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STATE OF ALABAMA  
Department of Finance  
Division of Risk Management

Comprehensive Annual Report  
For the Fiscal Year Ended September 30, 2006



Bob Riley  
Governor

James Allen Main  
Director of Finance

Ben M. Spillers  
Risk Manager



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## MESSAGE FROM THE RISK MANAGER

The 2006 Annual Report provides detailed statistical and financial data regarding the Division of Risk Management's performance in FY 2006. An important part of DORM's operation is successful investment of the equity of each trust fund. Strong investment returns help hold down premiums paid by our client agencies, and assure strong response when disaster strikes.

The Division of Risk Management provides the following services to our clients:

- **The State Insurance Fund (SIF)** provides quality property insurance for state properties, colleges and universities and most public school systems.
- **The General Liability Trust Fund (GLTF)** protects state employees who are subjected to lawsuits arising from the performance of their job duties.
- **The State Employee Injury Compensation Trust Fund (SEICTF)** covers state employees for lost time and medical expenses resulting from accidental injuries while on the job.
- **The Employee Assistance Program** provides counseling and referral for employees with problems that affect job performance.
- **Risk Management Services** delivers an array of skilled services designed to avoid loss, both human and financial.
- **The Alabama Equipment Maintenance Program (EMP)**, allows all government agencies and departments to consolidate the care of electronic and other office equipment under one comprehensive program which eliminates the need for individual service agreements.

The 2006 operations of each of these major areas are outlined in this report.

The constant operating philosophy of the Division is that we are a service organization whose objective is to best meet the needs of our client state agencies. Our staff is productive, professional and motivated. We all look forward to serving our clients even better in 2007.

Ben M. Spillers  
Risk Manager



## STATE INSURANCE FUND

The State Insurance Fund (SIF) was established in 1923 to provide secure, adequate and economical property insurance on State-owned properties. Our operation closely parallels that of private industry insurance companies in the following ways:

- We establish rates, premium discounts and experience credits to result in equitable premiums charged to the policyholders.
- We adjust and pay losses promptly, recognizing that the SIF has a high obligation to its policyholders due to the legislative act that brought us together.
- We purchase Excess Insurance up to \$750 million per occurrence to protect the State from disasters such as hurricanes and tornadoes.
- We survey properties for safety, loss prevention and property cost evaluations.
- We invest our premiums to keep future costs low and to build fund equity.

SIF clients whose properties have been inspected are offered replacement cost value coverage for qualified buildings and contents. This valuable coverage provides replacement cost coverage up to 115% of scheduled value in the event of a total loss. Other valuable coverages are Extra Expense, Electronic Data Processing coverage, Builders Risk, Transit coverage, and Boiler & Machinery which is reinsured by Travelers Insurance Company.

Our three largest losses of the year are listed below:

- 2/16/2006 – Tallapoosa County Board of Education; Edward Bell High School sustained damage by fire. Total incurred loss is \$3,384,440.05
- 5/12/2006 – Retirement Systems; RSA Tower sustained water damage when a pipe burst on the top floor. Total incurred loss is \$1,497,500.00.
- 5/19/2006 – Anniston City Schools; Anniston High School sustained damage by fire. Total incurred loss is \$3,691,722.54

The SIF is on the right course and will continue its fundamental plan. We recognize the financial obligation arising from extraordinary growth in insured values. In 1995, we insured \$11.8 billion in values. Today, we insure over \$29 billion in values. This means our fund equity and financial structure must be adequate to respond and we believe we are positioned to meet the financial demands that are certain to occur in the future.

<b>Values Table</b>			
<b>FY</b>	<b>Statewide Insured Values</b>	<b>Value Increase From Previous Year</b>	<b>Increase</b>
2006	29,228,968,131	2,413,818,467	8.26%
2005	26,815,149,664	1,042,030,042	3.89%
2004	25,773,119,622	1,273,757,518	4.94%
2003	24,499,362,104	2,641,099,820	10.78%
2002	21,858,262,284	1,968,635,457	9.01%
2001	19,889,626,827	1,201,401,396	6.04%
2000	18,688,225,431	1,114,330,758	5.96%
1999	17,573,894,673	2,256,317,091	12.84%

