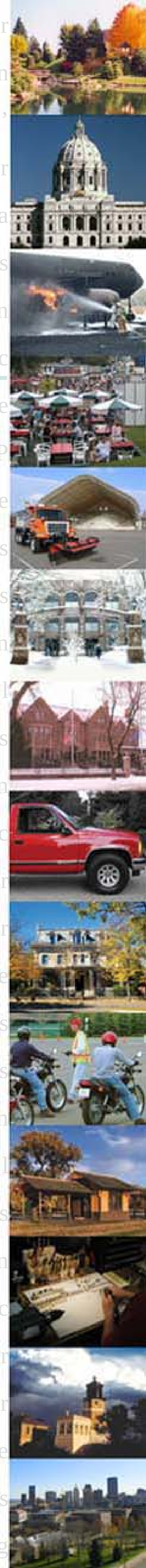
Preserve Minnesota's governmental assets by managing customer risk.

# Risk Management Division

# Annual Report

# State Fiscal Year 2008



Admin Minnesota
DEPARTMENT OF ADMINISTRATION

# *Mission Statement*

*Maximize Minnesota's government 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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# Commissioner's Statement

Without a doubt, the 2008 fiscal year was exceptional for the Risk Management Division and the state's Risk Management Fund. Consider:

- The division's operating expense ratio of 20.5 percent is a third lower than the industry average of 32.6 percent; over the past five years, by maintaining operating expenses well below the industry average, the division has saved its clients more than $4.6 million.
- The division secured a $500,000 reduction in retention for a nominal premium of $80,000, thanks in part to an overall favorable property loss experience by the state; the investment more than paid for itself when the state received $500,000 from its reinsurer for a large property loss.
- The Property Reinsurance Program secured increases in both the Extra Expense Limit and the Flood Sublimit, from $40 million to $50 million and from $50 million to $100 million respectively.
- The declaration of a nearly $1.4 million dividend, reflecting favorable loss experience and clients' diligent commitment to reducing risk; and total dividends of almost $15.7 million paid to over 80 clients since the fund's founding.
- In response to the collapse of the Interstate 35W Bridge in Minneapolis, the division established a claims hotline that was up and operating only 20 hours after the tragedy.

The year is also noteworthy for two other major advances for Minnesota. First, the state's Workers' Compensation Program merged with Risk Management Division, creating a multi-faceted, enterprise-wide organization focusing on loss control and safety. Second, this new Risk Management Division in October sponsored its first annual Risk Management and Safety Conference, drawing together nearly 200 safety and risk management professionals from across Minnesota government, including state colleges and universities.

These advances are helping further our drive toward reducing risk and minimizing loss. As I mentioned in opening remarks at the conference, we want to establish a "safety first" culture where every state employee looks out for and knows how to prevent hazardous, dangerous or potentially life-threatening situations at work and on the road.

This commitment, in combination with Risk Management Division's proactive and innovative risk, loss control and claims management practices, will surely lead to even more exceptional years ahead in protecting Minnesotans' extraordinary investment in their state government.

Dana B. Badgerow

Dana B. Badgerow, Commissioner
Minnesota Department of Administration

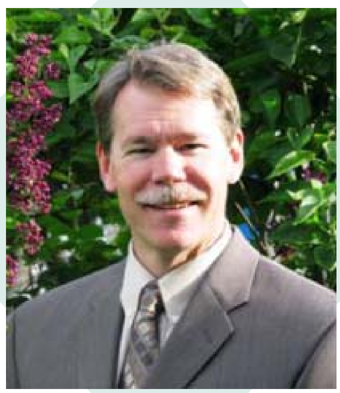
# Director's Message

This report summarizes statistics and financial information about Minnesota's Risk Management Fund and its related insurance programs. In short, this is a success story.

Through the Risk Management Division, the Risk Management Fund provides a vast array of customized insurance programs for state government at a remarkable savings to Minnesotans. For example, coverage includes:

- Over $10 billion in property value, from the State Capitol to the Minnesota Zoo;
- Over 14,000 highway and off-road vehicles, including snow plows, ATVs, sweepers, front-end loaders and special insurance for the state's aircraft; and
- Professional liability for health care students and professionals.

