Risk Management Division
Property and Casualty Program

Annual Report

State Fiscal Year 2009

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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As the state's internal insurance provider, Risk Management Division strives to help its customers by reducing risk and delivering the best possible coverage at the lowest responsible rates.

From diligently working to avoid losses through education programs, on-site inspections and more, and by driving down the cost of purchased insurance – and often with more favorable terms – the division works tirelessly to protect Minnesotans' $11 billion-plus investment in their state's assets. It is a task that is particularly important in times of crisis and challenge.

As Director Ryan Church details elsewhere in this report, the Risk Management Fund (RMF) in FY09 incurred a total loss higher than in any year in recent history. With fire and water damage accounting for the majority of these losses, the division increased its emphasis on preventive and preparatory measures that customers must take to minimize their exposure to potentially catastrophic losses.

Additionally in FY09, the division and its partners across state government focused considerable effort on keeping employees safe when they are behind the wheel. Major accomplishments include contracts with a private vendor for daily vehicle rentals, which now include $2 million in liability coverage and full physical damage coverage, and a policy for routinely reviewing motor vehicle records of state employees who drive a state vehicle in the performance of their official duties to ensure employees drive safely, courteously and lawfully.

Also worth noting, Risk Management Division during the year:

- Obtained extra-territorial automobile liability insurance for the Minnesota State Colleges and Universities system at an extremely competitive premium, enabling young drivers to operate vehicles beyond Minnesota's borders;
- Renewed the property program premium with a 6 percent decrease and improved coverage for flooding and terroristic acts;
- Disbursed $400,000 to victims of the Interstate Highway 35W bridge collapse, which occurred in August 2008; and
- Distributed a dividend of $604,755 to customers, bringing the total dividend payout over the life of the Risk Management Fund to nearly $16.3 million.

Since its establishment by the 1986 Minnesota Legislature, the division has maintained highly competitive rates while delivering the expertise, knowledge and commitment that is protecting Minnesotans' substantial investment in their state. Theirs is a formula for success – in both good and challenging times.

Sheila M. Reger

Sheila M. Reger, Commissioner
Minnesota Department of Administration

Director's Message

In the face of daunting challenges, the state's risk management program made important progress in the 2009 fiscal year.

The year began with the Risk Management Fund just coming off an annual total incurred loss 24 times higher than in 2008 and higher than in any year in recent history. Claim experience continued to deteriorate through FY09, resulting in a combined two-year total incurred loss of nearly $7 million – an amount greater than the fund's net position at the end of FY09. In spite of these difficulties, the Risk Management Division advanced several initiatives and built on previous successes to further its mission of maximizing Minnesota's government resources by helping our customers actively manage risk.

Safety & loss control

The loss experience of the past two years punctuates the need to grow safety and loss control efforts as the best known way of reducing losses. Toward that end, significant highlights from the year include:

- The third annual State Safety and Loss Control Conference, with over 150 risk and safety professionals from across state government participating in nearly 20 workshops and presentations;
- The first statewide automobile fleet safety policy, which calls for routinely reviewing the motor vehicle records of state employees who drive state vehicles; and
- The completion of 23 property loss surveys, which included 19 MnSCU campuses.

Reinsurance & purchased insurance programs

The risk management program reduced costs for the state's reinsurance and purchased insurance programs and delivered specialized products for customers' unique needs. Specifics include:

- The property reinsurance premium was renewed at a 6 percent decrease, with coverage improvements in flood and terrorism sublimits;
- A stand-alone extraterritorial auto liability insurance policy for MnSCU, which provides excess coverage for MnSCU youthful drivers while operating vehicles outside of Minnesota; and
- Renewal of casualty reinsurance at a premium increase of approximately 1 percent and with a larger retention (deductible) to match the state's increased tort limits.

I-35 Bridge Collapse Emergency Wage Relief Fund

As the designated administrator of the I-35W Bridge Collapse Emergency Wage Relief Fund, Risk Management Division distributed $400,000 to qualified persons in FY09. This fund discontinued later that year, when victims of the collapse received settlements from the state from a special compensation fund. The fund was created to quickly distribute initial financial assistance to the victims of the Interstate Highway 35W bridge collapse.

