YOUR PEACE of MIND
Michigan Municipal Risk Management Authority is proud to have been providing you, its Members, with peace of mind for over 27 years.

What exactly is peace of mind? Some dictionaries define it as “the absence of mental stress or anxiety,” which certainly sounds nice. Of course, no one would expect to achieve complete peace of mind in this complex world, in these constantly evolving times. There is no shortage of things to feel anxious about, even when things are going relatively well for us, our families, our companies, our communities.

But when we make smart decisions, plan ahead, and trust in the right partnerships, organizations, and people, we can rest assured that, if and when we face one of those anxiety-provoking occurrences, we have done everything possible to protect and insure ourselves, our loved ones, our constituencies, and our assets.

Since its inception in 1980, MMRMA has been in the business of providing its Members with peace of mind.

While its founders may not have defined it in exactly those words, they undoubtedly had the idea in mind as they formed one of the nation’s first municipal risk pools. MMRMA's three founding Members – the Charter Township of Redford, Livingston County, and the City of Ishpeming – sought to achieve peace of mind for themselves, each other and, ultimately, for today’s membership of over 300 Michigan entities.

In this Annual Report to Members, we celebrate the people that make it possible – MMRMA's Members, Board of Directors, staff, and service providers. In these pages, you will see how their contributions are the foundation for MMRMA's success: quality risk control services, premium claims and legal guidance, financial stability, strong data systems and communications, and innovative leadership.

Please enjoy this Annual Report for Fiscal Year 2007, and accept our thanks for your continued commitment to MMRMA – it all adds up to true peace of mind.
By the very definition of a pool, MMRMA would not exist without its Members. The membership is MMRMA. Together, three pioneering Members joined resources to form the pool in 1980. Today, over 300 Member entities enjoy the benefits made possible by that initial partnership.

Perhaps it is a coincidence that the word “pool” also signifies “a small body of still water” and is often associated with relaxation, serenity, and calm. Then again, maybe it is no coincidence whatsoever. After all, MMRMA Members comprise a pool that provides an oasis of calm in the face of the very real dangers of property and liability risk. With their combined resources, each one of them contributes to the success of the organization, and the peace of mind that it offers.

And those resources are multifaceted. They are financial, to be sure, giving MMRMA the security to thrive as one of the country’s premier municipal risk pools. But they are so much more. The membership also brings to the pool an abundance of knowledge, experience, and a cooperative spirit. Furthermore, each of these is nourished by a powerful sense of pride in our shared state and its own ample, precious resources.

Over 150 representatives from MMRMA Member entities serve on the organization’s Board of Directors and its standing and advisory committees. While the Board of Directors is the sole governing body, the standing finance, membership, state pool, and events planning committees support the Board’s efforts – and MMRMA as a whole. These committees’ participants diligently apply their extensive experience to important business matters such as MMRMA’s investments, risk management programs, education grants, and much more.
Those who serve on MMRMA’s advisory committees bring their expertise to bear on the issues that often most directly impact Member municipalities. For a list of advisory committees and an overview of their important work, please see sidebar on page 5.

In addition to the regular meetings and correspondence of these important committees, MMRMA also offers two annual opportunities for the larger membership to convene and sample from the pool to which they belong. The risk management workshop in late winter is an intensive presentation of short training sessions and guided roundtable discussions.

The Annual Meeting, held each August at the Grand Traverse Resort, gives attending Member associates and their guests lots of time to network and tap the knowledge and experiences of their colleagues from across the state, as well as MMRMA’s service providers and staff. “It’s a great opportunity to meet the staff and Board members,” says Paul Wingate, Montmorency County Commissioner. “This is where new ideas emerge.”

At the 2007 Annual Meeting, James Lee Witt, former FEMA director under President Clinton, was a highlight of the program, and he had his audience buzzing about disaster preparedness for the remainder of the event. Bringing the best experts in to address MMRMA’s own experts – the membership – fuels continual development and is a signature of this traditional event.
Speaking of experts, MMRMA relies on the experienced services of its statewide team of Regional Risk Managers for marketing and top-notch Member support. They represent MMRMA with professionalism and a commitment to excellence, and their efforts are reflected in MMRMA’s stable membership and unparalleled membership retention year after year.