The cost of insurance for state agency customers is unbeatable by carriers in the traditional market. In addition, compared to private insurers, the fund's low operating expense saves the state an average of $1 million per year.



When losses and costs are low – and the fund achieves a surplus – a dividend may also be paid to participants. This year, the fund returned a dividend of $1,383,483, bringing the total dividends paid from inception of the program to $15,691,815.

The story doesn't end there. We have completed our merger with the state Workers' Compensation Program, renewed our emphasis on loss control, and are eager to work with you in managing your risks.

The true value of the fund is that it can focus our attention on protecting against future losses. Together, we can all help care for our state property and the equipment we use, and we can take steps to protect the safety of our employees and our customers.

By working together, we can make this a continuing success story.

Ryan Church, Director

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*Left to right, back row: Bryan Freeman, Lea Shedlock, Tom Chukel, Marlys Williamson and Dave Agren. Front row: Erica Richards and Carol Morgan.*

# Risk Management Fund Advisory Committee

Frank Ahrens
Department of Public Safety
Fiscal and Administrative Services

Sieglinde Bier
Minnesota State Colleges and Universities

Ryan Church
Department of Administration
Risk Management Division

Mary Lou Houde
Department of Commerce
Registration and Insurance

Bill Hoyt
Metropolitan Airports Commission

Tom Hugdahl
3M Insurance Department (Retired)

John King
Department of Corrections

Terry Lahti
Department of Natural Resources

Tim Morse
Department of Administration
Fleet and Surplus Services

Mary Pittelko
State Agricultural Society (State Fair)

Sheila Reger
Department of Administration
Deputy Commissioner

Britta Reitan
Department of Finance

Billi Sanders
Department of Administration
Financial Management and Reporting

John Scharffbillig
Department of Transportation

Gary Westman
Department of Administration
Risk Management Division

Andrew Whitman
University of Minnesota

# Customer Agencies and Political Subdivisions

Administrative Hearings, Office of

Administration, Department of

Agriculture, Department of

Amateur Sports Commission

Attorney General

Barber and Cosmetologist Examiners, Board of

Behavioral Health and Therapy, Board of

Center for Criminal Justice and Law Enforcement

Chicano Latino Affairs Council

Chiropractic Examiners, Board of

Corrections, Department of

Council on Black Minnesotans

Dakota County

Dentistry, Board of

Developmental Disabilities Council

Dietetics and Nutrition Practice, Board of

Education, Department of

Emergency Medical Services Regulatory Board

Employee Relations, Department of

Employment and Economic Development, Department of

Enterprise Technology, Office of

Explore Minnesota Tourism

Financial Management and Reporting

Fleet and Surplus Services

Gambling Control Board

Governor's Office

Health, Department of

Health Professional Services Program

Higher Education Facilities Authority

Higher Education Services Office

(Customer Agencies and Political Subdivisions, continued from page 5

Housing Finance Agency
Human Rights, Department of
Human Resources, Department of Administration
Human Services, Department of
Indian Affairs Council
Information Policy Analysis Division
Insurance Fraud Prevention, Division of
Investment Board
Iron Range Resources Agency
Judicial Standards, Board of
Labor and Industry, Department of
Lawyers Professional Responsibility Board
Management Analysis and Development
Marriage and Family Therapy, Board of
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 Sentencing Guidelines Commission
Minnesota Sesquicentennial Commission
Minnesota State Academies
Minnesota Legislature, Office of the Revisor of Statutes
Minnesota Lottery
Minnesota State Colleges and Universities
Minnesota Technology
Minnesota's Bookstore and State Register
Natural Resources, Department of
Nursing, Board of
Nursing Home Administrators, Board of Examiners for
Office Supply Connection
Ombudsman for Mental Health and Mental Retardation
Optometry, Board of
Pennington County
Perpich Center for Arts Education
Pharmacy (ASU), Board of
Physical Therapy, Board of
Plant Management Division
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
Weights and Measures Division, Department of Commerce
Public Utilities Commission
Revenue, Department of
Risk Management Division
Secretary of State
Social Work, Board of
STAR Program
State Agricultural Society (State Fair)
Real Estate and Construction Services
State Armory Building Commission
State Arts Board
State Auditor
State Energy Office
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
Zoological Board

# Key Events

## Property Reinsurance Program

The 2008 fiscal year is notable for several key improvements in the Property Reinsurance Program.

