Workers’ Compensation Fund

Financial Report
With Supplemental Information
June 30, 2011
**Michigan Municipal League Workers’ Compensation Fund**

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Independent Auditor’s Report

To the Board of Trustees
Michigan Municipal League Workers’ Compensation Fund

We have audited the accompanying statement of net assets of Michigan Municipal League Workers’ Compensation Fund (the “Fund”) as of June 30, 2011 and 2010 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal League Workers’ Compensation Fund at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management’s discussion and analysis and schedule of claims information for line of coverage (identified in the table of contents) are not required parts of the financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.
To the Board of Trustees  
Michigan Municipal League Workers’  
Compensation Fund

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Michigan Municipal League Workers’ Compensation Fund’s basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 31, 2011
Michigan Municipal League Workers’ Compensation Fund

Management’s Discussion and Analysis

This section of Michigan Municipal League Workers’ Compensation Fund’s (the “Fund”) annual financial report presents our discussion and analysis of the Fund’s financial performance during the year ended June 30, 2011. Please read it in conjunction with the Fund’s financial statements, which immediately follow this section.

The Reporting Entity

Michigan Municipal League Workers’ Compensation Fund (the “Fund”) is a group self-insurance program which provides workers' disability compensation benefits to the injured employees of Fund members. The Fund provides additional membership services designed to improve loss control information and reduce the cost of workers' compensation claims.

The Fund is comprised of public employers in the state of Michigan which are authorized and approved to enter into agreements to pool their liabilities under Section 611(2) of PA 317 of 1969, the Workers' Disability Compensation Act, commonly referred to as the “Act.” The Fund was created by the Michigan Municipal League (the “League”) in 1976 and began operations in 1977. As a condition of membership in the Fund, each public employer must be either a member or an associate member of the League.

The Michigan Workers’ Compensation Agency (the “Agency”) provides regulatory oversight of the Fund. Governing authority for the Fund's 13-member board of trustees is provided through Rule 408.43i of the Agency regulations, as well as the bylaws and operating procedures of the Fund.

Our discussion and analysis of Michigan Municipal League Workers’ Compensation Fund’s financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Fund's financial statements, which begin on page 15.

Financial Overview

This annual statement consists of three parts - management’s discussion and analysis (this section), the basic financial statements, and required supplemental information.

The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting the Fund’s assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For the purpose of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity which are collectible or becoming due within 12 months of the statement’s date.
Michigan Municipal League Workers’ Compensation Fund
Management’s Discussion and Analysis (Continued)

- **Statement of Revenue, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.

- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the calendar year.

The Fund’s accounting records are maintained on an accrual basis, which is in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by the Fund, which also includes any potential unrecoverable reinsurance claims. Financial data is presented for both the current and prior fiscal year. Financial data is also compared to an annual budget adopted by the board of trustees.

**Additional Information - Notes to the Financial Statements**

The notes provide additional information that is integral to a full understanding of the financial information presented in the financial statements. The notes to the financial statements begin on page 18.

**Required Supplemental Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information regarding the Fund’s 10-year claims development history. Setting member rates today to cover the assumed risk of possible future loss occurrences is largely guided by actuarial estimates of claims development. Analysis of trends in claims development indicates whether losses are increasing, decreasing, or static. Required supplemental information is located on pages 30 and 31.

**Other Supplemental Information**

In addition to the basic financial statements, accompanying notes, and required supplemental information, this report also presents certain other supplemental information reflecting the financial activity for each fund year, defined as July 1 to June 30, each of which must “stand on its own.” The Agency requires that revenue exceed expenses in each fund year. In the event expenses exceed revenue, the fund year deficit is eliminated by transfers from the contingency reserve fund. The detailed statements report all of the Fund’s financial activities for the past nine years. These statements help to point out how each fund year has influenced the combined results of operations. The detailed statements can be found on pages 33-38.
Financial Highlights

- Membership levels remained stable at 849, a net increase of four members during the year.

- Net ultimate loss projections by policy year were favorable compared to the results derived in last year’s analysis except for the 2008-2009 and 2009-2010 periods. Ultimate loss estimates in these two years have increased from prior estimates due to adverse claim emergence. Overall, as of June 30, 2011, net ultimate loss projections, excluding changes in unallocated loss adjustment expenses, have increased approximately $0.6 million for prior years through to 2009-2010. Total net outstanding losses and loss adjustment expense reserves, excluding unallocated loss adjustment expenses, at June 30, 2011 are $53,951,455 at a 90 percent confidence level. Loss ratios increased from the 1994-1995 through to the 2001-2002 period due to an increase in average claim severity combined with rate decreases. While severity decreased in the 2002-2003 year, ultimate claim projections reveal a steady increase in severity for 2003-2004 and subsequent years. Early indications reveal steady increases in severity offset by decreases in claim frequency for the upcoming year. Gross loss ratios have consistently been in the 70 percent to 80 percent range for the past 12 years, with the exception of the 2001-2002 year which slightly exceeded 80 percent.

- Total assets increased by $3.5 million, a 2.6 percent increase during the year. The Fund’s investments experienced a total return of 5.77 percent for the 12 months ended June 30, 2011. The strong growth in equity market returns (in excess of 33 percent) drove the Fund’s total return higher as the fixed-income portion of the portfolio returned just 4.04 percent.

- The Fund reported an increase in net assets, excluding dividends to members, of $6.4 million for 2010-2011, compared to $10.8 million for 2009-2010. Dividends declared and paid amounted to $7.0 million in both years. The operating income (loss) and nonoperating income produced changes in net assets of a negative $0.5 million and a positive $3.8 million for the fiscal years ended 2011 and 2010, respectively.
Michigan Municipal League Workers’ Compensation Fund
Management’s Discussion and Analysis (Continued)

## Comparative Statement of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,441,368</td>
<td>$3,853,883</td>
<td>$8,109,162</td>
</tr>
<tr>
<td>Investments at market value</td>
<td>130,106,708</td>
<td>127,944,610</td>
<td>112,598,527</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>-</td>
<td>-</td>
<td>29,763</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>767,306</td>
<td>872,713</td>
<td>868,520</td>
</tr>
<tr>
<td>Reinsurance receivable</td>
<td>64,568</td>
<td>120,056</td>
<td>53,916</td>
</tr>
<tr>
<td>Premiums receivable</td>
<td>316</td>
<td>355</td>
<td>25,480</td>
</tr>
<tr>
<td>Prepaid reinsurance premium</td>
<td>25,000</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid lease</td>
<td>1,077,500</td>
<td>1,107,500</td>
<td>1,157,500</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>137,482,766</strong></td>
<td><strong>133,924,117</strong></td>
<td><strong>122,842,868</strong></td>
</tr>
<tr>
<td><strong>Noncurrent asset - Capitalized contribution in NLC Mutual</strong></td>
<td><strong>1,563,058</strong></td>
<td><strong>1,563,058</strong></td>
<td><strong>1,563,058</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>139,045,824</strong></td>
<td><strong>135,487,175</strong></td>
<td><strong>124,405,926</strong></td>
</tr>
</tbody>
</table>

| **Liabilities**      |               |          |          |
| **Current liabilities:** |               |          |          |
| Net reserves for losses and loss adjustment expenses | 7,017,741 | 6,663,409 | 5,766,345 |
| Net reserves for incurred but not reported losses and loss adjustment expenses | 7,279,190 | 6,893,797 | 6,395,636 |
| Prepaid premiums      | 15,042,718    | 15,286,314 | 12,828,736 |
| Accounts payable      | 75,285        | 91,432    | 179,790  |
| Dividends payable     | 4,160,888     | 3,858,326 | 3,281,955 |
| **Total current liabilities** | **33,575,822** | **32,793,278** | **28,452,462** |
| **Noncurrent liabilities:** |               |          |          |
| Net reserves for losses and loss adjustment expenses | 20,470,616 | 18,864,605 | 16,819,644 |
| Net reserves for incurred but not reported losses and loss adjustment expenses | 21,233,256 | 19,516,849 | 18,655,198 |
| **Total noncurrent liabilities** | **41,703,872** | **38,381,454** | **35,474,842** |
| **Total liabilities**  | **75,279,694** | **71,174,732** | **63,927,304** |
| **Net Assets - Unrestricted** | **$63,766,130** | **$64,312,443** | **$60,478,622** |
Operating Results and Changes in the Fund’s Net Assets