## SIF HISTORY OF PROPERTY LOSSES

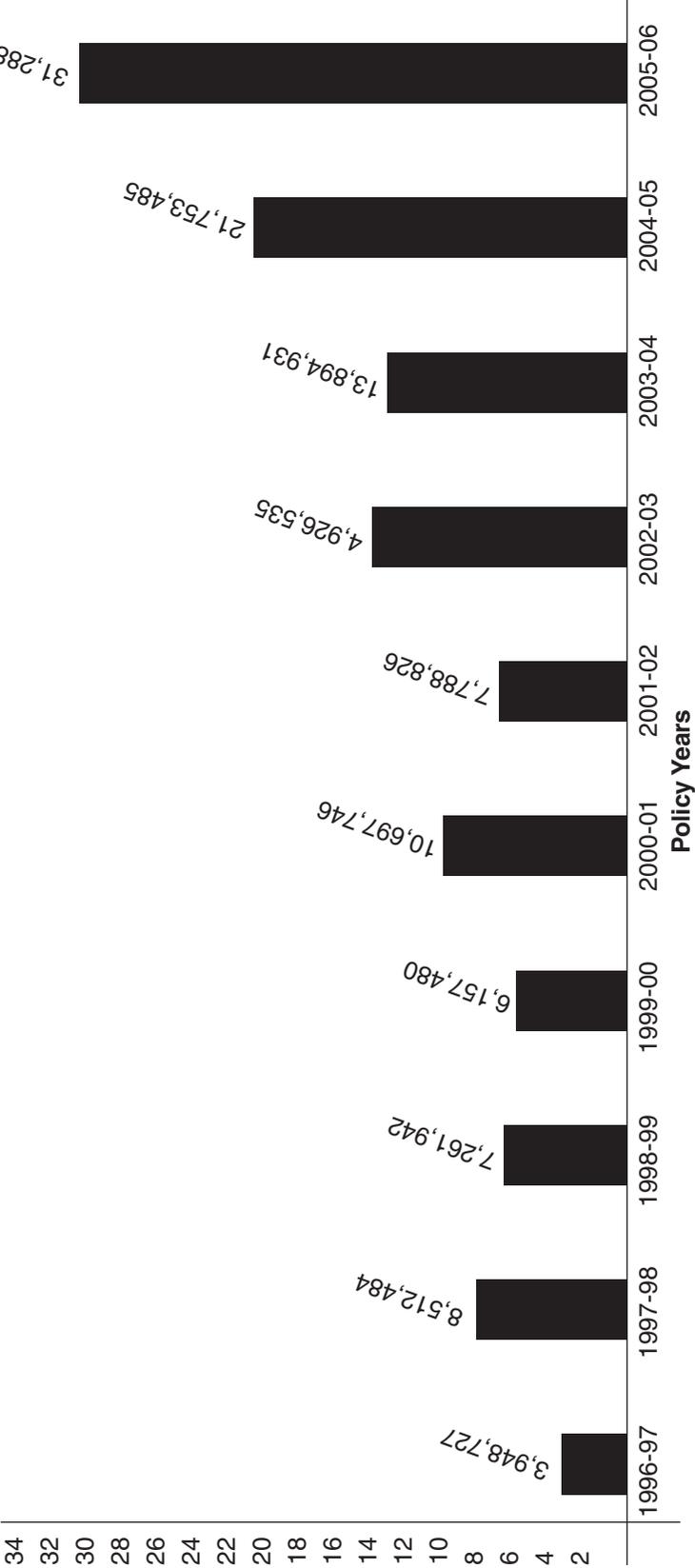
**Property Claims Summary Table  
Incurred Losses as of September 30, 2006**

Perils	Number of Claims		Incurred Losses—FY 2006	
	FY 2005	FY 2006	Amount	% of Total
Fire	49	57	\$ 7,676,932	46.63%
Lightning	339	267	\$ 1,193,379	7.25%
Wind	731	178	\$ 2,689,823	16.34%
Burglary	73	86	\$ 440,788	2.68%
Vandalism	23	24	\$ 387,606	2.35%
Hail	35	29	\$ 1,402,302	8.52%
Vehicle	15	18	\$ 110,842	0.67%
Water	93	73	\$ 2,478,889	15.06%
Boiler & Machinery	9	19	\$ 73,762	0.45%
Collapse	0	0	\$ -	0.00%
Freeze	5	0	\$ -	0.00%
EDP	4	1	\$ 5,858	0.04%
Other	11	6	\$ 3,534	0.02%
<b>Totals</b>	<b>1,387</b>	<b>758</b>	<b>\$16,463,715</b>	<b>100%</b>

### Claims Summary

	FY 2006	FY 2005	FY 2004	FY 2003
Claims Handled	758	1,387	1,280	1,117
Outside Adjusted	393	923	802	448
Inside Adjusted	365	464	478	669
Average Claim Size	\$21,720	\$9,971	\$7,112	\$16,648

# HISTORY OF PROPERTY LOSSES 1997-2006



## GENERAL LIABILITY TRUST FUND

State employees are subject to being sued for their actions in performance of their official duties. The General Liability Trust Fund (GLTF) defends and indemnifies eligible employees for up to \$1 million per occurrence. Coverage is broad and includes automobile liability.