Retention – the amount the Risk Management Fund (RMF) pays for each property loss before the reinsurer steps in – decreased from $1.5 million to $1 million. Although the reinsurance program sought to reduce retention in prior years, the cost was prohibitive. That changed in FY08.

A soft reinsurance market and an overall favorable property loss experience by the state created an environment in which the program's reinsurer would provide a $500,000 reduction in retention for a nominal premium of $80,000. The investment more than paid for itself when the state received $500,000 from its reinsurer on a property loss that exceeded $1.5 million.

Additionally, the Property Reinsurance Program secured increases in the extra expense sublimit, from $40 million to $50 million, and the flood sublimit, from $50 million to $100 million.

Of particular note, especially considering the additional $80,000 retention premium, the RMF's overall rate *decreased* by about 16 percent, from .028 to .024.

## Property and Casualty Claims

### I-35 Bridge Collapse Emergency Wage Relief Fund

Following the collapse of the Interstate 35W bridge in Minneapolis on August 1, 2007, the state legislature's Joint House-Senate Subcommittee on Claims, in conjunction with the Governor's Office, appropriated funds to provide financial relief to victims. The existence of a structural legal framework under Minnesota Automobile No-Fault Statute 65B.49 offered a basis for quickly distributing financial assistance. Risk Management Division (RMD), as the entity responsible for administering no-fault claims for the state, was selected to administer this program. A total of $260,000 was distributed to 31 qualifying persons in FY08.

### Property Claims Upward Pressure

Although incoming claim counts have declined significantly from FY06 and remained steady the past two years, the RMF's total incurred loss increased substantially in FY08, to a five-year high of nearly $4.5 million. The total reflects several mid-range losses between $200,000 and $1 million.

Water damage from various causes accounted for the majority of claims, many of which could have been smaller except for one common extenuating circumstance: The buildings were unoccupied when the leaks began. As a result, water continued to flow over extended periods and caused significant damage in several buildings. The following table shows claim counts and losses over five fiscal years.

| Fiscal Year | Claim Count | Total Incurred Loss |
|---|---|---|
| FY04 | 134 | $716,000 |
| FY05 | 146 | $239,000 |
| FY06 | 175 | $1,345,000 |
| FY07 | 87 | $156,000 |
| FY08 | 89 | $4,475,000 |

# Safety and Loss Control Programs

Reducing risk through proactive and innovative risk, loss control and claims management practices is fundamental to the mission of the RMD. The division offers a variety of free loss prevention and loss control services that help policyholders identify property protection deficiencies and address life-safety issues. The ultimate goal is protecting state assets. These services include:

## COPE

COPE helps ensure that state properties insured through the RMF comply with fire and life-safety codes. An acronym for construction, occupancy, protection and exposure, COPE is a survey-based program that includes a building-specific examination of sprinkler systems, fire pumps, alarm systems, flammable liquids storage and other property exposures. These property loss conservation surveys are conducted by an outside property loss control consultant and/or RMD staff member.

## Infrared Electrical Systems Surveys

An infrared electrical systems survey uses thermal imaging equipment for locating and identifying anomalies within a building's electrical distribution system. 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 can lead to an unscheduled shutdown, serious equipment damage or fire.

## Appraisals

The RMF insures over $11 billion of state-owned real property. It is critical that the value of each building accurately reflect the cost of replacement if a fire or other catastrophic event destroys it. RMD utilizes the services of a nationally recognized property valuation firm for physically surveying state buildings and providing a formal property appraisal.