Toward the future

The true value of the Risk Management Fund is to protect against future losses. The Risk Management program continues to work closely with customers across state government, as well as with our large public project partners – more recently including the Republican National Convention, Light Rail Transit and the North Star Commuter Rail line. By working together, we can all help care for our state property and the equipment we use, and we can all take steps to protect the safety of our customers.

Ryan Church, Director
Risk Management Division

Property and Casualty Program Staff

David Agren
Property and Casualty Manager
651.201.2594
david.agren@state.mn.us

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

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

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

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

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

Marlys Williamson
Underwriting and Marketing Manager
651.201.2591
marlys.williamson@state.mn.us

Risk Management Fund Advisory Committee

Frank Ahrens
Department of Public Safety
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 Airport 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

Administrative Hearings, Office of

Agriculture, Department of

Amateur Sports Commission

Attorney General

Barbers, Board of

Behavioral Health and Therapy, Board of

Center for Criminal Justice and Law Enforcement

Chicano 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 Services Office

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 of

Investment Board

Iron Range Resources

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

Minnesota Management and Budget

Minnesota Sentencing Guidelines Commission

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(Customer Agencies and Political Subdivisions, continued from page 5)

Minnesota State Academies

Minnesota State Council on Disability

Minnesota Legislature, Office of the Revisor of Statutes

Minnesota State Lottery

Minnesota State Colleges and Universities

Natural Resources, Department of

Nursing, Board of

Nursing Home Administrators, Board of Examiners for

Ombudsman for Mental Health and Mental Retardation

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, Department of

Veterans Homes Board

Veterinary Medicine, Board of

Water and Soil Resources, Board of

Zoological Board

Reinsurance

The property program, covering close to $11 billion in real and personal property values, was renewed with a rate decrease of 6 percent. The property program also received coverage improvements, including an increase from $5 million to $10 million in the limit for flood zones A/V (100-year floodplain) and a $50 million increase in terrorism coverage. The rate decrease and improved terms and conditions are partially attributable to aggressive competition in a soft reinsurance market.

The retention (deductible) increased from $1 million to $1.2 million for the excess casualty program to remain consistent with the increase in the state tort cap. The premium increased by about 1 percent.

A separate extra-territorial auto liability insurance policy secured mid-term for Minnesota State Colleges and Universities now provides coverage for youthful drivers while operating vehicles outside of Minnesota. After a lengthy market search, the coverage was placed with United Educators at an extremely favorable premium.

Purchased Insurance

Renewal negotiations for the state's aviation insurance policy resulted in a significant cost savings of over $60,000, representing a 35 percent premium reduction.

Purchased liability insurance policies for various state agencies were increased from $1 million to $1.2 million to reflect the January 1, 2008 increase in the state tort cap.

Public Projects

The Northstar Commuter Rail opened on schedule in the fall of 2009, within budget and with an impeccable construction safety record.

As Risk Management Division's involvement with this successful project winds down, Central Corridor Light Rail Transit is ramping up. Construction is slated to start in 2010 for the 11-mile Central Corridor line that will link downtown St. Paul and downtown Minneapolis, with service beginning in 2014. The Metropolitan Council will be the grantee of federal funds and is charged with building the line in partnership with the Minnesota Department of Transportation. A feasibility study is being evaluated by the project partners to determine whether an Owner Controlled Insurance Program (OCIP) – a single insurance program that insures specified construction risks of the owner and all contractors and subcontractors – could be advantageous. Insurance cost savings and strong safety protocols are most often associated with Owner Controlled Insurance Programs.