The GLTF sets aside a monetary reserve for each claim in the amount of the ultimate expected loss. Defense is conducted by the Office of the Attorney General in collaboration with GLTF.

### Employee Automobile Liability

GLTF provides liability coverage for the operators of more than 8,000 state owned vehicles. These include trucks, tractor-trailer rigs, state trooper and other law enforcement cars, buses and service vehicles, as well as passenger cars. All claims are adjusted by the American Southern Insurance Company.

In addition, more than 6,000 employees regularly use their personal autos in their state jobs. For these individuals, the GLTF coverage is excess of their personal auto insurance. Finally, all state employees are covered for use of any vehicle on state business in the line and scope of employment, whether they regularly do so or not.

### Auto Exposure Table

Class	Description	Number of Vehicles Insured				
		FY 2006	FY 2005	FY 2004	FY 2003	FY 2002
001	Private passenger	2,025	1,907	1,756	1,782	1,971
002	Pickups & Vans	3,531	3,377	3,109	2,865	2,845
003	Trucks & Tractors	1,464	1,401	1,289	1,339	1,340
004	Law Enforcement	1,054	994	975	981	1,021
005	Buses	398	407	417	456	499
	Total Vehicles	8,472	8,086	7,546	7,423	7,676

## STATE EMPLOYEE INJURY COMPENSATION TRUST FUND

The State Employee Injury Compensation Trust Fund (SEICTF) pays medical costs for work-related injuries and compensates injured employees for resulting lost work time. This program is similar to the private sector workers' compensation programs.

In 2006:

Excess insurance coverage was not purchased for the third consecutive year. This generated a savings of \$426,371 in annual excess insurance premiums.

- Subrogation recoveries exceeded \$124,777.
- Recoveries from excess carriers exceeded \$ 23,265.
- For the fifth consecutive year there was no increase in rates charged to client agencies. Rates used to calculate premiums were 60% less than the NCCI loss cost rates for the private sector workers' compensation insurance in Alabama.
- There was no increase in administration fees charged to self-funded agencies.
- Less than 1% of claims resulted in a formal hearing to address a claim dispute.
- Mediation was offered as an option in lieu of a formal hearing for resolution of claim disputes.
- The pharmacy management initiative resulted in a cost savings of \$ 34,409 during the second year of implementation.

### Claims Frequency

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Indemnity</b>	223	199	357
<b>Medical Only</b>	2,192	2,239	2,048
<b>Incident Only</b>	1,106	1,096	1,309
<b>Total # of Claims</b>	3,521	3,533	3,714

## RISK MANAGEMENT SERVICES

Pursuit Driver Training Courses for covered law enforcement personnel are available to state agencies through DORM.

With the enactment of the Boiler & Pressure Law on February 5, 2004, mandatory boiler inspections must be performed, at a minimum of, every two years. The state charges a minimum inspection fee of \$60 per boiler, in addition to a fee for the certificate of compliance. As a benefit of your premium with Risk Management, we contract with Travelers Insurance Company to provide this valuable service free to you, which saves you the inspection fee.

A Boiler Operator Training Course for boiler operators and maintenance personnel is conducted at no cost for agencies which participate in the State Insurance Fund. The course focuses on proper maintenance and safe operation of pressurized equipment.

More than 2900 boilers and other items of pressurized equipment were inspected during 2006. These inspections assist agencies in identifying and correcting conditions that could result in sudden breakdown, property damage and personal injury.



# THE EMPLOYEE ASSISTANCE PROGRAM

The State Employee Assistance Program (EAP) provides services to 112 state agencies and departments covering more than 28,980 employees and family members.

The EAP operates similarly to most broad based EAP services in the private sector. The program is designed to help employees become more effective in their job performance by providing professional, confidential counseling and assistance with various problems. EAP deals with issues such as supervisor/employee conflict, personal finances, marital and family disruptions, drug and alcohol abuse, and emotional and mental stresses.