The majority of the Fund’s operating revenue and expenses is contained within a relatively small number of accounts. The following is a brief description of those accounts:

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$24,480,231</td>
<td>$25,660,832</td>
<td>$25,462,044</td>
</tr>
<tr>
<td>Less reinsurance premium expense</td>
<td>(1,867,152)</td>
<td>(1,921,921)</td>
<td>(1,929,848)</td>
</tr>
<tr>
<td><strong>Net premiums</strong></td>
<td>22,613,079</td>
<td>23,738,911</td>
<td>23,532,196</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses and loss adjustment expenses incurred -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net of reinsurance</td>
<td>20,116,124</td>
<td>20,545,065</td>
<td>16,481,193</td>
</tr>
<tr>
<td>Service agents’ fees</td>
<td>2,599,798</td>
<td>2,606,088</td>
<td>2,552,018</td>
</tr>
<tr>
<td>State assessments</td>
<td>269,801</td>
<td>165,724</td>
<td>187,638</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>543,862</td>
<td>583,545</td>
<td>484,852</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>23,529,585</td>
<td>23,900,422</td>
<td>19,705,701</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating (Loss) Income</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(916,506)</td>
<td>(161,511)</td>
<td>3,826,495</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nonoperating Income (Expense)</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income</td>
<td>7,370,193</td>
<td>10,995,332</td>
<td>2,935,628</td>
</tr>
<tr>
<td>Dividends to members</td>
<td>(7,000,000)</td>
<td>(7,000,000)</td>
<td>(7,000,000)</td>
</tr>
<tr>
<td><strong>Total nonoperating income (expense)</strong></td>
<td>370,193</td>
<td>3,995,332</td>
<td>(4,064,372)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Decrease) Increase in Net Assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(546,313)</td>
<td>3,833,821</td>
<td>(237,877)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets - Beginning of year</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>64,312,443</td>
<td>60,478,622</td>
<td>60,716,499</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets - End of year</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$63,766,130</td>
<td>$64,312,443</td>
<td>$60,478,622</td>
</tr>
</tbody>
</table>

In addition to net assets, when assessing the overall health of the Fund, the reader needs to consider other nonfinancial factors such as the legal climate in the state of Michigan, the general state of financial markets, and the level of risk prevention undertaken by the Fund and its members.
The Fund’s total assets increased 11.8 percent over the past two years, from $124.4 million to $139.0 million. A significant component of the change in Fund assets was due to changes in the investment portfolio. The investment portfolio consists of fixed-income and equity securities. The fixed-income component of the portfolio consists of a variety of securities ranging from Treasury and agency-type securities and AAA rated securities to high-yield corporate bonds. The average life of the fixed-income securities is 4.24 years with an average duration of 3.6 years, yielding an average return of 2.11 percent.

The equity component of the investment portfolio represents 8.1 percent of the total portfolio, of which 1.6 percent is invested into the following five index funds: Vanguard Total Stock Market ETF Fund, iShares Russell 1000 Index Fund, iShares Russell 3000 Index Fund, iShares S&P 500 Index Fund, and the Schwab U.S. Broad Market ETF Fund. Each equity fund is composed of a blend of equity and value, large-cap U.S. stocks. The combined equity funds generated a return of 33.7 percent for the year ended June 30, 2011.

Reinsurance receivables of $64,568 reflect amounts due from reinsurers on five large cases dating back to 1977. As payments are made on these cases, the related reinsurance is reported as a receivable. All reinsurance balances are deemed collectible.

Over the past two years, premiums receivable have decreased 99 percent. Municipalities throughout the state continue to experience decreases in revenue, resulting in reductions in staffing and minimal increases in payroll. These reductions have led to audit premiums approximating or lower than the original estimated premiums for the past couple of years. As a result, additional premiums are no longer expected.

Prepaid lease represents the Fund’s payment to the League for use of common office space and facilities within the League Capitol Office. The Fund paid $1.2 million in 2007, which is accounted for as a prepayment for the Fund’s usage of the space. This prepayment will be amortized over a 40-year period, the term of the lease agreement, at an annual rate of $30,000.

Total liabilities increased 18 percent since 2009, from $63.9 million to $75.2 million. Net reserves for losses and loss adjustment expenses increased 21.7 percent from 2009 to 2011. Net reserves for incurred but not reported losses increased 13.8 percent from 2009 to 2011. The number of claims reported decreased over the past two years, from 2,918 to 2,539 for the 2010-2011 year. Despite this decline in claims reported, average severity has increased due to rising indemnity and medical costs.

From 2009 to 2011, net assets increased 5.4 percent, from $60.4 million to $63.7 million. The change in net assets over the past two years is a direct result of fluctuations in the market value of the investment portfolio offset by increased claim severity.
Capital Assets and Debt Administration

The Fund has no long-term debt. All material commitments and contingencies are disclosed in Note 6 on pages 27 and 28 of the financial statements. The Fund has no plans to encumber itself with any debt or additional commitments or contingencies in the foreseeable future.

Premiums Earned

Workers’ compensation coverage is rated for each individual member based on established rates for 50 different class codes. The rates are applied to payrolls to determine the premium. Premiums are further adjusted by experience modifiers and discounts to reflect the actual loss experience of the member. The experience modifier is based on prior experience adjusted by certain factors. As of June 30, 2011, the Fund had 849 members reporting approximate total payrolls of $1.31 billion. Class code rates range from $.19 to $10.88. The two largest class categories are clerical/office and police.

For the fiscal year ended June 30, 2011, the Fund reported an earned premium of $24.4 million compared to $25.7 million and $25.5 million for the years ended 2010 and 2009, respectively. Premiums have decreased 3.8 percent over the past three years. From year to year, since 2004, premium rate increases have declined, starting with a 7 percent rate increase for 2003-2004 to a 0 percent change for 2006-2007, an increase of 2.8 percent for 2007-2008, a decrease of 2.3 percent for 2008-2009, an increase of 2.7 percent for 2009-2010, and a decrease of .2 percent for 2010-2011.

Reinsurance Premiums Expense

Reinsurance coverage is provided by Discover Reinsurance Company. The Fund retains the first $500,000 of each loss. Reinsurance premiums are calculated based on a contractual rate applied to the members’ estimated standard premium. The contractual rate for the year ended June 30, 2011 was 6.9465 percent, the same rate applied for fiscal years ended 2010 and 2009. Members’ estimated standard premium for 2011 was $26.3 million compared to $27.2 million for 2010 and $26.6 million for 2009.

The reinsurance premium expense is adjusted for final audited premiums. Audited premiums resulted in a refund of reinsurance premiums paid for 2009 and 2010. These adjustments resulted in reinsurance premium expense of $1.8 million, $1.9 million, and $1.9 million for the years ended June 30, 2011, 2010, and 2009, respectively.
Investment Income

Diversity of the Fund’s portfolio is intended to help shield it from the significant losses experienced within the overall investment markets. Driven by a prolonged period of low market interest rates, Fund interest income fell from $5,059,985 at June 30, 2010 to $4,420,000 at June 30, 2011, a decrease of 12.6 percent.