**FILLING THE POOL**

MMRMA’s 110 Individual Members include counties, cities, and townships from across the great state of Michigan, from the lush forests and falls of the Upper Peninsula to the bustling metropolitan hubs of the southern Lower Peninsula, and all points in between.

Individual Members account for the majority of general fund contributions, and each maintains a self-insured retention for the first layer of coverage. By structuring the coverage in this way, MMRMA fosters in its Members a high degree of ownership and investment in risk management and loss control. This gives added peace of mind to the entire membership.

The State Pool is made up of another 217 Members, including smaller municipalities and a wide variety of public entities such as community mental health agencies, libraries, courts, and transportation authorities, to name a few. The State Pool functions collectively to maintain a single, combined retention fund for the first layer of coverage. The State Pool designation allows these smaller entities to benefit from MMRMA’s program. Michael Welsch of Iosco County serves as the designated State Pool representative on MMRMA’s Board of Directors. The newly formed State Pool Committee attends to matters related to the membership of the entities that make up the State Pool.

Another 20 Affiliated Members form the Michigan Community College Risk Management Authority (MCCRMA), which contracts with MMRMA for certain risk-related services.

In every category, MMRMA continued to see an almost 100% renewal rate in Fiscal Year 2007. That stability helps contribute to the peace of mind of every MMRMA Member.

With a membership so stable and committed to MMRMA, it is no wonder this pool is a haven of calm before, during, and after the storms – literal and figurative – that municipal entities inevitably face.
MMRMA Members bring their knowledge and resources to the pool, helping shape the organization’s direction and define its excellent programs. In serving on MMRMA’s risk control advisory committees, Member employees contribute their expertise in a variety of areas, working closely with risk consultants to help develop and create training courses, policy and procedure documents, and other signature elements of MMRMA’s risk management program.

Together, the committees help make MMRMA an oasis amid the turbulent waters that can threaten public entities.

<table>
<thead>
<tr>
<th>Committees</th>
<th>Areas and risks addressed include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>Developments and challenges in zoning, hazard planning, human resources concerns – including application procedures, electronic data handling, harassment policies, volunteer workers, and violence in the workplace – and other municipal administrative matters.</td>
</tr>
<tr>
<td>Fire/EMS</td>
<td>Municipalities’ emergency response to fire, medical, and other crisis events. Topics of discussion and training include safe vehicular response, rescue techniques, and emergency medical procedures.</td>
</tr>
<tr>
<td>DPW</td>
<td>Proper maintenance of sewer and water systems, safe municipal sidewalks, and other public works concerns.</td>
</tr>
<tr>
<td>Law Enforcement</td>
<td>Police and jail practices that encourage safe outcomes for citizens, suspects, officers, and other participants. Topics of training and procedural documents include pursuit driving, less-lethal weapons, and use of force.</td>
</tr>
<tr>
<td>Parks and Recreation</td>
<td>Safe and effective planning and maintenance of athletic fields, bleachers, playgrounds, skate parks, beaches, winter sports venues, and related events.</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Selection and training on proper use of telecommunications equipment for central dispatch centers and other public safety answering point systems.</td>
</tr>
</tbody>
</table>
One of the hallmarks of MMRMA is its risk management program. From the earliest days of the organization, its founders and participants have understood the importance of avoiding risk. That awareness has allowed MMRMA to be at the forefront of risk control innovations that have proven effective, time and again, at preventing and reducing occurrences. Members can find peace of mind in this unrivaled program of “preventive medicine” for their municipalities.

Risk Management Director Chuck Schwab and MMRMA’s risk consultants are key players in this aggressive risk management approach. Experts in their respective areas of municipal government, the risk consultants tap their vast prior experience and continually expand it with their diligent work across Michigan. Their time spent traveling to Member communities, surveying municipal operations, talking to Members, and implementing risk management practices gives the risk consultants a statewide view of the continually evolving challenges facing public entities.