## Automobile Fleet Safety

In addition to its property loss prevention programs, RMD has assisted the State Fleet Safety Task Force with the development of Model Fleet Safety Management Standards for state agencies. The task force, with representatives from the five largest agency fleet operators, continues to assist agencies with adapting the fleet safety program to their specific mission.

# Dividends

The FY08 dividend of $1,383,483 was calculated as of June 30, 2008, and declared and paid in FY09. Total dividends paid since the RMF's inception are $15,691,815. FY08 dividends, by line of insurance, are:

| | Calculated in FY08 | Total dividends declared |
|---|---|---|
| Auto Liability | $ 382,249 | $ 7,298,942 |
| General Liability | 453,897 | 4,738,219 |
| Property Insurance | 547,337 | 3,654,654 |
| | **$1,383,483** | **$15,691,815** |

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 over a four-year period at 25 percent each year.
- Automobile liability losses mature and are paid over a longer period. 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 mature over the longest period. Dividends are declared 48 months after the close of the policy year. 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 payout 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 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% |

*(Continued on page 10)*

*(Dividends, continued from page 9)*

Dividends represent the return of premium for superior loss and expense experience. Premium funds collected are invested by the State 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, dividend 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 levels dividends over time and also minimizes the possibility of a premium assessment, which can be very disruptive to an agency's budget planning.

# Division Summary of Operations

RMD in FY08 continued to provide efficient, effective and economical services to state departments, boards, bureaus, commissions and component units of the State of Minnesota, as well as to political subdivisions. Key services include:

- Managing the RMF, which operates as the state's internal insurance company. The fund provides property and casualty insurance coverages that are tailored to meet the critical needs of customers.
- Purchasing commercial insurance when the placement of insurance coverage in the RMF may not be appropriate or cost-effective for meeting the needs of customers.
- 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.

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.

RMD strives to maintain operating expenses well below the industry average for comparable insurers (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 average. The FY08 operating expense ratio, at 20.5 percent, is up slightly from the previous year; however, the RMF continues to experience a very stable expense ratio, resulting in a five-year savings of over $4.6 million.

## *Exhibit 2*
## Summary of Operations

| | FY04 | FY05 | FY06 | FY07 | FY08 |
|---|---|---|---|---|---|
| Net Premium Written | $6,309,145 | $6,996,519 | $6,453,114 | $6,654,412 | $6,753,716 |
| Industry average operation expense ratio | 29.5% | 30.3% | 30.0% | 30.9% | 32.6% |
| Projected industry average operation expense based on RMD's actual premium | $1,861,198 | $2,119,945 | $1,935,934 | $2,056,213 | $2,201,711 |
| Actual RMD operating expenses | $ 941,969 | $ 968,275 | $1,025,712 | $1,208,208 | $1,387,952 |
| RMD operating expense ratio | 14.9% | 13.8% | 15.9% | 18.1% | 20.5% |
| Savings to clients | $ 919,229 | $1,151,670 | $ 910,222 | $ 848,005 | $ 813,759 |
| Five-year total savings | $4,642,885 | | | | |

# Financial Position Discussion

The RMF continues to provide a reliable low-cost alternative to traditional insurance for state government.

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 at approximately $6.5 million annually (Exhibit 2). The drop in net premium written in FY06 is largely due to a 21 percent property rate decrease enacted that year. Many other factors influence NPW, but overall it has remained steady over the past four years.

## Net losses and expenses

After a three-year decline, net losses and expenses increased from $3,835,754 in FY07 to $6,670,792 in FY08, its highest point in recent history. The loss results in FY08 were driven by a higher frequency of losses that were within the fund's self-insured retention level and did not meet the threshold for reinsurance recoveries.

## Policyholder surplus

The impact of FY08 loss experience on policyholder surplus was softened by a nearly $1 million reduction in liabilities. The reduction was achieved by decreasing the fund's self-insured retention level from $1.5 million to $1 million and trimming IBNR (incurred but not reported), based on an actuarial recommendation, by $483,389. These changes helped offset the fund's liabilities, cushioning reductions in net assets.

