	400.00
Prepaid Billback Insurance	15,230.58	20,917.36
Reinsurance Recoverable	<u>2,036,739.00</u>	<u>3,000,000.00</u>
Total Current Assets	<u>21,680,756.15</u>	<u>21,192,886.82</u>
NONCURRENT ASSETS		
Capital Assets-Equipment, Furniture & Fixtures (Note 3)	14,180.72	14,180.72
Less: Accumulated Depreciation	(14,180.72)	(14,180.72)
Software (Note 3)	250,321.48	0.00
Accumulated Amortization - Software	0.00	0.00
Internally Generated Computer Software (Note 3)	395,612.31	594,193.47
Accumulated Amortization–Internally Generated Computer Software	<u>0.00</u>	<u>0.00</u>
Total Noncurrent Assets	<u>645,933.79</u>	<u>594,193.47</u>
TOTAL ASSETS	<u>22,326,689.94</u>	<u>21,787,080.29</u>

LIABILITIES

CURRENT LIABILITIES		
Accounts Payable	120,625.11	104,703.62
Salaries Payable	56,583.15	49,384.33
Claims Payable	6,508,504.00	9,912,154.00
Claims Payable – IBNR (Note 1)	4,737,100.00	4,737,100.00
Retainage Payable (Note 4)	39,405.95	34,387.20
Unearned Premium – Self Insurance	75,415.00	79,222.00
Unearned Premium – Billback	117,478.38	111,565.62
Compensated Absences Payable (Note 5)	14,618.18	4,534.21
Due to Other Funds (Note 7)	<u>9,447.86</u>	<u>9,447.86</u>
Total Current Liabilities	<u>11,679,177.63</u>	<u>15,042,498.84</u>
NONCURRENT LIABILITIES		
Compensated Absences Payable (Note 5)	122,420.73	81,578.36
Net OPEB Obligation (Note 6)	<u>11,356.35</u>	<u>9,159.68</u>
Total Noncurrent Liabilities	<u>133,777.08</u>	<u>90,738.04</u>
TOTAL LIABILITIES	<u>11,812,954.71</u>	<u>15,133,236.88</u>
NET ASSETS (Note 9)		
Invested in Capital Assets, Net of Related Debt	606,527.84	559,806.27
Unrestricted Net Assets	<u>9,907,207.39</u>	<u>6,094,037.14</u>
TOTAL NET ASSETS	<u>10,513,735.23</u>	<u>6,653,843.41</u>

State of Minnesota
Risk Management Fund
Statement of Revenues, Expenses & Changes in Net Assets
For Period Ended June 30, 2011

	FY11 YTD	FY10 YTD
OPERATING REVENUES		
Insurance Premiums – Self Insurance	10,988,608.00	10,819,975.00
Insurance Premiums – Billback	1,192,408.76	1,234,614.45
Non-Insured Tort Claims	97,438.00	108,135.50
Consulting Services	800.00	800.00
Total Operating Revenues	12,279,254.76	12,163,524.95
OPERATING EXPENSES (Note 1)		
Claims – Self Insurance	1,687,867.70	4,533,513.70
Claims – IBNR	0.00	652,000.00
Salaries & Benefits	862,074.56	847,952.17
Rent	79,836.85	78,283.66
Repairs and Maintenance	225.00	269.50
Printing	163.20	397.39
Advertising	0.00	0.00
Professional Services – Adjuster	246,225.92	168,414.92
Professional Services – Broker	167,965.00	166,302.00
Professional Services – Legal and Other	95,362.60	153,790.59
Computer and System Services	92,560.18	72,804.07
Communications	8,918.39	10,722.69
Travel	2,043.42	2,485.15
Supplies and Materials	12,099.17	9,301.42
Employee Development	2,970.00	4,228.18
Insurance	331.00	169.60
Insurance Premium – Self Insurance	3,473,620.40	3,346,374.00
Insurance Premium – Billback	1,192,408.76	1,234,614.45
Indirect Costs	82,910.00	63,644.00
Depreciation	0.00	0.00
Other Expenses	8,740.19	6,863.35
Total Operating Expenses	8,016,322.34	11,352,130.84
OPERATING INCOME (LOSS)	4,262,932.42	811,394.11
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	110,658.58	149,144.17
Policyholder Dividend Expense	(515,252.00)	(605,233.00)
Total Non-Operating Revenues (Expenses)	(404,593.42)	(456,088.83)
CHANGE IN NET ASSETS	3,858,339.00	355,305.28
NET ASSETS, BEGINNING	6,653,843.41	6,298,538.13
Adjustment to Net Assets (Note 8)	1,552.82	0.00
NET ASSETS, ENDING	10,513,735.23	6,653,843.41

State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
For Period Ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying financial statements of the Risk Management Division (RMD) – Property and Casualty fund have been prepared to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Reporting Entity:

The RMD – Property and Casualty 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 on January 1, 1987. The fund also purchases reinsurance to protect itself from catastrophic losses and the aggregation of losses. The fund purchases commercial insurance at state agencies' request 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.