Members are, once again, integral to the equation, serving on the advisory committees outlined on page 5. They are hard at work in their municipalities every day, and they see the same challenges and potential for risks as their fellow Members. They understand the importance of addressing those risks proactively, and the costs – financial and otherwise – of failing to do so. And each committee works closely with its risk consultant liaison to develop innovative ways of derailing impending disaster before it occurs.

Together, these professional teams create powerful, effective resources for MMRMA Members, including model policy/procedure brochures and informative DVDs, on topics that run the gamut from building skate parks to managing emergency communication systems. “Members have really come to rely on our DVDs and brochures,” says Schwab. “The risk management team and advisory committees never fail to exceed expectations, and I’m proud of their work on behalf of our Members.”

Schwab is not alone in hailing the team’s achievements. MMRMA regularly earns national recognition for its cutting-edge materials. In 2007, the Public Risk Management Association (PRIMA) awarded MMRMA second
place in the pooling category for Sure Steps to Sidewalk Safety, a DVD and brochure on the importance of implementing a sidewalk inspection and replacement program.

Training sessions form another cornerstone of MMRMA's risk management program. One popular and effective recurring session is a three-day course for police officers on tactical encounters. Coordinated in part by retired police officer and MMRMA risk consultant Mike Bertha, this course is offered several times per year and gives attendees classroom training, simulated field scenarios, including nighttime encounters, marksmanship training, and much more.

“The tactical encounters training should be mandatory for all patrol officers,” said one Member officer, who attended the May 2007 training session. “It was the best training I’ve received during my entire career.”

The risk consultants often secure Risk Avoidance Program (RAP) funding to help pay for Member employees to attend such training events. The RAP grant program has existed for over a decade. In 1996, a Member had a lightning strike claim, and subsequently requested $1,400 to install equipment that would help prevent such claims from affecting their community again. The idea of granting funds to help Members install equipment or otherwise implement loss prevention methods struck a chord, and RAP was born in 1997.

The RAP grant program is administered by the risk management department with the oversight of the Membership Committee, which reviews all applications – and approves the vast majority. Several grants, such as in-car cameras, have become standardized due to their proven effectiveness. Due to the popularity and continued success of the RAP grant program, the MMRMA Board of Directors voted in 2007 to increase the annual RAP budget from $500,000 to $750,000.
For many, peace of mind means freedom from anxiety. And MMRMA’s risk control practices and programs can alleviate much of its Members’ anxiety about their likelihood to incur losses. But no one expects complete freedom from anxiety every step of the way. Storms – both literal and figurative – do occur, and peace of mind can also come from knowing that, when they do, there is a team in place to ensure that everything goes as well as possible in the aftermath.

That is where MMRMA’s claims department and its team of legal experts come in. These professionals have the experience and the credentials to guide MMRMA Members through every stage of the claims that do inevitably occur. And they work efficiently to process claims, provide counsel and legal defense when needed, and otherwise alleviate as much anxiety about the process as they can. Without them, peace of mind would be but a distant memory in the wake of a troublesome claim.

Under the guidance of Director of Claims Michael Ellis, MMRMA’s in-house claims staff is second to none in experience, credentials, and good old-fashioned efficiency. Their longevity with MMRMA gives each claims adjuster a solid understanding of the distinct characteristics of municipal risk. Furthermore, the adjusters have developed effective relationships with the Member representatives with whom they work. Collectively, the Claims team has a valuable historical perspective on each municipality and MMRMA’s membership as a whole.

Among the stellar credentials and certifications of the entire claims team, two of MMRMA’s adjusters made impressive marks on the industry in Fiscal 2007. Senior Claims Adjuster Florence Nagy served as president of the local branch of Chartered Property Casualty Underwriters (CPCU) and was named National Insurance Professional of the Year by the National Association of Insurance Women (NAIW). Senior Claims Adjuster Louise Duchesneau served as president of the Michigan branch of the Public Risk Management Association (PRIMA).

MMRMA continued its longstanding partnership with its two principal legal firms, Cummings, McClorey,
Peace of mind can come from knowing that, when storms do occur, there is a team in place to ensure that everything goes as well as possible in the aftermath.