## Ratio of NPW to policyholder surplus

The fund's ability to meet its current obligations remained strong. The ratio of net premium written to policyholder surplus shows that the fund's capacity has been developing over time and stands at .85:1 for all lines of business. In other words, the fund closed FY08 with $1 of surplus for every 85 cents in net premium written.

## *Exhibit 3*
## Self-Insurance Property and Casualty Underwriting Results

**Premiums Earned by Line**

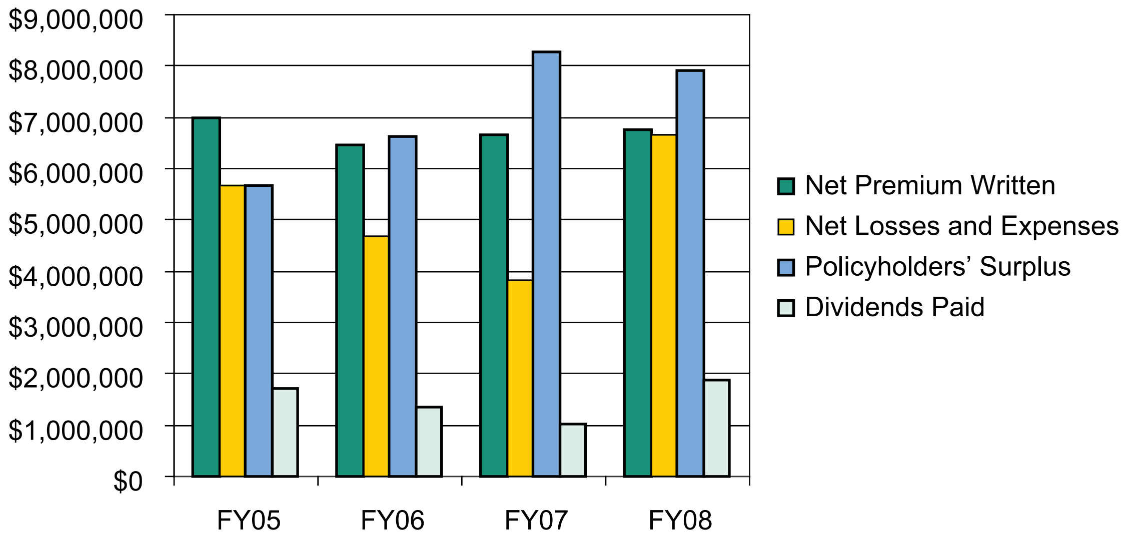
| | FY05 | FY06 | FY07 | FY08 |
|---|---|---|---|---|
| Auto Insurance | | | | |
| Auto Liability | $2,102,050 | $2,503,659 | $2,676,529 | $2,517,084 |
| Auto Physical Damage | 780,091 | 961,667 | 943,007 | 869,912 |
| Garagekeeper's Legal Liability | 33,500 | 30,668 | 31,177 | 31,629 |
| | | | | |
| Standard Commercial Insurance | | | | |
| Property | $4,696,156 | $3,822,477 | $4,256,236 | $4,516,741 |
| Boiler & Machinery | 167,778 | 88,577 | 108,491 | 107,656 |
| General Liability | 1,336,936 | 1,383,029 | 1,349,079 | 1,226,571 |
| Crime | 76,690 | 84,032 | 91,393 | 98,763 |
| Other* | 360,638 | 369,625 | 360,047 | 395,989 |
| Total Premiums Earned | $9,553,839 | $9,243,734 | $9,815,959 | $9,764,345 |
| | | | | |
| Less Reinsurance Ceded | $2,605,036 | $2,845,774 | $3,224,278 | $3,079,747 |
| Total Net Premiums Earned | 6,948,803 | 6,397,960 | 6,591,681 | 6,684,598 |
| Plus Unearned Premium | 47,716 | 55,154 | 62,731 | 69,118 |
| Total Net Premiums Written | $6,996,519 | $6,453,114 | $6,654,412 | $6,753,716 |