The funds earned $7.4 million in net investment income for the year ended 2011. For the years ended 2010 and 2009, the portfolio reported net investment income of $11.0 million and $2.9 million, respectively.

Net Increase (Decrease) in the Fair Market Value of Investments and Realized Gains (Losses)

The Fund experienced a net increase in the fair market value of investments and realized gains of $2.95 million for 2011, compared to the net increase of $5.9 million in 2010 and a net decrease of $2.4 million in 2009. Investment market values increased due to the positive returns generated in the fixed-income and equity market for 2011. The fixed-income portfolio ended the year with a 4.04 percent overall return.

As of June 30, 2011, 8.1 percent of the Fund’s portfolio was invested in five index funds. These funds generated a return of 33.67 percent for the year ended June 30, 2011.

The returns generated from the Fund’s fixed-income and equity fund resulted in a total portfolio return of 5.77 percent for the year ended 2011, compared to 9.09 percent and 5.09 percent for 2010 and 2009, respectively.

Losses and Loss Adjustment Expenses Incurred, Net of Reinsurance

The Fund processes claims and pays for covered losses experienced by its members’ employees. All claims are processed and managed by a third-party administrator. Attorneys, medical experts, and other professionals are contracted on an as-needed basis. Between the time a claim is reported and the time it is resolved, reserves are established for the estimated amount that will have to be paid at some future date to settle the loss. Reserves are also established for claims that have occurred but are not yet known to the Fund. This is known as IBNR (incurred but not yet reported) reserves whereby losses are recognized in the current year for claims that will not be reported until future periods. This process allows a matching of current year premium with estimated total losses.

Losses and loss adjustment expenses incurred represent payments and changes in reserves for the fiscal year. Net incurred losses were $20.1 million for the current year, $20.5 million for 2010, and $16.5 million for 2009, up 22.0 percent over the past three years.
It is expected that workers' compensation claims costs will continue to be pushed higher over time due in large part to healthcare cost increases exceeding the rate of inflation. The Fund’s claims administrator takes full advantage of the state medical fee schedule that allows Michigan insurers to evaluate and control their medical expenses. However, the medical fee schedule's positive effects are tempered by the fact that injured employees in Michigan have higher than average utilization of medical services for treatment.

**Service Agent Fees**

The Fund is sponsored and administered by the Michigan Municipal League (MML or the “league”) as a service for MML members and other public sector entities. The Fund has no employees. As such, the Fund contracts with MML and Meadowbrook Insurance Group (MIG) for services.

Service agent fees include claims administration, marketing, loss control, risk management, and finance and accounting services pursuant to the MIG and MML contracts. The MIG contract provides for claims administration, marketing, and loss control services. The costs for these services amounted to $1,402,018 for 2011. The MML contract provides for risk management and finance and accounting services, as well as facilities and equipment at an annual minimum cost of $1,110,000. This fee is adjusted annually for inflation. The amount paid in 2011 was $1,197,780. During 2007, the Fund agreed to pay MML $1,200,000 for use of common office space and facilities within the League Capitol Office. The $1,200,000 payment is accounted for as a prepayment for the Fund’s usage of the space over a 40-year period.

**State of Michigan Fund Assessments**

Assessments levied by the State of Michigan for the Second Injury Fund and Silicosis Fund will vary from year to year. Therefore, annual assessments are difficult to accurately estimate. This assessment has ranged from a high in 1996 of $314,000 to a low of $81,880 in 2003. The assessments for 2011, 2010, and 2009 are $269,801, $165,724, and $187,638, respectively.

**Administrative Expenses**

In providing coverage and other member services, the Fund incurs administrative expenses. All administrative expenses are budgeted and monitored on a monthly basis for compliance with budgetary limits. Administrative expenses include actuarial, financial audit, legal, member payroll audit, banking and investment fees, board meeting travel expenses, printing and supplies, and information technology services.
Administrative expenses of $543,861 for 2011 represent a 12.2 percent increase over the past three years. Data processing, trustee seminars, and actuary fees drove the increase in 2010. For data processing, payment was made to a third-party vendor to develop a member cash flow program which was eventually brought in house. Actuary fees increased due to a presentation at the strategic planning meeting in June 2010. Trustee seminars increased due to higher attendance at the NLC Trustees Conference in Little Rock, AR.

Economic Factors

Strong Regulatory Oversight

Workers' compensation group self-insurance programs operate under regulatory oversight that is much stricter than for commercial insurers. The Agency approves all rates in advance of their use. The Agency requires that an actuary develop rates to a 90 percent confidence level. The Agency reviews and approves in advance all rate modifiers. Anticipated investment income cannot be used in rate development. Loss reserves cannot be discounted for the time value of money. The Agency reviews and approves all requests for dividend distributions and an independent review and opinion of all claim reserves accompanies a request to the Agency for a dividend distribution.

These regulations emphasize and serve as a constant reminder that the Fund has one primary purpose: to ensure that funds are available to pay all benefits due to injured employees of Fund members for as long as such benefits are due.

Board Oversight

The mission of the Fund is to be long term, stable, and cost-effective. Investments are professionally and independently managed, with quarterly reports to the governing board. Additionally, the investment manager's performance is independently reviewed by a professional investment firm, with quarterly written reports and one annual verbal report to the governing board.

Investment Risk

A significant portion of the Fund's annual net income is derived from its investments. The deposits and investments of the Fund are exposed to risks that have the potential to result in losses. As such, there is the risk that the Fund will not earn expected returns and that the investments may lose value. The Fund may be exposed to common deposit and investment risks that relate to credit risk, concentration of risk, interest rate risk, and foreign currency risk.

In accordance with Statement No. 40 of the Governmental Accounting Standards Board, disclosures are presented in Note 2 on pages 21-25 of the audit report to inform readers about deposit and investment risks that could affect the Fund's ability to provide services and meet its obligations.
Risk of Inadequate Loss Reserves

We consider the risk of using significant amounts of surplus to strengthen loss reserves to be low. Mentioned previously are certain regulatory requirements designed to avoid inadequate loss reserves, including the need to annually establish rates to a 90 percent confidence level, annual reserve reviews by an independent actuary, and independent claims reviews prior to dividend distributions.

The Fund uses several recognized insurance industry performance benchmarks to communicate our financial position to our members and other interested parties. Current benchmarks are available on our website at www.mml.org and by reference are made a part of this report.

Reinsurance Cost

Reinsurance premiums may increase over time as reinsurers pass along their claims costs to primary insurers such as the Fund. These increases will be moderated somewhat by the Fund's own claims frequency, which is better than average for workers' compensation insurers. We believe that the conservative nature of Michigan’s regulatory restrictions, combined with the conservative scope of our mission, will continue to cushion the Fund from volatility in rate or loss reserve fluctuation.

Annual Adopted Budget and Budgetary Controls

Each year, the Fund adopts an annual operating budget for the current fund year. The budget is presented to the Fund’s board of trustees for final review and adoption. The board approves any interim amendments to the annual budget. The fund administrator prepares the budget and reviews expenditures on a quarterly basis. The budget reflects only the current fund year financial information whereas the complete financials for the Fund start on page 15.
The following is an explanation of the significant variances of the budget to actual for fund year 2010-2011.

Premiums were lower than the budget parameters. The budget anticipated a 0.2 percent rate decrease and a 7 percent decrease in member payrolls based on the 2009-2010 unaudited premium of $26,500,000. The audited premium for the 2009-2010 year was actually $850,798 lower than estimated, which is the result of the variance. Total unaudited payroll for 2010-2011 amounted to $1,308,445,851, a 2 percent increase over the prior year.