Davis & Acho, PLC, and Johnson, Rosati, LeBarge, Aseltyne & Field, PC. These two firms collectively handle the vast majority of MMRMA's defense litigation. Their experience with MMRMA and its Members is integral to the continued track record of favorable outcomes for Member claims via dispute resolution, settlements, and litigation. MMRMA Senior Claims Attorney Tim Belanger works closely with lawyers from both firms, as well as Members and claims adjusters, to facilitate those successful outcomes and fend off the proverbial stormy weather that can crop up whenever an incident occurs.

A few bouts of stormy weather or otherwise unpleasant water conditions led to some unfortunate claims for MMRMA Members in 2007. Several Members filed claims for damage from frozen pipes that ruptured. Jackson County faced a pipe leak that flooded its court house with several inches of water, which damaged thousands of county records and other documents. MMRMA's claims team was able to get the building cleaned up and the documents salvaged by hiring a firm that specialized in freeze-drying water-damaged paper records.

A storm also damaged the Iron County Courthouse, a historic building. MMRMA's claims team was able to get the damage repaired and preserve the building's unique architecture. “This is the kind of claim outcome I feel most proud of,” says Michael Ellis. “It’s a great accomplishment whenever we help preserve a piece of Michigan’s history.”

Together, MMRMA's staff and service providers, including its claims team and defense firms, take a lot of pride in providing MMRMA Member municipalities with peace of mind when trouble, despite every precaution, inevitably strikes.
It is very difficult to feel at ease when faced with financial instability. As many people and organizations have learned the hard way, troubled finances – unmanageable debt, insufficient resources, and the like – can wreak havoc on daily operations, relationships, and even health. In short, financial woes make peace of mind very hard to come by.

MMRMA takes its financial position very seriously, because without a rock-solid foundation, it cannot sufficiently provide its Members with the coverage and services they have come to expect. Members pool their resources to achieve levels of risk management and property and liability coverage that would be out of their reach individually, and MMRMA manages those resources and its other financial assets with the best interests of the Members, and the pool as a whole, in mind.

MMRMA’s comprehensive financial strategy includes experienced oversight, a solid reinsurance program, and a strong investment plan. Accounting firm Quenneville & Associates, Inc., led by Paul Quenneville, CPA, has performed all of MMRMA’s accounting services since 1980. The experts on MMRMA’s Finance Committee guide the investment policy and other financial matters, including the development in recent years of a Net Asset Policy.

With the Finance Committee’s oversight, and the help of investment manager Asset Strategies Portfolio Services, Inc., MMRMA has managed its portfolio and assets so effectively that in Fiscal 2007, for the second year in a row, the Board of Directors authorized excess net asset distributions of $7.5 million to members, bringing the two year total distributions to $11.2 million.

The Finance Committee will continue to monitor the recommended level of excess net assets to ensure that MMRMA is meeting benchmarks and remains adequately funded for a host of unexpected circumstances, while still keeping the financial interests of Members a high priority.

MMRMA’s reinsurance structure is a sophisticated and highly effective model with several layers: self-insurance by Members, MMRMA-funded insurance, and commercial reinsurance. Most Individual Members
self-fund the first $75,000 of each claim, and State Pool Members pool or share the first $50,000 of each claim. Losses in excess of these self-funded amounts are financed by MMRMA, which directly pays claims for the next portion of the risk. Then, in order to cover over $9 billion in Member-owned property and to provide liability coverage of up to $15 million per occurrence, MMRMA partners with several commercial reinsurers to protect its assets from adverse and catastrophic losses.

For liability claims, MMRMA directly pays up to $1 million per occurrence and a portion of each claim for losses between $1 million and $5 million. For property losses, the first $100,000 of each loss is shared by MMRMA and the Member, and MMRMA directly pays for each property claim between $100,000 and $500,000.*

The risk for losses in excess of the amount directly paid by MMRMA are transferred to commercial reinsurers using a layered quota share approach, which divides premiums and losses among various reinsurers on a percentage basis, thereby avoiding too much concentration with a single reinsurer.