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

| | FY05 | FY06 | FY07 | FY08 |
|---|---|---|---|---|
| Auto Insurance | | | | |
| Auto Liability | 377% | 84% | 44% | 77% |
| Auto Physical Damage | 87% | 79% | 72% | 91% |
| Garagekeeper's Legal Liability | 14% | 18% | 38% | 24% |
| | | | | |
| Standard Commercial Insurance | | | | |
| Property | 11% | 41% | 15% | 113% |
| General Liability | 35% | 25% | 76% | 22% |
| Boiler & Machinery | 9% | 10% | 12% | 13% |
| Crime | 40% | 35% | 12% | 13% |
| Other* | 52% | 53% | 18% | 49% |
| | | | | |
| Combined Loss Ratio Before Reinsurance | 103% | 54% | 37% | 85% |
| Combined Loss Ratio After Reinsurance | 73% | 78% | 55% | 115% |

**Other includes Inland Marine and Vendor Warranty*

## *Exhibit 4*
## RMF Performance by Fiscal Year




| | FY05 | FY06 | FY07 | FY08 |
|---|---|---|---|---|
| Net Premium Written (NPW) | $6,996,519 | $6,453,114 | $6,654,412 | $6,753,716 |
| Net Losses & Expenses [1] | 5,677,016 | 4,672,558 | 3,835,754 | 6,670,792 |
| Policyholders' Surplus | 5,664,417 | 6,616,058 | 8,288,762 | 7,906,204 |
| Dividends Paid | 1,729,215 | 1,361,289 | 1,036,430 | 1,875,409 |
| NPW to PH Surplus Ratio | 1.24/1 | .98/1 | .80/1 | .85/1 |

[1] Historical numbers were adjusted to include changes in IBNR

**State of Minnesota**
**Risk Management Fund**
**Statement of Net Assets**
**June 30, 2008**

**ASSETS**

| | FY08 | FY07 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | 16,343,347.11 | 17,144,341.74 |
| Accounts Receivable | 25,461.40 | 26,418.00 |
| Prepaid Expenses | 0.00 | 400.00 |
| Prepaid Billback Insurance | 75,373.16 | 105,238.81 |
| Reinsurance Recoverable | 943,704.00 | 495,000.00 |
| Due from Other Funds (Note 3) | 2,859.01 | 0.00 |
| Due from Others – Nonoperating (Note 4) | 0.00 | 8,959.29 |
| **Total Current Assets** | **17,390,744.68** | **17,780,357.84** |
| **NONCURRENT ASSETS** | | |
| Capital Assets (Note 5) | 14,180.72 | 14,180.72 |
| Less: Accumulated Depreciation | (14,180.72) | (14,180.72) |
| Due from Others – Nonoperating (Note 4) | 0.00 | 8,959.28 |
| **Total Noncurrent Assets** | 0.00 | 8,959.28 |
| **TOTAL ASSETS** | **17,390,744.68** | **17,789,317.12** |

**LIABILITIES**

| | FY08 | FY07 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts Payable | 103,650.44 | 67,681.54 |
| Salaries Payable | 51,611.62 | 45,812.63 |
| Claims Payable | 5,327,297.00 | 4,402,168.00 |
| Claims Payable – IBNR (Note 1) | 3,674,195.00 | 4,657,584.00 |
| Due to Other Funds – Nonoperating (Note 8) | 9,925.39 | 23,410.72 |
| Unearned Premium – Self Insurance | 69,117.00 | 62,731.00 |
| Unearned Premium – Billback | 141,433.35 | 155,385.00 |
| Compensated Absences Payable (Note 6) | 8,351.52 | 6,234.07 |
| **Total Current Liabilities** | **9,385,581.32** | **9,421,006.96** |
| **NONCURRENT LIABILITIES** | | |
| Due to Other Funds – Nonoperating (Note 8) | 0.00 | 786.67 |
| Compensated Absences Payable (Note 6) | 96,944.11 | 78,761.78 |
| Net OPEB Obligations (Note 7) | 2,014.82 | 0.00 |
| **Total Noncurrent Liabilities** | **98,958.93** | **79,548.45** |
| **TOTAL LIABILITIES** | **9,484,540.25** | **9,500,555.41** |
| **NET ASSETS** (Note 9) | | |
| Invested in Capital Assets, Net of Related Debt | 0.00 | 0.00 |
| Unrestricted Net Assets | 7,906,204.43 | 8,288,761.71 |
| **TOTAL NET ASSETS** | **7,906,204.43** | **8,288,761.71** |