Reinsurance premiums are a function of written premium. The budget was based on approximately $26,000,000 of written premium at a rate of 6.94 percent. Actual reinsurance premiums were very close to the budgeted parameters of $1.9 million.

The investment income variance of $2,664,479 is the result of additional investment income earned and an increase in the overall investment market values.

Losses and loss adjustment expenses incurred, net of reinsurance exceeded the budgeted parameters by $1,465,502. The budgeted figure for paid claims, which is subject to some volatility, was $4,000,000 compared to actual paid claims of $5,414,507, or 35.4 percent over budget. Change in reserves was budgeted at $16,000,000 compared to a final actuarially determined change of $16,050,995 or 0.3 percent over budget. The overall increase in incurred loss and loss adjustment expenses is in part a result of an increase in the severity of claims, especially as it relates to medical cost inflation.
Administrative expenses are 11.4 percent lower than the budgeted parameter. Most expenses were incurred during the year at a lower level than budgeted. Lower expenses were mostly related to the decline in the financial audit fees, as well as actuarial fees, data processing, legal, and information and technology.

**Future Projects**

No major initiatives or projects are planned.

**Contacting the Fund’s Management**

The financial report is designed to provide our members, customers, and the general public with a general overview of the Fund’s finances and to demonstrate the Fund’s accountability for the money it receives. For more information about Michigan Municipal League Workers’ Compensation Fund, visit our website at www.mml.org.
Michigan Municipal League Workers’ Compensation Fund

Statement of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>June 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (Note 2)</td>
<td>$ 5,441,368</td>
<td>$ 3,853,883</td>
</tr>
<tr>
<td>Investments (Note 2)</td>
<td>130,106,708</td>
<td>127,944,610</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess insurance</td>
<td>64,568</td>
<td>120,056</td>
</tr>
<tr>
<td>Premiums</td>
<td>316</td>
<td>355</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>767,306</td>
<td>872,713</td>
</tr>
<tr>
<td>Prepaid expenses (Note 6)</td>
<td>1,102,500</td>
<td>1,132,500</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>137,482,766</td>
<td>133,924,117</td>
</tr>
<tr>
<td>Noncurrent asset - Capitalized contribution in NLC Mutual</td>
<td>1,563,058</td>
<td>1,563,058</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>139,045,824</td>
<td>135,487,175</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net reserve for losses and loss adjustment expenses - Current portion (Note 3)</td>
<td>7,017,741</td>
<td>6,663,409</td>
</tr>
<tr>
<td>Net reserve for incurred but not reported losses and loss adjustment expenses - Current portion (Note 3)</td>
<td>7,279,190</td>
<td>6,893,797</td>
</tr>
<tr>
<td>Premiums collected in advance</td>
<td>15,042,718</td>
<td>15,286,314</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>75,285</td>
<td>91,432</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>4,160,888</td>
<td>3,858,326</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>33,575,822</td>
<td>32,793,278</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net reserve for losses and loss adjustment expenses - Net of current portion (Note 3)</td>
<td>20,470,616</td>
<td>18,864,605</td>
</tr>
<tr>
<td>Net reserve for incurred but not reported losses and loss adjustment expenses - Net of current portion (Note 3)</td>
<td>21,233,256</td>
<td>19,516,849</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>41,703,872</td>
<td>38,381,454</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>75,279,694</td>
<td>71,174,732</td>
</tr>
<tr>
<td><strong>Net Assets - Unrestricted</strong></td>
<td>$ 63,766,130</td>
<td>$ 64,312,443</td>
</tr>
</tbody>
</table>

The Notes to Financial Statements are an Integral Part of this Statement.
### Michigan Municipal League Workers’ Compensation Fund

#### Statement of Revenue, Expenses, and Changes in Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Year Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
</tr>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$ 24,480,231</td>
</tr>
<tr>
<td>Less reinsurance premium expense</td>
<td>(1,867,152)</td>
</tr>
<tr>
<td><strong>Net premiums earned</strong></td>
<td>22,613,079</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Losses and loss adjustment expenses -</td>
<td></td>
</tr>
<tr>
<td>Net of reinsurance (Note 3)</td>
<td>20,116,124</td>
</tr>
<tr>
<td>Service fees</td>
<td>2,599,798</td>
</tr>
<tr>
<td>State assessments</td>
<td>269,801</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>543,862</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>23,529,585</td>
</tr>
<tr>
<td><strong>Operating Loss</strong></td>
<td>(916,506)</td>
</tr>
<tr>
<td><strong>Nonoperating Income (Expense)</strong></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>7,370,193</td>
</tr>
<tr>
<td>Dividends to members</td>
<td>(7,000,000)</td>
</tr>
<tr>
<td><strong>Total nonoperating income</strong></td>
<td>370,193</td>
</tr>
<tr>
<td><strong>(Decrease) Increase in Net Assets</strong></td>
<td>(546,313)</td>
</tr>
<tr>
<td><strong>Net Assets</strong> - Beginning of year</td>
<td>64,312,443</td>
</tr>
<tr>
<td><strong>Net Assets</strong> - End of year</td>
<td>$ 63,766,130</td>
</tr>
</tbody>
</table>

The Notes to Financial Statements are an Integral Part of this Statement.
# Statement of Cash Flows

**Year Ended June 30**

### Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from premiums</td>
<td>$24,292,162</td>
<td>$28,107,158</td>
</tr>
<tr>
<td>Receipts (disbursements) for other income (expense)</td>
<td>$105,407</td>
<td>$(4,193)</td>
</tr>
<tr>
<td>Receipts from reinsurers</td>
<td>$308,066</td>
<td>$147,439</td>
</tr>
<tr>
<td>Receipts from third parties - Claim recoveries</td>
<td>$235,553</td>
<td>$235,553</td>
</tr>
<tr>
<td>Payments on claims</td>
<td>$(16,597,600)</td>
<td>$(16,626,220)</td>
</tr>
<tr>
<td>Payments to reinsurers</td>
<td>$(1,867,152)</td>
<td>$(1,921,921)</td>
</tr>
<tr>
<td>Payments for expenses</td>
<td>$(3,399,608)</td>
<td>$(3,418,715)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities: $3,076,828 $6,519,101

### Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from interest income</td>
<td>$4,420,000</td>
<td>$5,059,985</td>
</tr>
<tr>
<td>Proceeds from sale and maturity of investments</td>
<td>$167,472,711</td>
<td>$154,912,400</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>$(166,684,616)</td>
<td>$(164,323,136)</td>
</tr>
</tbody>
</table>

Net cash provided by (used in) investing activities: $5,208,095 $(4,350,751)

### Cash Flows from Noncapital Financing Activities - Payment of dividends

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$(6,697,438)</td>
<td>$(6,423,629)</td>
</tr>
</tbody>
</table>

### Net Increase (Decrease) in Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,587,485</td>
<td>$(4,255,279)</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents - Beginning of year

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$3,853,883</td>
<td>$8,109,162</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents - End of year

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,441,368</td>
<td>$3,853,883</td>
</tr>
</tbody>
</table>

### Reconciliation of Operating Loss to Net Cash from Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(916,506)</td>
<td>$(161,511)</td>
</tr>
<tr>
<td>Changes in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>$105,407</td>
<td>$(4,193)</td>
</tr>
<tr>
<td>Prepaid expense</td>
<td>$30,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Reinsurance receivable</td>
<td>$55,488</td>
<td>$(66,140)</td>
</tr>
<tr>
<td>Premiums receivable</td>
<td>$39</td>
<td>$25,125</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$0</td>
<td>$29,763</td>
</tr>
<tr>
<td>Net reserves for losses and loss adjustment expenses</td>
<td>$1,960,343</td>
<td>$2,942,025</td>
</tr>
<tr>
<td>Net reserves for incurred but not reported losses and loss adjustment expenses</td>
<td>$2,101,800</td>
<td>$1,359,812</td>
</tr>
<tr>
<td>Premiums collected in advance</td>
<td>$(243,596)</td>
<td>$2,457,578</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$(16,147)</td>
<td>$(88,358)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities: $3,076,828 $6,519,101

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The Notes to Financial Statements are an Integral Part of this Statement.
Note 1 - Nature of Entity and Significant Accounting Policies

Michigan Municipal League Workers’ Compensation Fund (the “Fund”) was established to formulate, develop, and administer a program of self-insurance for participating Michigan municipalities. Any city or village that is a member of the Michigan Municipal League (the “League”) or any municipality of any city or village or any Michigan governmental entity which holds service associate status with the League is eligible to participate in the Fund. There are currently 849 members in the Fund.