In 2006:

- There were 177 intake assessments, 419 cases overall and 232 follow-up visits. A total of 817 service hours were provided to clients.
- Females represented 67% of clients, males 33%. Family members of employees represented 15% of total participation.
- 44% of clients were minority individuals.
- Emotional problems were the most frequent primary issue for clients (51%), followed by work-related issues (22%) and marital/family issues (16%).
- 20% of clients had 16 or more years of state service.
- Supervisor/employee conflict was the most frequently reported work performance problem, followed by (2) quality/quantity of work performed and (3) tardiness.
- 41% of clients became aware of the program's services through their supervisor.
- 29% of clients had some college education, 38% had a college degree, and 8% had an advanced degree.
- 59% of clients are between the age of 35 and 59 and 27% were age 34 and below.
- 37% of clients are married, 24% single, and 18% divorced.
- 54% of participants are self-referred, 23% are supervisor referred and 16% are supervisor recommended.

## THE ALABAMA EQUIPMENT MAINTENANCE PROGRAM (EMP)

The Alabama Equipment Maintenance Program (EMP) allows all government agencies and departments to consolidate the care of electronic equipment under one comprehensive program. By replacing existing service agreements with this program, agencies will gain a programmatic solution that delivers significant cost savings<sup>1</sup>, enhanced equipment protection, the freedom to utilize the best service vendor for each and every maintenance action, program management tools and information, and achieve positive control over the financial and operational performance of their equipment maintenance portfolio.

Effective December 1, 2005, The Remi Group (TRG) assumed all administrative operations including payment for service events, management of the EMP, and decreasing the total state expenditures on equipment maintenance. Alabama state agencies can save 25% off vendor maintenance contracts.

The Remi Group's programs are backed by the full faith and credit of leading insurance providers and their financial standing is assured by years of successful operation, outstanding financial structure, and independent rating agencies such as A.M. Best.

<sup>1</sup> The 2006 savings were \$936,656 plus the 2007 y-t-d savings (as of June 30, 2007) \$883,393 total \$1,820,049.

**STATE INSURANCE FUND**  
**BALANCE SHEET**  
**UNAUDITED**  
**AS OF SEPTEMBER 30, 2006**

<b>ASSETS</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 2,872,210	\$ 1,716,943	\$ 2,940,892
Accounts Receivable	-	927,615	-
Due From Other Funds — Premiums	205,716	71,217	24,362
Accrued Interest Receivable	275,862	319,667	271,060
Due From Other Funds — Current	284,331	209,161	242,465
Investments (Fair Value)	4,248,661	10,671,204	6,867,368
Prepaid Insurance	5,864,601	4,368,328	4,169,211
<b>Total Current Assets</b>	<b>13,751,381</b>	<b>18,284,135</b>	<b>14,515,358</b>
<b>Long Term Assets:</b>			
Investments (Fair Value)	37,253,264	35,074,112	35,360,309
Investments — Real Estate	6,137,968	7,083,309	7,337,949
Due from Component Unit — Long Term	35,445,000	34,913,000	34,390,000
Due from Other Funds — Long Term	9,240,086	9,524,417	9,733,578
Fixed Assets (Net)	148,009	151,820	95,872
<b>Total Long Term Assets</b>	<b>88,224,327</b>	<b>86,746,658</b>	<b>86,917,708</b>
<b>TOTAL Assets</b>	<b>\$ 101,975,708</b>	<b>\$ 105,030,793</b>	<b>\$ 101,433,066</b>
<b>LIABILITIES &amp; FUND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 316,082	\$ 59,562	\$ 28,887
Total Current Liabilities	316,082	59,562	28,887
<b>Liabilities for Unpaid Claims:</b>			
Unpaid Claims & Expenses	14,720,139	13,037,877	5,750,562
Claims Incurred But Not Reported	1,811,480	2,236,230	5,982,185
Total Claim Liabilities	16,531,619	15,274,107	11,732,747
<b>TOTAL Liabilities</b>	<b>16,847,701</b>	<b>15,333,669</b>	<b>11,761,634</b>
<b>Fund Equity:</b>			
Contributed Capital	460,000	460,000	460,000
Fund Balance	84,668,007	89,237,124	89,211,432
	<b>85,128,007</b>	<b>89,697,124</b>	<b>89,671,432</b>
<b>TOTAL Liabilities &amp; Fund Equity</b>	<b>\$ 101,975,708</b>	<b>\$ 105,030,793</b>	<b>\$ 101,433,066</b>