Many of the losses incurred are not actually paid until future years. This is particularly the case for public officials’ liability and police claims. Accordingly, MMRMA carefully evaluates the financial strength and longevity of its commercial reinsurers to make certain they have the ability to pay future losses. MMRMA also places a small share of its reinsured risk with Governmental Entities Mutual, Inc. (GEM), which is a small captive reinsurance company owned by MMRMA and other similar public entity pools from across the nation.

Each of these elements of MMRMA’s financial strategy are carefully designed and managed to keep the organization stable and healthy for decades to come. This long-term stability is designed to help MMRMA and its Members feel protected in the face of unforeseeable troubles – another source of peace of mind in unsteady times.

* Each Member’s actual coverage, limits, sub-limits, retentions, terms, conditions, and exclusions are set forth in the MMRMA Coverage Document and Overview;
Communications and Technology

Everything about MMRMA — its coverage, financial stability, programs, staff, and service providers — contributes to its Members’ peace of mind. In order to thoroughly achieve that aim, it is essential that Members understand the benefits of MMRMA membership. Real peace of mind comes from knowing how MMRMA works, how they are protected, and what their options are.

MMRMA strives to provide quick, efficient ways for Members access the people and information they seek when they have questions, claims, or ideas. With this goal always in mind, MMRMA continues to evaluate and improve its communication and technology programs, bringing Members more relevant and timely news, tools, and data with which to better manage and understand their own risk, developments in the pooling industry, and issues facing municipalities in Michigan and across the country.

MMRMA is in the process of streamlining and upgrading its entire technology infrastructure. In Fiscal 2007, MMRMA’s staff, with the assistance of a contractor, continued revamping the organization’s information systems. The development and installation of new systems for claims administration, underwriting, and policy administration is under way. These improved systems will allow MMRMA to store and retrieve data dynamically, perform sophisticated quantitative analysis in minimal time frames, and provide more useful reports and data to Members.

These efforts not only allow MMRMA to better serve its Members, they also reflect necessary trends in the insurance industry and public entity pooling community. For example, reinsurers have added new requirements that are facilitated via technology. Reinsurance underwriters expect complete submissions with structured data, and the quality of that data is a key factor in negotiating reinsurance price and terms. The state-of-the art systems now under construction at MMRMA will allow the organization to retain its reinsurance availability and favorable pricing.
Technological enhancements will also allow MMRMA to expand its membership and respond quickly to potential competition. Furthermore, these systems can allow MMRMA to target new and improved programs and services to Members and help stabilize the costs of program administration.

In all industries, future technological trends will continue to focus on improving business process management, with the goals of greater efficiency and cost-effectiveness. Web-based services will become more and more integral to these outcomes. In addition to its usual role as a vehicle for communication, web-based technology will become the primary vehicle for the delivery of many basic services, including underwriting, claims, and risk control.

As MMRMA staff investigates further improvements to its web-based communication tools, its website already features more news and data. Under consideration for an upcoming re-launch of the website are video training modules, interactive message centers, and podcasts featuring up-to-the-minute developments in municipal risk management.

MMRMA recognizes long-term trends in technology and communication, and its approach to these continuing advancements is a proactive one, making a vitally important investment in its future. That commitment will help MMRMA and its entire membership negotiate the perilous waters of municipal risk management for many years to come.
Together, MMRMA Members form the pool that provides them with an oasis of calm amidst the uncertainties of property and liability risk. And together, they have elected MMRMA’s Board of Directors from within their ranks. As a Member-owned and Member-governed pool, MMRMA can provide value for its entire membership.

The Board of Directors, supported by MMRMA’s committees and staff, guide MMRMA through the changing tides and other obstacles facing municipalities every day as they strive to manage risk. The ten Board members draw on their experience, skills, and teamwork to ensure that the organization’s programs and products are broad in application and deep in providing solutions for all Members. Under this governing structure, Members’ interests always come first.

By design, the Board of Directors reflects the larger membership of MMRMA. Of the nine Board members elected by the Individual membership, three are designated to represent, respectively, counties, cities, and townships. In order to be eligible for one of these designated seats, a person must be either an elected official or an appointed chief executive officer in their Member community. The tenth Board member is elected by the Pool membership.