The Workers’ Compensation Agency (the “Agency”) regulates the financial activities of the Fund. The Agency must approve all rates charged to participants, distributions to participants, allocations of reserves to the Contingency Fund, and transfers between the individual fund years.

Premiums from participants in each fund year are combined to provide all members with coverage for claims. The premiums and interest earned thereon are used to pay claims, administrative expenses, and to purchase reinsurance. Dividends to participants of each year may be made only from the members’ equity of that fund year, subject to approval by the Agency. In the event of a deficit in a fund year, assessments could be made against participants of that year. The board of trustees of the Fund (the “Board of Trustees”) established a contingency reserve within the members’ equity to appropriate funds for use in the event that any Fund year experiences a deficit due to adverse loss experience. The contingency reserve is available for use at the discretion of the Board of Trustees. The intent of the Board of Trustees is to fund any deficits through the contingency reserve, which was established to avoid such assessments or offset future premiums. The contingency reserve totaled $3,773,947 and $3,266,361 at June 30, 2011 and 2010, respectively.

The accompanying financial statements have been prepared on the accrual basis of accounting. The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America as applicable to governmental insurance pools. The Fund has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989 unless the GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

The Fund distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Fund’s principal ongoing operations. The principal operating revenue and expenses of the Fund relate to premium revenue and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings and dividends to members are reported as nonoperating revenue and expenses.
Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Cash Equivalents - The Fund considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at market value.

Investments - Investments consist of U.S. government securities with maturities of greater than three months, agency-backed securities, collateralized mortgage obligations, corporate bonds, and equities. All investments are stated at fair value as determined by quoted market prices. Investments in proprietary funds offered by Key Bank are valued at the quoted market value provided by the bank. All investment income, including changes in the fair value of investments, is recognized as revenue in the statement of revenue, expenses, and changes in net assets.

Accounts Receivable - Receivables from members are stated at net invoice amounts and receivables from reinsurers are computed based on the applicable insurance arrangement. Collectibility of balances is reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. No allowance for bad debts is recorded because management considers all accounts receivable to be collectible.

NLC Mutual Insurance Company - NLC Mutual Insurance Company (NLC Mutual) is a captive insurance company formed by risk funds associated with certain state municipal leagues, including the Fund. The Fund invested in NLC Mutual in 1987 as a prerequisite for membership. The Fund's capitalized contribution was $1,563,058 at June 30, 2011 and 2010. There were no distributions received in 2011 or 2010.

As described in Note 4, from 1987 to 2007, NLC Mutual provided reinsurance coverage to the Fund. Management assesses the solvency and financial health of its reinsurers to determine whether any allowances for potential uncollectible amounts may be necessary. No allowance for uncollectible amounts is recorded as management considers all amounts to be fully collectible.

Premiums Collected in Advance - Premiums collected in advance represent premiums received in the current year for policies remaining effective into the next fiscal year.
Dividends Payable - The Fund recognizes a liability for member dividends when approved by the Agency.

Net Reserves for Losses and Loss Adjustment Expenses - The Fund establishes reserves based on estimates of the ultimate cost of unsettled claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled and of claims that have been incurred but not reported. Reserves are evaluated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation is implicit in the calculation of estimated claims cost because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to reserves are charged or credited to expenses in the periods in which they are made. Because actual claims will depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the computation of reserves is a process of estimation and forecasting. The Fund retains a qualified, independent actuarial firm to perform an annual actuarial review of the reserves.

Recognition of Premiums - Premiums are earned on a pro rata basis over the term of the policy, which is generally one year. The Fund’s policy period is the same as the fiscal year; therefore, all premiums written during the year are earned. Prepaid premiums are recorded for amounts received in the current fiscal year for policies becoming effective in the next fiscal year. Premiums are paid to the Fund at rates established by the Board of Trustees pursuant to the recommendation of the Fund’s actuarial firm and by the Agency. Contributions to the Fund for the policy period ended June 30, 2011 were computed using estimated payroll figures submitted by members and include an estimated audit premium adjustment, if needed, as determined by management. At June 30, 2011 and 2010, management determined there was no audit premium adjustment needed. The Fund is currently in the process of verifying actual payroll and member contributions will be adjusted where necessary based on the results of the payroll audits. It is not anticipated that the effect will be significant.

Federal Income Tax Status - The Fund’s income is exempt from taxation under Internal Revenue Code Section 115. Accordingly, no provision has been made for taxes on income.
Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to net reserves for losses and loss adjustment expenses are described in Note 3.

Note 2 - Investments

The Fund’s investment policy is promulgated by Section 408.43i of the Agency regulations, which limits the Fund’s investments to U.S. government bonds, U.S. Treasury notes, U.S. government agency issues, U.S. government-sponsored enterprises, investment share accounts in federally insured savings and loan associations and credit unions, and certificates of deposit issued by a duly chartered commercial bank. Deposits in savings and loan associations, credit unions, and commercial banks are further limited by state and dollar amount. Section 408.43i also allows investments in corporate and municipal bonds and common and preferred stock, subject to certain restrictions based upon the proportion of such investments included in the portfolio. The Fund’s investment policy further restricts investments in mortgage-backed securities, including collateralized mortgage obligations limited to 35 percent of the portfolio’s fixed-income securities market value.

Throughout the year, the Fund’s management and investment manager review the portfolio for compliance with investment guidelines prescribed by the Agency, and if any holdings fall outside stated parameters, the Agency is contacted and provided a plan to return to compliance. At June 30, 2011 and 2010, the Fund was in compliance with the Agency regulations.

The Fund’s investments are held in the Fund’s name. The Fund has designated Key Bank for the deposit of its investments.
Note 2 - Investments (Continued)

The Fund’s cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of a bank failure, the Fund’s deposits may not be returned. The Fund does not have a deposit policy for custodial credit risk of its bank deposits. However, the Agency regulations allow deposits to exceed the federally insured amount if the amount does not exceed 5 percent of the combination of surplus and undivided profits and reserves as currently reported for each bank in the state in the banking division annual report of the financial institution’s Agency of the Department of Consumer and Industry Services or if the amount does not exceed $500,000 per institution. Effective December 31, 2010, the FDIC adopted a final rule amending its deposit insurance regulations to adopt Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), providing for unlimited deposit insurance for "noninterest-bearing transaction accounts" through December 31, 2012. At June 30, 2011 and 2010, the Fund’s cash deposit balance (without recognition of checks written but not yet cleared or of deposits in transit) totaled $9,592 and $30,401, respectively, all of which was covered by the Federal Deposit Insurance Corporation (FDIC). In addition, the Fund’s cash equivalents on the statement of net assets include $5,833,206 and $4,209,259 of money market funds at June 30, 2011 and 2010, respectively, which are uninsured and uncollateralized. These money market funds are considered investments which are discussed in the following paragraphs. The money market funds are invested in short-term direct obligations of the U.S. Treasury, including Treasury bills and notes and other securities issued or guaranteed by the U.S. Treasury or its agencies.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Fund’s investment policy does not restrict investment maturities. The Fund’s policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Fund’s cash requirements.
Note 2 - Investments (Continued)