*(Continued on page 16)*

*(Financials, continued from page 15)*

**State of Minnesota**
**Risk Management Fund**
**Statement of Revenues, Expenses & Changes in Net Assets**
**For Period Ended June 30, 2008**

| | FY08 YTD | FY07 YTD |
|---|---|---|
| **OPERATING REVENUES** | | |
| Insurance Premiums – Self Insurance | 9,764,345.00 | 9,815,959.00 |
| Insurance Premiums – Billback | 1,053,545.00 | 1,044,639.00 |
| Non-Insured Tort Claims | 116,348.00 | 121,055.00 |
| Consulting Services | 1,500.00 | 1,800.00 |
| **Total Operating Revenues** | **10,935,738.00** | **10,983,453.00** |
| **OPERATING EXPENSES** (Note 1) | | |
| Claims – Self Insurance | 5,287,808.02 | 3,470,103.28 |
| Claims – IBNR | (983,389.00) | (71,143.00) |
| Salaries & Benefits | 966,870.03 | 872,646.94 |
| Rent | 36,031.03 | 34,930.09 |
| Advertising | 790.80 | 0.00 |
| Repairs | 6,001.00 | 413.85 |
| Insurance | 1,657.22 | 1,040.00 |
| Insurance Premium – Billback | 1,053,545.00 | 1,044,639.00 |
| Insurance Premium – Self Insurance | 3,079,747.37 | 3,224,278.40 |
| Printing | 5,066.36 | 5,162.52 |
| Professional Services – Adjuster | 316,943.83 | 232,605.48 |
| Professional Services – Broker | 167,333.36 | 150,000.00 |
| Professional Services – Legal and Other | 11,090.00 | 316.70 |
| Computer Services | 86,308.70 | 73,837.66 |
| Communications | 30,050.10 | 41,449.82 |
| Travel | 5,713.86 | 6,747.00 |
| Other Operating Costs | 13,198.42 | 10,748.02 |
| Memberships and Employee Development | 4,499.95 | 2,826.00 |
| Supplies | 11,302.89 | 17,171.76 |
| Depreciation | 0.00 | 1,178.72 |
| Indirect Costs | 141,200.23 | 75,987.00 |
| **Total Operating Expenses** | **10,241,769.17** | **9,194,939.24** |
| **OPERATING INCOME (LOSS)** | **693,968.83** | **1,788,513.76** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Interest Earnings | 795,643.54 | 920,207.58 |
| Policyholder Dividend Expense | (1,875,409.00) | (1,036,430.00) |
| Nonoperating Revenues (Note 4) | 0.00 | 0.00 |
| **Total Nonoperating Revenues (Expenses)** | **1,079,765.46)** | **(116,222.42)** |
| **CHANGE IN NET ASSETS** | (385,796.63) | 1,672,291.34 |
| **NET ASSETS, BEGINNING** | 8,288,761.71 | 6,616,058.37 |
| Adjustment to Net Assets (Note 10) | 3,239.35 | 412.00 |
| **NET ASSETS, ENDING** | **7,906,204.43** | **8,288,761.71** |



*(Continued on page 17)*

*(Financials, continued from page 16)*

**State of Minnesota**
**Risk Management Fund 410**
**Footnotes to Financial Statements**
**For Period Ended June 30, 2008**

**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, 2008 for claims incurred prior to July 1, 2008.

**2. LEGISLATION AND AUTHORITY**

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

**3. DUE FROM OTHER FUNDS**

The $2,859.01 is an amount due to the Risk Management Division based on damage that occurred during the move in FY08.