**STATE INSURANCE FUND**  
**STATEMENT OF REVENUE AND EXPENSES**  
**UNAUDITED**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	FY 2006	FY 2005	FY 2004
<b>REVENUES:</b>			
Earned Premiums	\$ 22,892,071	\$21,110,177	\$19,854,768
Recoveries	110,581	2,597,510	351,429
Investment Income	5,789,560	6,901,808	6,196,584
Prior Year Refund	5,537	3,485,156	3,692,660
Other Income	1,303,874	840,151	-
<b>TOTAL REVENUES</b>	<b>\$ 30,101,623</b>	<b>\$34,934,802</b>	<b>\$30,095,441</b>
<b>EXPENSES:</b>			
OPERATION:			
Loss and Adjustment Expenses	\$ 31,713,538	\$25,499,441	\$8,613,525
Incurred But Not Reported Expense	(424,750)	(3,745,955)	5,281,406
Reinsurance Expense	11,097,719	8,866,003	9,354,929
Actuarial Services	28,917	13,250	12,600
Investment Expenses	573,851	303,953	246,698
Program Consultants	7,857	-	-
Legal Fees (Cost Allocation Defense)	-	-	-
Total Operation	42,997,132	30,936,692	23,509,158
ADMINISTRATION:			
Personnel Salaries	758,311	596,717	558,989
Employee Benefits	223,540	179,820	152,674
Travel In-State	29,972	28,813	29,646
Travel Out-of-State	3,471	3,309	-
Repairs and Maintenance	3,343	329	30,934
Rentals and Leases	2,957	2,820	2,340
Utilities and Communication	14,983	16,758	19,873
Professional Services — Non-Claim	219,649	192,686	86,608
Supplies, Materials & Operating Expense	60,147	37,888	34,666
Transportation Equipment Operations	10,247	14,762	9,818
Depreciation Expense	74,833	43,616	41,029
Total Administration	1,401,453	1,117,518	966,577
<b>TOTAL EXPENSES</b>	<b>44,398,585</b>	<b>32,054,210</b>	<b>24,475,735</b>
<b>NET REVENUES</b>	<b>\$ (14,296,962)</b>	<b>\$2,880,592</b>	<b>\$5,619,706</b>

**STATE INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

The State Insurance Fund (SIF) was established in 1923 and is under the Code of Alabama 1975, Section 41-15-1 for the purpose of insuring direct physical loss on buildings and contents in which title in whole or in part is vested in the State of Alabama or any of its agencies or institutions or in which funds provided by the State have been used for the purchases of land, construction of buildings, purchase or maintenance of any equipment, machinery, furniture, fixtures or supplies in such buildings and public school buildings together with the contents of all such buildings. All covered property shall be insured for no more than its replacement cost and shall be insured for no less than 80 percent of its actual cash value. City boards of education may insure school buildings and property either in the State Insurance Fund or with an insurance company, whichever in the opinion of such board provides the best coverage for such school buildings and property. The principles of private industry insurance companies are utilized to establish rates, premium discounts, and experience credits to result in equitable premiums charged to policyholders. Excess insurance and reinsurance is acquired to assure the solvency of the fund.

Losses are recorded as current liabilities and expenses in the year reported. IBNR recognizes losses that have occurred but have not yet been reported. This liability and expense is determined by a professional actuary. The SIF has a \$10,000,000 cumulative loss deductible annually, a \$3,500,000 specific loss deductible for all perils except named storm wind, and a \$5,000,000 specific loss deductible for Named Storm Wind. Excess insurance covers claims exceeding the deductible up to a \$750,000,000 limit. Payments received in fiscal year 2006 and 2005 for settlements in excess of deductibles total \$13,446,272 and \$6,079,777, respectively.

The following table represents the changes in claims liabilities for the past two years:

	<u>2006</u>	<u>2005</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$15,274,107	\$11,732,747
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	9,089,311	12,145,774
Increases in provision for insured events of prior fiscal years	22,199,477	9,607,711
Total incurred claims and claim adjustment expenses	31,288,788	21,753,485
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(6,104,492)	(4,139,538)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(23,926,784)	(14,072,587)
Total payments	(30,031,276)	(18,212,125)
Total unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$16,531,619</u>	<u>\$15,274,107</u>

**STATE INSURANCE FUND  
INVESTMENT NOTES**

**Status — September 30, 2006**

	2006	2005	% Change
Commercial Paper	\$ 4,248,661	\$ 10,671,204	(60.2)
US Agency Securities	22,016,690	20,230,430	8.8
Mortgage Backed Securities	3,748,829	4,039,480	(7.2)
Mutual Funds	309,543	274,048	13.0
Domestic Corporate Stocks	11,178,201	10,530,154	6.2
 Total Cash Securities	 41,501,924	 45,745,316	 (9.3)
Real Estate Investments	6,137,968	7,083,309	(13.3)
 Total Investments	 \$ 47,639,892	 \$ 52,828,625	 (9.8)