At June 30, 2011, the Fund had the following investments:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Market Value (Excluding Accruals)</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government</td>
<td>$34,903,375</td>
<td>1.55</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>19,653,704</td>
<td>0.33</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>34,545,858</td>
<td>4.36</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>29,862,456</td>
<td>1.58</td>
</tr>
<tr>
<td>Money market fund</td>
<td>5,833,206</td>
<td>0.47</td>
</tr>
<tr>
<td><strong>Total fair value</strong></td>
<td><strong>$124,798,599</strong></td>
<td></td>
</tr>
</tbody>
</table>

At June 30, 2010, the Fund had the following investments:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Market Value (Excluding Accruals)</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. government</td>
<td>$40,402,740</td>
<td>1.55</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>13,714,697</td>
<td>0.36</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>25,835,009</td>
<td>3.22</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>39,587,978</td>
<td>1.66</td>
</tr>
<tr>
<td>Money market funds</td>
<td>4,209,259</td>
<td>0.47</td>
</tr>
<tr>
<td><strong>Total fair value</strong></td>
<td><strong>$123,749,683</strong></td>
<td></td>
</tr>
</tbody>
</table>

Credit Risk - The Fund’s fixed-income investment portfolio consists of a variety of securities ranging from Treasury to agency-type securities and AAA to A-rated securities. The overall quality rating of the fixed-income portfolio is equal to an AAA-rated portfolio on a market value-weighted basis. No unrated corporate securities are purchased.
Note 2 - Investments (Continued)

At June 30, 2011, the credit quality rating of debt securities, without regard to investment type, is as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Estimated Market Value</th>
<th>Quality Weightings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$11,721,117</td>
<td>21.93%</td>
</tr>
<tr>
<td>AA</td>
<td>9,903,213</td>
<td>18.52%</td>
</tr>
<tr>
<td>A</td>
<td>26,005,785</td>
<td>48.64%</td>
</tr>
<tr>
<td>N/A</td>
<td>5,833,206</td>
<td>10.91%</td>
</tr>
<tr>
<td>Total</td>
<td>$53,463,321</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

At June 30, 2010, the credit quality rating of debt securities, without regard to investment type, is as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Estimated Market Value</th>
<th>Quality Weightings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$27,670,739</td>
<td>44.81%</td>
</tr>
<tr>
<td>AA</td>
<td>5,749,567</td>
<td>9.31%</td>
</tr>
<tr>
<td>A</td>
<td>24,122,803</td>
<td>39.06%</td>
</tr>
<tr>
<td>N/A</td>
<td>4,209,259</td>
<td>6.82%</td>
</tr>
<tr>
<td>Total</td>
<td>$61,752,368</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

The rating organization used by the Fund to rate its investments is Standard & Poor’s. For securities not rated by Standard & Poor’s, Moody’s or Fitch ratings are provided. The rating of "N/A" represents money market funds which do not have a credit quality rating.

Concentration of Credit Risk - The objective of the Fund’s investment policy is to generate a well-diversified portfolio without any inappropriate credit concentrations. There were no investments that individually exceed 5 percent of the Fund’s total investments, other than direct obligations of the U.S government, at June 30, 2011 and 2010.
Note 2 - Investments (Continued)

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The Fund’s portfolio has no non-U.S. dollar investments, although such investments are not specifically prohibited by the investment policy. As such, the Fund is not subject to any foreign currency risk.

Note 3 - Net Reserves for Losses and Loss Adjustment Expenses

The Fund establishes reserves for both reported and unreported insured events; such reserves include estimates for future payments of losses and related loss adjustment expenses, including state assessments. A summary of changes in net losses and loss adjustment expenses for the Fund for the years ended June 30, 2011, 2010, and 2009 is as follows (amounts are net of the effects of reinsurance):

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net losses and loss adjustment expenses (undiscounted) -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>$51,938,660</td>
<td>$47,636,823</td>
<td>$47,227,426</td>
</tr>
<tr>
<td>Incurred losses and loss adjustment expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for insured events of the current fiscal year</td>
<td>21,465,502</td>
<td>20,269,928</td>
<td>19,315,084</td>
</tr>
<tr>
<td>Change in provision for insured events of prior fiscal years</td>
<td>(1,349,378)</td>
<td>275,137</td>
<td>(2,833,891)</td>
</tr>
<tr>
<td>Total incurred losses and loss adjustment expenses</td>
<td>20,116,124</td>
<td>20,545,065</td>
<td>16,481,193</td>
</tr>
<tr>
<td>Payments - Net of reinsurance recoveries and member deductibles:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses and loss adjustment expenses related to insured events of the current year</td>
<td>(5,414,960)</td>
<td>(5,777,976)</td>
<td>(5,640,154)</td>
</tr>
<tr>
<td>Losses and loss adjustment expenses related to insured events of prior fiscal years</td>
<td>(10,639,021)</td>
<td>(10,465,252)</td>
<td>(10,431,642)</td>
</tr>
<tr>
<td>Total payments</td>
<td>(16,053,981)</td>
<td>(16,243,228)</td>
<td>(16,071,796)</td>
</tr>
<tr>
<td>Net losses and loss adjustment expenses (undiscounted) -</td>
<td>$56,000,803</td>
<td>$51,938,660</td>
<td>$47,636,823</td>
</tr>
<tr>
<td>End of year</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The provision for incurred losses and loss adjustment expenses has been reduced for amounts recoverable from reinsurers of approximately $16,925,000, $13,690,000, and $11,680,000 at June 30, 2011, 2010, and 2009, respectively. Included in the amounts recoverable from reinsurers is approximately $10,136,000, $10,275,000, and $9,816,000 due from NLC Mutual at June 30, 2011, 2010, and 2009, respectively. The change in provision for insured events of prior fiscal years decreased in 2011, increased in 2010, and decreased in 2009 due primarily to claims settling for amounts different from those originally estimated.
Note 4 - Reinsurance Agreements

The Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of claims from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The portion of claims covered by reinsurance is not reported as a liability, nor is the related recoverable for the reinsurer recorded as an asset.

The Fund has obtained specific excess reinsurance and aggregate excess reinsurance for each year prior to June 30, 1986. From 1987 through 2007, the Fund’s specific excess reinsurance was placed with NLC Mutual, a related party. During 2011 and 2010, the Fund’s specific excess reinsurance was placed with Discover Property & Casualty Insurance Company. The coverage for specific claims for the policy years ended June 30, 2011 and 2010 is as follows:

<table>
<thead>
<tr>
<th>Accident Date by Insurance Period</th>
<th>Specific Occurrence</th>
<th>Maximum In Excess of Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers' compensation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy year 2009-2010</td>
<td>$ 500,000 Statutory</td>
<td></td>
</tr>
<tr>
<td>Policy year 2010-2011</td>
<td>500,000 Statutory</td>
<td></td>
</tr>
</tbody>
</table>
Note 5 - Net Assets

At the discretion of the Board of Trustees and as approved by the Agency, net assets may be returned to members in the form of dividends. During fiscal years 2011 and 2010, dividend distributions were made to members for the following fund years:

<table>
<thead>
<tr>
<th>Fund Years</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1994</td>
<td>$500,000</td>
<td>$ -</td>
</tr>
<tr>
<td>1994-1995</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td>1995-1996</td>
<td>400,000</td>
<td>-</td>
</tr>
<tr>
<td>1996-1997</td>
<td>400,000</td>
<td>-</td>
</tr>
<tr>
<td>1997-1998</td>
<td>500,000</td>
<td>-</td>
</tr>
<tr>
<td>1998-1999</td>
<td>-</td>
<td>1,000,000</td>
</tr>
<tr>
<td>1999-2000</td>
<td>-</td>
<td>1,500,000</td>
</tr>
<tr>
<td>2000-2001</td>
<td>1,000,000</td>
<td>4,500,000</td>
</tr>
<tr>
<td>2001-2002</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>2002-2003</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td>2009-2010</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,000,000</strong></td>
<td><strong>$7,000,000</strong></td>
</tr>
</tbody>
</table>

In July 2011, the Agency approved a $4,300,000 dividend.