Furthermore, the Board members hail from across Michigan and hold a wide variety of elected and appointed positions in their Member communities. Elected officials on the Board include a county commissioner, a township supervisor, and a county clerk; among the appointed positions held by Board members are directors of finance, human resources, and administrative services. This allows them to bring a diverse set of perspectives to bear on the decisions and leadership that directly affects the entire MMRMA membership.

MMRMA’s Board of Directors has never been content to rest on the laurels of its past achievements, or MMRMA’s successes. Every year, they evaluate the changing tides, seek and examine potential solutions, and determine a course through the current conditions faced by MMRMA and its Members.

In Fiscal 2007, the Board built on its previous accomplishments. For the second year in a row, it evaluated the
recommendation of the Finance Committee and approved a distribution of excess net assets to Members in the amount of $7.5 million, bringing the two-year total excess net asset distribution to $11.2 million.

As part of its long-term strategic planning endeavors, the Board of Directors has worked diligently to bring much needed revisions to MMRMA's governing documents and policies. In reviewing and revising these important elements of MMRMA, the Board's goal was to improve MMRMA's governance and make it consistent with best practices in the public entity pooling community.

The primary governing documents include the Joint Powers Agreement (JPA) and Rules. MMRMA currently has fourteen rules addressing various aspects of the organization, including: committees, underwriting, claims handling, financial policies, investment guidelines, election procedures, and the State Pool. Most of these documents dated back to the early 1990s and were obsolete or out-of-date.

Rather than approach this task on piecemeal basis, the Board decided to update MMRMA's entire governance model. Drawing on widely accepted models of effective governance, they organized the new policies into four major groups: Organization and Planning, Governance, Finance, and Operations. Each policy is standardized to define each of the following elements: policy statement, purpose and outcomes, responsibilities, and monitoring.

These improved governing documents will better assist the Board of Directors as it continues to navigate through the constantly changing tides of municipal risk management. Under their watch, MMRMA's entire pool of Members can look forward to continued peace of mind.
Year in Review

Claims Filed by Lines of Coverage

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<tr>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td>Auto Liability</td>
<td>341</td>
<td>880</td>
<td>632</td>
<td>513</td>
<td>372</td>
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<tr>
<td>Auto Physical</td>
<td>763</td>
<td>693</td>
<td>672</td>
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<tr>
<td>Gen Liability</td>
<td>1,495</td>
<td>1,180</td>
<td>1,515</td>
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<tr>
<td>Property</td>
<td>326</td>
<td>366</td>
<td>314</td>
<td>311</td>
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<td>Total</td>
<td>2,925</td>
<td>3,119</td>
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Litigation

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<tr>
<td>Files Opened</td>
<td>526</td>
<td>445</td>
<td>481</td>
<td>490</td>
<td>391</td>
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<tr>
<td>Files Closed</td>
<td>739</td>
<td>493</td>
<td>522</td>
<td>576</td>
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Financial Highlights

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<tr>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td>Member Contributions</td>
<td>$51,831,698</td>
<td>$56,555,239</td>
<td>$64,921,494</td>
<td>$66,503,988</td>
<td>$68,119,805</td>
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<tr>
<td>Investments*</td>
<td>160,842,667</td>
<td>171,235,882</td>
<td>208,492,282</td>
<td>228,581,812</td>
<td>260,400,645</td>
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<tr>
<td>Investment Earnings**</td>
<td>(3,217,268)</td>
<td>7,241,931</td>
<td>20,662,623</td>
<td>15,249,652</td>
<td>12,248,794</td>
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<tr>
<td>Net Assets</td>
<td>66,899,367</td>
<td>76,437,978</td>
<td>104,635,137</td>
<td>130,131,536</td>
<td>139,336,511</td>
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<tr>
<td>Member Losses Paid</td>
<td>34,752,101</td>
<td>37,633,069</td>
<td>29,002,473</td>
<td>38,558,747</td>
<td>28,266,494</td>
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* At fair market value
** Includes unrealized gains and losses