I-35 Bridge Collapse Emergency Wage Relief Fund ~ Final Report

Following the collapse of the Interstate Highway 35W Bridge in Minneapolis, the Legislature's Joint House-Senate Subcommittee on Claims, in conjunction with the Governor's Office, appropriated funds to provide financial relief to victims. With a legal framework existing under Minnesota's Automobile No-Fault Statute, 65B.49, it was possible to quickly distribute financial assistance. Risk Management Division, as administrator of no-fault claims for the state, was selected to oversee this program. During FY09, $400,000 had been distributed to qualified persons. The fund ended in FY09, when victims of the collapse received settlements from the state from a special compensation fund.

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(The Year in Review, continued from page 7)

Property Claims ~ More Upward Pressure

Beginning in FY08, the state's property claims results deteriorated markedly; a trend that continued into FY09 but that is abating in FY10, based on preliminary information. Water damage from various causes accounted for the majority of claims and was also a primary factor in the previous year's experience.

FY04	134	$716,000
FY05	147	$244,000
FY06	175	$1,345,000
FY07	87	$153,000
FY08	99	$3,829,000
FY09	69	$3,008,000

An 80 foot wind turbine tower rises above MnSCU's MnWEST-Canby campus, where it will be used in the school's wind energy program. The Risk Management Fund has insured MnSCU-owned properties since the 1996 fiscal year.

Safety and Loss Control Programs

Fundamental to the mission of Risk Management Division 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 Risk Management Fund (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 survey is conducted by a property loss control consultant or a Risk Management Division (RMD) staff member.

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 an unscheduled shutdown, serious equipment damage, or source of a fire.

Appraisals

Accurate and current appraisals are important for maintaining an effective, efficient insurance program. With over $8 billion in state-owned real property under coverage by the Risk Management Fund, 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. Risk Management Division 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 Risk Management Division 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 in January 2009 implemented its Policy on Drivers' License and Record Checks for state employees who drive state vehicles. Risk Management Division assists state agencies with the record-check process.

Dividends

The FY09 dividend of $604,755 was calculated as of June 30, 2009, and declared and paid in FY10. Total dividends paid since the inception of the Risk Management Fund (RMF) are $16,296,570. FY09 dividends and total dividends paid from inception of the program, by line of insurance, are as follows:

	Calculated in FY09	Total Dividends declared
Auto Liability	$ 38,506	$ 7,337,448
General Liability	566,249	5,304,468
Property Insurance	0	3,654,654
	$604,755	**$16,296,570**

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 losses have the longest maturity, 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 percentages 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 months after fiscal year closes	0%	0%	25%	25%	25%	25%	0%	0%	100%
Auto liability	36 months after fiscal year closes	0%	0%	0%	35%	25%	25%	15%	0%	100%
General liability	48 months after fiscal year closes	0%	0%	0%	0%	35%	25%	25%	15%	100%

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(Dividends, continued from page 10)

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 that determines how much, if any, dividend will be paid involves the analysis of each line of insurance. This analysis takes into account RMF 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 levels the dividend over time and also minimizes the possibility of a premium assessment, which can be very disruptive to an agency's budget planning.

The Minnesota Department of Transportation's driving simulator helps agency employees hone their driving skills and keep them – and all drivers – safe on the road. Risk Management Division strongly advocates agency efforts that promote safe driving habits.

Division Summary of Operations

The resources and expertise of Risk Management Division in FY2009, as in previous years, were focused on providing four primary services to state departments, boards, bureaus, commissions and component units of the state of Minnesota, as well as political subdivisions. Key services include:

- Managing the Risk Management Fund (RMF), which operates as the state's internal insurance company. The fund provides property and casualty insurance coverages 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 topics.
- Providing internal underwriting, loss control and claims expertise that best serves the unique needs of customers.

Risk Management Division (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.

It is a primary objective of RMD 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 (Exhibit 2) shows 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 averages. The RMF continues to experience a very stable expense ratio, resulting in a five-year savings of nearly $4.6 million.