Note 6 - Commitments and Contingencies

The Fund has a contract with a service agent to provide claims administration services, law enforcement risk reduction services, and marketing and risk control services. This contract is renewed annually and contains future obligations to pay service fees through fiscal year 2011. Maximum service fees under this agreement are approximately $1,402,000 and $1,403,000 for the years ended 2011 and 2010, respectively.

The Fund has an agreement with the Michigan Municipal League to provide services to the Fund including claims administration, data processing, staff travel, printing, and supplies. Under the terms of this agreement, the Fund paid the League approximately $1,198,000 and $1,201,000 for the years ended June 30, 2011 and 2010, respectively, for all services provided.

The Fund has a lease agreement with the League through 2047 for the use of common space and facilities within the League Capitol Office. The Fund prepaid the total rent of $1,200,000, which will be amortized over the lease term. Total rent expense under the new agreement was $30,000 for the years ended June 30, 2011 and 2010.
Note 6 - Commitments and Contingencies (Continued)

The Fund had approximately $30,200 and $43,400 as of June 30, 2011 and 2010, respectively, of annuity contracts outstanding from third-party life insurance companies to make structured settlements of claims. Neither the annuity asset nor the related claim liability is reflected in the statement of net assets. The Fund is contingently liable for these settlements if the third-party insurance companies are unable to meet their annuity contract commitments. Management believes the likelihood that the Fund will be required to make future payments on these claims is remote.

Note 7 - Payroll Audits

Contributions to the Fund for the policy period ended June 30, 2011 were computed using estimated payroll figures submitted by members. The Fund is in the process of verifying actual payroll and adjusting member contributions where necessary. These adjustments will also have an effect on reinsurance premiums and service fees for that policy period that are based on a percentage of members’ contributions. It is not anticipated that the effect will be significant.

Note 8 - Upcoming Accounting Pronouncements

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, was issued in December 2010. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. The Fund is currently evaluating the impact this standard will have on the financial statements when adopted.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, was issued by the GASB in June 2011 and will be effective for the Fund’s 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.
Required Supplemental Information
Claims Development Information

The table on page 31 illustrates how the Fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Fund as of the end of each of the last 10 years. The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue coded to reinsurers, and net earned contribution revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.

(3) This line shows the Fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

(4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

(5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

(6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.

(7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive policy years. A part of the annual change in estimated claims will be an increase attributable to accretion in the present value computation. That amount is not shown separately.
## Michigan Municipal League Workers’ Compensation Fund

### Required Supplemental Information

### Schedule of Claims Information (Continued)

#### Line of Coverage

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Earned contributions and investment revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned</td>
<td>$20,537</td>
<td>$22,713</td>
<td>$23,888</td>
<td>$27,538</td>
<td>$28,115</td>
<td>$28,598</td>
<td>$26,367</td>
<td>$27,701</td>
<td>$25,689</td>
<td>$32,496</td>
</tr>
<tr>
<td>Ceded</td>
<td>441</td>
<td>1,127</td>
<td>1,327</td>
<td>1,585</td>
<td>1,768</td>
<td>2,292</td>
<td>1,905</td>
<td>1,871</td>
<td>1,987</td>
<td>1,926</td>
</tr>
<tr>
<td>Net earned</td>
<td>20,096</td>
<td>21,586</td>
<td>22,561</td>
<td>25,953</td>
<td>26,347</td>
<td>26,306</td>
<td>24,462</td>
<td>25,830</td>
<td>23,702</td>
<td>30,570</td>
</tr>
<tr>
<td>(2) Unallocated expenses</td>
<td>2,796</td>
<td>2,893</td>
<td>2,741</td>
<td>2,966</td>
<td>3,252</td>
<td>3,216</td>
<td>3,205</td>
<td>3,295</td>
<td>3,381</td>
<td></td>
</tr>
<tr>
<td>(3) Estimated incurred claims and expenses - End of policy year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incurred</td>
<td>17,017</td>
<td>17,109</td>
<td>16,817</td>
<td>18,969</td>
<td>18,944</td>
<td>19,379</td>
<td>20,491</td>
<td>19,902</td>
<td>21,059</td>
<td>22,359</td>
</tr>
<tr>
<td>Ceded</td>
<td>385</td>
<td>344</td>
<td>339</td>
<td>459</td>
<td>687</td>
<td>326</td>
<td>910</td>
<td>587</td>
<td>789</td>
<td>893</td>
</tr>
<tr>
<td>Net incurred</td>
<td>16,632</td>
<td>16,765</td>
<td>16,478</td>
<td>18,510</td>
<td>18,257</td>
<td>19,053</td>
<td>19,581</td>
<td>19,315</td>
<td>20,270</td>
<td>21,466</td>
</tr>
<tr>
<td>(4) Paid (cumulative) as of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of policy year</td>
<td>4,275</td>
<td>4,678</td>
<td>4,441</td>
<td>4,689</td>
<td>5,956</td>
<td>5,351</td>
<td>5,348</td>
<td>5,640</td>
<td>5,777</td>
<td>5,415</td>
</tr>
<tr>
<td>One year later</td>
<td>8,731</td>
<td>8,432</td>
<td>8,094</td>
<td>9,010</td>
<td>10,906</td>
<td>9,549</td>
<td>9,780</td>
<td>10,385</td>
<td>9,769</td>
<td></td>
</tr>
<tr>
<td>Two years later</td>
<td>11,190</td>
<td>10,300</td>
<td>9,758</td>
<td>11,559</td>
<td>13,463</td>
<td>12,349</td>
<td>11,745</td>
<td>12,931</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three years later</td>
<td>12,518</td>
<td>11,506</td>
<td>10,943</td>
<td>12,611</td>
<td>14,268</td>
<td>13,787</td>
<td>13,012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four years later</td>
<td>13,502</td>
<td>12,584</td>
<td>11,668</td>
<td>13,704</td>
<td>15,423</td>
<td>14,868</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five years later</td>
<td>13,971</td>
<td>13,045</td>
<td>12,088</td>
<td>13,914</td>
<td>15,736</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six years later</td>
<td>14,120</td>
<td>13,126</td>
<td>12,312</td>
<td>14,271</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seven years later</td>
<td>14,470</td>
<td>13,228</td>
<td>12,709</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eight years later</td>
<td>14,511</td>
<td>13,332</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nine years later</td>
<td>14,538</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Re-estimated ceded claims and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Re-estimated incurred claims and expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End of policy year</td>
<td>16,632</td>
<td>16,765</td>
<td>16,478</td>
<td>18,510</td>
<td>18,257</td>
<td>19,054</td>
<td>19,581</td>
<td>19,315</td>
<td>20,270</td>
<td>21,466</td>
</tr>
<tr>
<td>One year later</td>
<td>15,856</td>
<td>15,130</td>
<td>14,473</td>
<td>16,405</td>
<td>19,604</td>
<td>18,002</td>
<td>18,008</td>
<td>19,312</td>
<td>19,267</td>
<td></td>
</tr>
<tr>
<td>Two years later</td>
<td>15,917</td>
<td>14,802</td>
<td>14,103</td>
<td>16,621</td>
<td>18,923</td>
<td>18,089</td>
<td>17,788</td>
<td>20,025</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Three years later</td>
<td>16,312</td>
<td>15,454</td>
<td>13,718</td>
<td>16,440</td>
<td>18,251</td>
<td>19,813</td>
<td>16,740</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four years later</td>
<td>16,377</td>
<td>15,229</td>
<td>14,057</td>
<td>16,125</td>
<td>18,290</td>
<td>20,046</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Five years later</td>
<td>16,075</td>
<td>15,047</td>
<td>14,409</td>
<td>15,647</td>
<td>18,145</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Six years later</td>
<td>15,823</td>
<td>14,834</td>
<td>14,315</td>
<td>15,424</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seven years later</td>
<td>15,830</td>
<td>14,703</td>
<td>14,620</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eight years later</td>
<td>15,683</td>
<td>14,735</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nine years later</td>
<td>15,576</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(7) Change in estimated incurred claims and expenses - End of policy year</td>
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<td>(2,030)</td>
<td>(1,858)</td>
<td>(3,086)</td>
<td>(112)</td>
<td>993</td>
<td>(2,841)</td>
<td>710</td>
<td>(1,003)</td>
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Other Supplemental Information
### Michigan Municipal League Workers’ Compensation Fund