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, 2011 for claims incurred prior to July 1, 2011.

Basis of Accounting:

The RMD – Property and Casualty fund is an internal service fund using the full accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred.

Capital assets, which include land, buildings, equipment, intangible assets, and internally generated computer software (IGCS) are reported in the financial statements. Capital assets are defined as assets with an initial, unit cost of more than \$5,000 for equipment, \$30,000 for intangible assets and IGCS, and \$200,000 for buildings. Capital assets are recorded at cost or, for donated assets, at fair market value at the date of acquisition.

Capital assets are depreciated using the straight-line method based on the following useful lives: 40-50 years for buildings, 20-50 years for large improvements, 3-10 years for small improvements, and 3-12 years for equipment.

2. LEGISLATION AND AUTHORITY

The Risk Management fund was established under Minnesota Laws of 1986, Chapter 455, Section 3. (M.S. § 16B.85 Subd 2).

3. CAPITAL ASSETS

	Balance 7/1/10	Additions	Deletions	Balance 6/30/11
Equipment	14,180.72	0.00	0.00	14,180.72
Software	0.00	250,321.48	0.00	250,321.48
Internally Generate Computer Software (IGCS)	594,193.47	51,740.32	(250,321.48)	395,612.31
Total Capital Assets	608,374.19	302,061.80	(250,321.48)	660,114.51
Accumulated Depreciation/Amortization for:				
Equipment	(14,180.72)	0.00	0.00	(14,180.72)
Internally Generate Computer Software (IGCS)	0.00	0.00	0.00	0.00
Total Accumulated Depr/Amort	(14,180.72)	0.00	0.00	14,180.72)

In FY11 the RMF purchased internally generated computer 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.

4. RETAINAGE PAYABLE

In FY11, the total retainage payable on invoices related to the new Information System is \$39,405.95. In FY10, the total retainage payable on invoices related to the new Information System was \$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. Leave balances are liquidated upon separation from state employment. The balance is shown as a liability.

	Current	Noncurrent
Beginning Balance 7/1/10	4,534.21	81,578.36
Increase	10,083.97	40,842.37
Decrease	<u>0.00</u>	<u>0.00</u>
Ending Balance 6/30/11	<u>14,618.18</u>	<u>122,420.73</u>

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.

Beginning Balance 7/1/10	9,159.68
Increase	2,196.67
Decrease	<u>0.00</u>
Ending Balance 6/30/11	<u>11,356.35</u>

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, had 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. These dollars are used to purchase supplies and/or memberships as needed. In both FY11 and FY10, the \$9,447.86 represents the remaining balance.

8. ADJUSTMENTS TO NET ASSETS

During the 4th quarter of FY11, there was a prior period adjustment for \$1,552.82 to reflect an increase to internally Generated Computer Software. The adjustment was necessary to capitalize prior year travel expenses related to the development of the software.

9. 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	606,527.84			
Unrestricted Net Assets	<u>9,907,207.39</u>			
Total Net Assets	<u>10,513,735.23</u>			
Schedule of Retained Earnings				
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr
Beginning Retained Earnings	6,653,843.41	6,243,687.72	7,423,198.48	8,949,376.18
Prior Period Adjustment	0.00	0.00	0.00	1,552.82
Quarterly Net Income (Loss)	(410,155.69)	1,179,510.76	1,526,177.70	1,562,806.23
Ending Retained Earnings	6,243,687.72	7,423,198.48	8,949,376.18	10,513,735.23
Add: Capital Contributions	0.00	0.00	0.00	0.00
Reconciliation to Total Net Assets	<u>6,243,687.72</u>	<u>7,423,198.48</u>	<u>8,949,376.18</u>	<u>10,513,735.23</u>

**Minnesota Department of Administration
Risk Management Division
Retained Liability Lines of Coverage
Statement of Actuarial Opinion
as of March 31, 2011**

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, 2011.

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, 2011.

**Table A
Net Loss and Allocated Loss Adjustment Expense Reserves**

Line of Coverage	Low	Expected	High
Automobile Liability	\$ 4,153,000	\$ 4,414,000	\$ 4,829,000
General Liability	\$ 2,113,000	\$ 2,320,000	\$ 2,556,000
Total (Excl. Strike Force)	\$ 6,265,000	\$ 6,734,000	\$ 7,385,000
Strike Force Only	\$ 34,000	\$ 34,000	\$ 34,000
Total (Incl. Strike Force)	\$ 6,299,000	\$ 6,768,000	\$ 7,419,000

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, 2011. 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, 2011.

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 8, 2011

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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