Exhibit 2
Summary of Operations

	FY2005	FY2006	FY2007	FY2008	FY2009
Net Premium Written	$6,996,519	$6,453,114	$6,654,412	$6,753,716	$6,935,118
Industry average operation expense ratio	30.3%	30.0%	30.9%	32.6%	32.7%
Projected industry average operation expense based on RMD's actual premium	$2,119,945	$1,935,934	$2,056,213	$2,201,711	$2,267,784
Actual RMD operating expenses	$ 968,275	$1,025,712	$1,208,208	$1,387,952	$1,393,453
RMD operating expense ratio	13.8%	15.9%	18.1%	20.5%	20.1%
Savings to clients	$1,151,670	$ 910,222	$ 848,005	$ 813,759	$ 874,331
Five-year total savings	$4,597,987				

Exhibit 3
Self-Insurance Property and Casualty Underwriting Results

Premiums Earned by Line

	FY06	FY07	FY08	FY09
Auto Insurance				
Auto Liability	$2,503,659	$2,676,529	$2,517,084	$2,477,376
Auto Physical Damage	961,667	943,007	869,912	813,658
Garagekeeper's Legal Liability	30,668	31,177	31,629	32,609
Standard Commercial Insurance				
Property	$3,822,477	$4,256,236	$4,516,741	$4,666,366
Boiler and Machinery	88,577	108,491	107,656	159,985
General Liability	1,383,029	1,349,079	1,226,571	1,244,025
Crime	84,032	91,393	98,763	104,171
Other*	369,625	360,047	395,989	412,650
Total Premiums Earned	$9,243,734	$9,815,959	$9,764,345	$9,910,840
Less Reinsurance Ceded	$2,845,774	$3,224,278	$3,079,747	$3,043,275
Total Net Premiums Earned	6,397,960	6,591,681	6,684,598	6,867,565
Plus Unearned Premium	55,154	62,731	69,118	67,553
Total Net Premiums Written	$6,453,114	$6,654,412	$6,753,716	$6,935,118

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

	FY06	FY07	FY08	FY09
Auto Insurance				
Auto Liability	81%	50%	66%	77%
Auto Physical Damage	79%	72%	87%	84%
Garagekeeper's Legal Liability	18%	38%	24%	16%
Standard Commercial Insurance				
Property	41%	15%	98%	82%
General Liability	44%	87%	59%	32%
Boiler and Machinery	10%	12%	13%	16%
Crime	37%	12%	13%	16%
Other*	53%	18%	44%	35%
Combined Loss Ratio **Before** Reinsurance	56%	40%	80%	71%
Combined Loss Ratio **After** Reinsurance	81%	60%	110%	102%

**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

Net premium written (NPW) has remained steady over the past four years, increasing slightly to $6.9 million (Exhibit 4). Although property rates were unchanged for FY09, property premiums rose slightly because of the 3 percent inflation increase for real property and 4 percent increase for personal property. A slight decrease in reinsurance premiums from FY08 to FY09 also impacted net premium written.

Net losses and expenses

Net losses and expenses increased from $6,670,792 in FY08 to $7,412,866 in FY09, its highest point in history. The loss results from FY08, driven by a higher frequency of losses that were within the Fund’s self-insured retention level and not subject to reinsurance recoveries, continued into FY09.

Policyholder surplus

Policyholder surplus decreased from $7.9 million in FY08 to $6.3 million in FY09. The reduction was mainly a result of an increase in severity and frequency of claims and an increase in incurred but not reported (IBNR) reserves.