<table>
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<tr>
<td><strong>Assets</strong></td>
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<td>Cash and cash equivalents</td>
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<td>$1,506,218</td>
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<td>Premiums</td>
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<td>Capitalized contribution in NLC Mutual</td>
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<td><strong>Liabilities</strong></td>
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<td>Dividends payable</td>
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<td>22,074,829</td>
<td>5,564,849</td>
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<tr>
<td><strong>Increase (Decrease) in Net Assets</strong></td>
<td>507,586</td>
<td>(5,923,766)</td>
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### Statement of Net Assets by Policy Year through June 30, 2011

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<td>12,060,589</td>
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<td>15,042,718</td>
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<td>-</td>
<td>-</td>
<td>64,312,443</td>
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<tr>
<td></td>
<td>(782,983)</td>
<td>1,045,664</td>
<td>(638,172)</td>
<td>(846,446)</td>
<td>5,724,073</td>
<td>-</td>
<td>(546,313)</td>
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<td>$ 8,332,138</td>
<td>$ 7,146,136</td>
<td>$ 8,876,236</td>
<td>$ 5,724,073</td>
<td>$ (2)</td>
<td>$ 63,766,130</td>
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## Michigan Municipal League Workers’ Compensation Fund

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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Less reinsurance premium expense</td>
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<tr>
<td>Net premiums earned</td>
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<td>-</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses and loss adjustment expenses - Net of reinsurance</td>
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<td>140,884</td>
<td>(222,634)</td>
<td>(145,097)</td>
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<tr>
<td>Service fees</td>
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<tr>
<td>State assessments</td>
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<td>Administrative expenses</td>
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<tr>
<td>Total operating expenses</td>
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<td>(145,097)</td>
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<tr>
<td></td>
<td>(31,653)</td>
<td>(140,884)</td>
<td>222,634</td>
<td>145,097</td>
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<td><strong>Nonoperating Income (Expense)</strong></td>
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<tr>
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<td><strong>Increase (Decrease) in Net Assets</strong></td>
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<td>(5,923,766)</td>
<td>222,634</td>
<td>145,097</td>
</tr>
<tr>
<td><strong>Net Assets - Beginning of year</strong></td>
<td>3,266,361</td>
<td>22,074,829</td>
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<td>$6,547,530</td>
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### Statement of Revenue, Expenses, and Changes in Net Assets
by Policy Year through June 30, 2011

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Revenue</td>
<td>-</td>
<td>$ (480)</td>
<td>$ (453)</td>
<td>$ (850,798)</td>
<td>$ 25,331,962</td>
<td>$ 24,480,231</td>
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<tr>
<td>Expenses</td>
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<td>-</td>
<td>58,680</td>
<td>-</td>
<td>(1,925,832)</td>
<td>(1,867,152)</td>
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<tr>
<td>Total</td>
<td>-</td>
<td>(480)</td>
<td>58,227</td>
<td>(850,798)</td>
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<td>22,613,079</td>
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<td>696,399</td>
<td>(1,005,769)</td>
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<td>2,599,798</td>
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<td>269,801</td>
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<td>(1,004,995)</td>
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<td>-</td>
<td>(1,000,000)</td>
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<td>370,193</td>
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<td>(550,000)</td>
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<td>(638,172)</td>
<td>(846,446)</td>
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<td>(546,313)</td>
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<td>64,312,443</td>
</tr>
<tr>
<td>Revenue</td>
<td>-</td>
<td>-</td>
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<td></td>
</tr>
<tr>
<td>Expenses</td>
<td>-</td>
<td>-</td>
<td>(643)</td>
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<td>Total</td>
<td>-</td>
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$ 1,427,526 $ 8,332,139 $ 7,146,136 $ 8,876,233 $ 5,724,073 $ 63,766,130
## Michigan Municipal League Workers’ Compensation Fund

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Operating Revenue</strong></td>
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<td>Premiums</td>
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<td><strong>Operating Expenses</strong></td>
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<td>Losses and loss adjustment expenses - Net of reinsurance</td>
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<td>(49,983,802)</td>
<td>1,956,165</td>
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<td><strong>Net Assets</strong></td>
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<td>$ 5,787,483</td>
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Statement of Revenue, Expenses, and Changes in Net Assets
by Policy Year from Inception through June 30, 2011

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<td>$25,525,858</td>
<td>$24,985,268</td>
<td>$25,690,848</td>
<td>$25,331,962</td>
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<td>(1,905,382)</td>
<td>(1,871,168)</td>
<td>(1,986,929)</td>
<td>(1,925,832)</td>
<td>(27,006,471)</td>
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</tbody>
</table>

| Revenue     | 20,046,449  | 16,745,866  | 20,019,435  | 19,264,159  | 21,465,502  | 400,835,610 |
| Expenses    | 2,512,174   | 2,521,808   | 2,552,018   | 2,606,088   | 2,599,798   | 58,490,498  |
| Changes in Net Assets | 274,607    | 234,796     | 187,638     | 165,724     | 269,801     | 6,161,526   |

| Revenue     | 480,041     | 462,934     | 465,842     | 522,999     | 511,435     | 12,565,051  |
| Expenses    | -           | -           | -           | -           | -           | -          |
| Changes in Net Assets | 23,313,271 | 19,965,404  | 23,224,933  | 22,558,970  | 24,846,536  | 478,052,685 |

| Revenue     | (1,082,500) | 3,655,072  | (110,833)   | 1,144,949   | (1,440,406) | 86,449,715  |
| Expenses    | -           | -           | -           | -           | (1,000,000) | (168,722,359) |
| Changes in Net Assets | 1,783,259  | 1,125,913  | 4,740,259   | 8,731,927   | 7,164,479   | 146,054,597 |

| Revenue     | 1,783,259   | 1,125,913  | 4,740,259   | 7,731,927   | 7,164,479   | (22,667,762) |
| Expenses    | 726,767     | 3,551,154  | 2,516,710   | (643)       | -           | (15,823)    |
| Changes in Net Assets | -           | -           | -           | -           | -           | -           |

|$1,427,526| $8,332,139| $7,146,136| $8,876,233| $5,724,073| $63,766,130|