**4. DUE FROM OTHERS – NONOPERATING**

In FY06, a settlement agreement was filed by the New York Attorney General and an Amended Citation issued by the New York State Superintendent of Insurance to compensate eligible policyholder clients. The total compensation is $53,607.36: Risk Management $48,899.01, other state agencies and political subdivisions $4,708.35. During FY08, Risk Management received payments totaling $17,918.57. This amount paid off the outstanding balance due to Risk Management from the settlement.

**5. CAPITAL ASSETS**

| | Acquisition Cost | Accrued Depreciation |
|---|---|---|
| Balances as of 07/01/07 | 14,180.72 | (14,180.72) |
| Additions | | |
| Deletions | | |
| Write-offs | | |
| Current Depreciation | . | . |
| Balances as of 06/30/08 | 14,180.72 | (14,180.72) |

The 4th quarter of FY08 indicates that all capital assets are fully depreciated.

**6. 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 | 6,234.07 | 78,761.78 |
| Increases in Compensated Absences | 2,117.45 | 18,182.33 |
| Decreases in Compensated Absences | . | . |
| Compensated Absences, Ending Balance | 8,351.52 | 96,944.11 |

**7. 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.

**8. DUE TO OTHER FUNDS**

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

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.

In FY07, the total Due To Other Funds of $24,197.39 is the summation of the following:
$ 10,315.26 to health and safety committee to purchase supplies and/or memberships
$ 12,307.78 to Comm.Media
$ 1,574.35 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 as follows: $787.68 in FY08, and $786.67 in FY09.



*(Continued on page 18)*

*(Financials, continued from page 17)*

### 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 | 0.00 |
| Unrestricted Net Assets | 7,906,204.43 |
| Total Net Assets | 7,906,204.43 |

Schedule of Retained Earnings

| | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|---|---|---|---|---|
| Beginning Retained Earnings | 8,288,761.71 | 5,925,045.96 | 6,737,946.09 | 6,873,483.83 |
| Prior Period Adjustment | 0.00 | 0.00 | 0.00 | 3,239.35 |
| Quarterly Net Income (Loss) | (2,363,715.75) | 812,900.13 | 135,537.74 | 1,029,481.25 |
| Ending Retained Earnings | 5,925,045.96 | 6,737,946.09 | 6,873,483.83 | 7,906,204.43 |
| Add: Capital Contributions | 0.00 | 0.00 | 0.00 | 0.00 |
| Reconciliation to Total Net Assets | 5,925,045.96 | 6,737,946.09 | 6,873,483.83 | 7,906,204.43 |

### 10. ADJUSTMENTS TO NET ASSETS

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.

During the 3rd quarter of FY07, there was an adjustment to net assets for $412.00. This reflects a reduction to overstated FY05 salary expense.

Upper Midwest Insurance Services LLC

Kevin J. Moynihan ACAS MAAA
Principal

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

## Statement of Actuarial Opinion
## as of March 31, 2008

### 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, 2008.

### 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, 2008.

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

| Line of Coverage | Low | Expected | High |
|---|---|---|---|
| Automobile Liability | $ 3,767,000 | $ 4,028,000 | $ 4,443,000 |
| General Liability | $ 1,638,000 | $ 1,845,000 | $ 2,082,000 |
| Total | $ 5,405,000 | **$ 5,874,000** | $ 6,525,000 |

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, 2008. 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

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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, 2008.

**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 16, 2008

*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.*

*This document can be made available in alternative formats, such as large print, Braille, or audio tape or disk by calling 651.201.2588. Consumers with a hearing or speech disability may call us through the Minnesota Relay Service at 711 or 800-627-3529, or via email (risk.management@state.mn.us).*

*Cover photos courtesy of the Minnesota Historical Society, various Minnesota State Colleges and Universities and various state agencies and offices.*