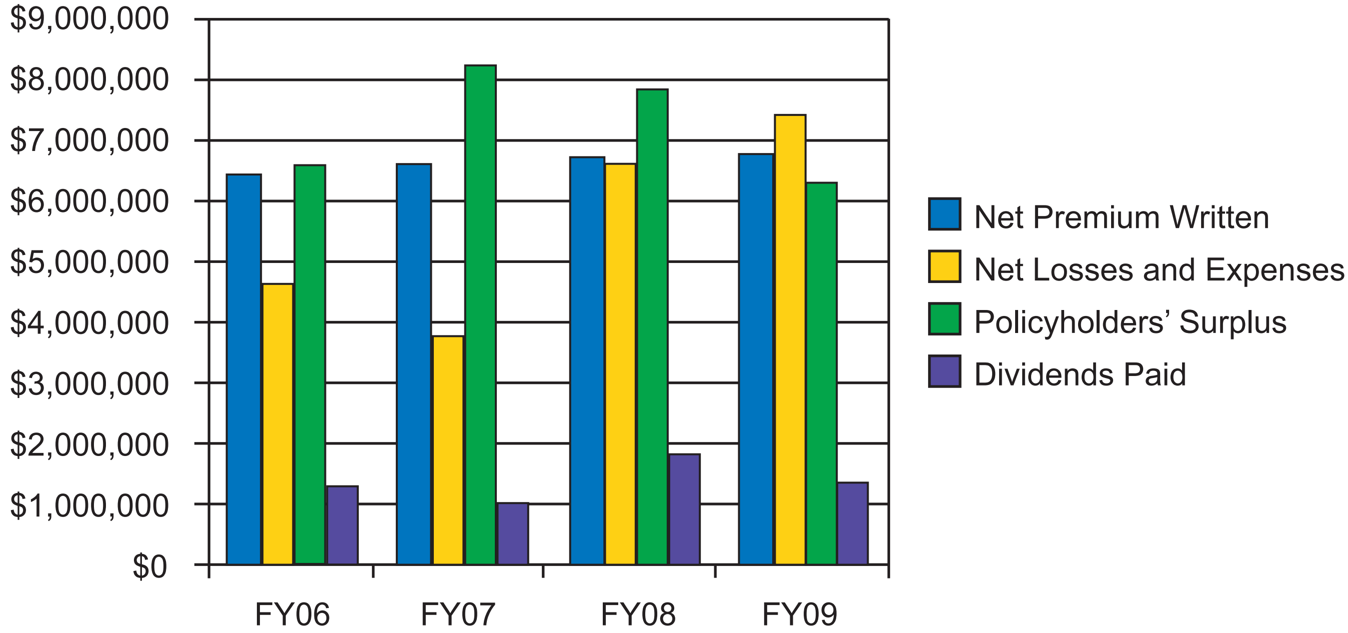
Ratio of NPW to policyholder surplus

The insurance industry benchmark for the ratio of NPW to policyholder surplus is typically 2-to-1; the RMF ratio for FY09 was 1.1-to-1. The Fund’s ability to meet its current obligations remains strong.

The Minnesota Department of Health’s self-contained Mobile Medical Unit, capable of providing high-level care for up to 12 patients, is insured through the Risk Management Fund.

Risk Management Fund Performance by Fiscal Year

Exhibit 4
RMF Performance by Fiscal Year



	FY06	FY07	FY08	FY09
Net Premium Written (NPW)	$6,453,114	$6,654,412	$6,753,716	$6,935,118
Net Losses and Expenses [1]	4,672,558	3,835,254	6,670,792	7,412,866
Policyholders' Surplus	6,616,058	8,288,762	7,906,204	6,298,538
Dividends Paid	1,361,289	1,036,430	1,875,409	1,383,335
NPW to PH Surplus Ratio	.98/1	.80/1	.85/1	1.10/1

[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.

State of Minnesota
Risk Management Fund
Statement of Net Assets
June 30, 2009

	FY09	FY08
ASSETS		
CURRENT ASSETS		
Cash	15,576,317.23	16,343,347.11
Accounts Receivable	27,025.77	25,461.40
Prepaid Expenses	30,315.83	0.00
Prepaid Billback Insurance	148,791.77	75,373.16
Reinsurance Recoverable	171,130.52	943,704.00
Due from Other Funds (Note 3)	0.00	2,859.01
Total Current Assets	**15,953,581.12**	**17,390,744.68**
NONCURRENT ASSETS		
Capital Assets-Equipment, Furniture & Fixtures (Note 4)	14,180.72	14,180.72
Less: Accumulated Depreciation	(14,180.72)	(14,180.72)
Capital Assets-Software (Note 4)	250,372.62	0.00
Less: Accumulated Amortization	0.00	0.00
Total Noncurrent Assets	250,372.62	0.00
TOTAL ASSETS	**16,203,953.74**	**17,390,744.68**
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	101,349.78	103,650.44
Salaries Payable	50,962.55	51,611.62
Claims Payable	5,255,839.52	5,327,297.00
Claims Payable – IBNR (Note 1)	4,085,100.00	3,674,195.00
Due to Other Funds – Nonoperating (Note 7)	9,925.39	9,925.39
Unearned Premium – Self Insurance	67,552.00	69,117.00
Unearned Premium – Billback	217,070.73	141,433.35
Compensated Absences Payable (Note 5)	7,058.82	8,351.52
Total Current Liabilities	**9,794,569.44**	**9,385,581.32**
NONCURRENT LIABILITIES		
Compensated Absences Payable (Note 5)	105,610.82	96,944.11
Net OPEB Obligations (Note 6)	5,235.35	2,014.82
Total Noncurrent Liabilities	**110,846.17**	**98,958.93**
TOTAL LIABILITIES	**9,905,415.61**	**9,484,540.25**
NET ASSETS (Note 9)		
Invested in Capital Assets, Net of Related Debt	250,372.62	0.00
Unrestricted Net Assets	6,048,165.51	7,906,204.43
TOTAL NET ASSETS	**6,298,538.13**	**7,906,204.43**

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(Financials, continued from page 16)

State of Minnesota
Risk Management Fund
Statement of Revenues, Expenses & Changes in Net Assets
For Period Ended June 30, 2009

	FY09 YTD	FY08 YTD
OPERATING REVENUES		
Insurance Premiums – Self Insurance	9,910,840.00	9,764,345.00
Insurance Premiums – Billback	1,096,786.00	1,053,545.00
Non-Insured Tort Claims	114,350.50	116,348.00
Consulting Services	1,200.00	1,500.00
Total Operating Revenues	**11,123,176.50**	**10,935,738.00**
OPERATING EXPENSES (Note 1)		
Claims – Self Insurance	5,485,583.76	5,287,808.02
Claims – IBNR	410,905.00	(983,389.00)
Salaries & Benefits	962,452.30	966,870.03
Rent	64,711.25	36,031.03
Advertising	0.00	790.80
Repairs	14,899.01	6,001.00
Insurance	144.20	1,657.22
Insurance Premium – Billback	1,096,786.00	1,053,545.00
Insurance Premium – Self Insurance	3,043,274.80	3,079,747.37
Printing	425.69	5,066.36
Professional Services – Adjuster	249,491.89	316,943.83
Professional Services – Broker	160,368.00	167,333.36
Professional Services – Legal and Other	65,290.13	11,090.00
Computer Services	57,344.39	86,308.70
Communications	10,274.07	30,050.10
Travel	5,710.74	5,713.86
Other Operating Costs	8,875.42	13,198.42
Memberships and Employee Development	3,648.24	4,499.95
Supplies	10,394.07	11,302.89
Depreciation	0.00	0.00
Indirect Costs	139,700.00	141,200.23
Total Operating Expenses	**11,790,278.96**	**10,241,769.17**
OPERATING INCOME (LOSS)	**(667,102.46)**	**693,968.83**
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	439,912.15	795,643.54
Policyholder Dividend Expense	(1,383,335.00)	(1,875,409.00)
Nonoperating Revenues (Note 4)	0.00	0.00
Total Non-Operating Revenues (Expenses)	**(943,422.85)**	**(1,079,765.46)**
CHANGE IN NET ASSETS	(1,610,525.31)	(385,796.63)
NET ASSETS, BEGINNING	7,906,204.43	8,288,761.71
Adjustment to Net Assets (Note 10)	2,859.01	3,239.35
NET ASSETS, ENDING	**6,298,538.13**	**7,906,204.43**

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(Financials, continued from page 17)

State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
For Period Ended June 30, 2009

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, 2009 for claims incurred prior to July 1, 2009.

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. DUE FROM OTHER FUNDS

In FY09, the $2,859.01 is an amount due to the RMD based on damage that occurred during the move.

4. CAPITAL ASSETS

	Equipment, Furniture & Fixtures		Software	
	Acquisition Cost	Acc Depreciation	Acquisition Cost	Acc Amortization
Balance as of 07/01/08	14,180.72	(14,180.72)	0.00	0.00
Additions	0.00	0.00	250,372.62	0.00
Deletions	0.00	0.00	0.00	0.00
Depreciation	0.00	0.00	0.00	0.00
Balances as of 6/30/09	14,180.72	(14,180.72)	250,372.62	0.00

The 4th quarter of FY09 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.

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	8,351.52	96,944.11
Increases in Compensated Absences	0.00	8,666.71
Decreases in Compensated Absences	(1,292.70)	0.00.
Compensated Absences, Ending Balance	7,058.82	105,610.82

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	2,014.82
Increases in Net OPEB Obligations	3,220.53
Decreases in Net OPEB Obligations	0.00
Total Net Assets	5,235.35

7. DUE TO OTHER FUNDS

In FY09, the total Due to Other Funds of $9,636.04 is for the health and safety committee to purchase supplies and/or memberships.

In FY08, the total Due To Other Funds of $9,925.39 is the summation of the following:

$ 9,353.04 to health and safety committee to purchase supplies and/or memberships

$ 572.35 to other state agencies and political subdivisions as a settlement agreement, filed by New York Attorney General & New York State

Superintendent of Insurance for overcharges of brokerage fees. This amount will be returned as received from the settlement in FY09.

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(Financials, continued from page 18)

State of Minnesota
Risk Management Fund 410
Footnotes to Financial Statements
For period ended June 30, 2009

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	250,372.62
Unrestricted Net Assets	6,048,165.51
Total Net Assets	6,298,538.13

Schedule of Retained Earnings

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Beginning Retained Earnings	7,906,204.43	6,242,205.77	5,884,371.83	5,016,664.77
Prior Period Adjustment	2,859.01	0.00	0.00	0.00
Quarterly Net Income (Loss)	(1,666,857.67)	(357,833.94)	(867,707.06)	1,281,873.36
Ending Retained Earnings	6,242,205.77	5,884,371.83	5,016,664.77	6,298,538.13
Add: Capital Contributions	0.00	0.00	0.00	0.00
Reconciliation to Total Net Assets	6,242,205.77	5,884,371.83	5,016,664.77	6,298,538.13

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.

In the 4th quarter of FY08, there was a prior period adjustment for $3,239.35. During FY07, the RMD paid an estimated reinsurance premium to Marsh for coverage for the year. However, a premium audit revealed an over-charge of premium to the RMD for this coverage. Accordingly, the difference of $3,239.35 was refunded by Marsh to the RMD in the 4th quarter of FY08. As a result, a prior year adjustment was necessary to correct the over-payment of this expense.

The Minnesota State Fair's International Bazaar is a recent addition to the risk Management Fund's property and casualty insurance program, which covers more than 100 fairgrounds buildings

Upper Midwest Insurance Services LLC

Kevin J. Moynihan ACAS MAAA
Principal

725 Summit Ave.
St. Paul, Minnesota 55105
651-290-2361
kevin@umis-mn.com

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

Statement of Actuarial Opinion
as of March 31, 2009

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, 2009.

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, 2009.

Table A
Net Loss and Allocated Loss Adjustment Expense Reserves

Line of Coverage	Low	Expected	High
Automobile Liability	$ 3,985,000	$ 4,246,000	$ 4,662,000
General Liability	$ 1,787,000	$ 1,994,000	$ 2,230,000
Total	$ 5,772,000	**$ 6,240,000**	$ 6,892,000

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, 2009. 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.

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.

Finally, actuarial projections involve estimates of future events. Thus, 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, 2009.

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 9, 2009

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 Risk Management Division.

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Admin Minnesota
RISK MANAGEMENT DIVISION

320 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155