**Investment Income**

Interest Earned	\$ 2,529,806	\$ 2,700,726	(6.3)
Change in Fair Value of Investments	2,517,729	3,646,982	(31.0)
Stock Dividends	183,037	170,474	7.4
Amortization/Depr Income	(340,533)	(346,708)	(1.8)
Rental Income	899,521	730,334	23.2
 Total Investment Income	 \$ 5,789,560	 \$ 6,901,808	 (16.1)
 Total Return of Investments (ROI)	 12.1%	 13.6%	

**STATE INSURANCE FUND**  
**UNDERWRITING REVENUES AND EXPENDITURES**  
**Other Revenues and Expenditures**  
**Ten Year Income Summary**

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
<b>UNDERWRITING REVENUES:</b>										
Earned Premium	22,892,071	21,110,177	19,854,768	16,718,865	12,360,840	11,504,086	10,611,168	10,258,420	11,241,583	10,327,384
<b>UNDERWRITING EXPENSES:</b>										
Claims and Expenses Paid	30,031,276	18,212,125	10,569,533	14,373,351	7,949,769	9,689,827	5,319,982	10,188,763	5,545,411	8,928,710
Claims and Expenses Unpaid	1,682,262	7,287,315	(1,956,008)	585,467	569,582	997,927	724,523	(145,714)	(631,543)	(5,503,094)
IBNR Expenses	(424,750)	(3,745,955)	5,281,406	(32,283)	(730,525)	9,992	112,975	(2,781,107)	3,598,616	523,111
Total Losses Incurred	31,288,788	21,753,485	13,894,931	14,926,535	7,788,826	10,697,746	6,157,480	7,261,942	8,512,484	3,948,727
Less Recoveries	110,581	6,081,322	351,428	163,817	16,451	28,529	91,560	44,540	309,709	1,591,592
Net Claims	31,178,207	15,672,163	13,543,503	14,762,718	7,772,375	10,669,217	6,065,920	7,217,402	8,202,775	2,357,135
Insurance Rating Services	-	-	-	-	-	-	-	-	-	1,022
Actuarial Services	28,917	13,250	12,600	12,000	12,130	11,560	11,030	25,564	29,981	43,747
Reinsurance Premium	11,097,719	8,866,003	9,354,929	9,220,295	6,818,750	4,625,350	3,720,562	4,057,885	3,945,428	3,471,031
Program Consultants	7,857	-	-	-	-	-	-	-	-	-
Administrative Expenses	1,401,453	1,117,518	966,577	1,148,240	1,241,649	1,023,677	905,797	1,127,719	1,057,148	889,797
New Claims and Expenses	43,714,153	25,668,934	23,877,609	25,143,253	15,844,904	16,329,804	10,703,309	12,428,570	13,235,332	6,762,732
<b>Net Underwriting Revenues</b>	(20,822,082)	(4,558,757)	(4,022,841)	(8,424,388)	(3,484,064)	(4,825,718)	(92,141)	(2,170,150)	(1,993,749)	3,564,653
<b>OTHER REVENUES:</b>										
Investment Income	5,789,560	6,901,808	6,196,585	3,388,881	(576,214)	2,366,716	4,856,766	4,826,420	3,207,728	4,518,319
Other Income	1,309,411	841,494	3,692,660	26,447	97,371	3,188,538	348,119	19,369		287
Total Other Revenues	7,098,971	7,743,302	9,889,245	3,415,328	(478,843)	5,555,254	5,204,885	4,845,789	3,207,728	4,518,606
<b>OTHER EXPENSES:</b>										
Appraisal Services										5,245
Investment Expenses	573,851	303,953	246,698	160,560	222,588	182,429	236,109	157,820	612,809	119,908
Penalty Expense									3,467,825	
Legal Defense Fees	-	-	-	210	153,616	274,053	174,188	24,301	30,587	376,071
Total Other Expenses	573,851	303,953	246,698	160,770	376,204	456,482	410,297	182,121	4,111,221	501,224
<b>Net Other Revenues</b>	6,525,120	7,439,349	9,642,547	3,254,558	(855,047)	5,098,772	4,794,588	4,663,668	(903,493)	4,017,382
<b>NET REVENUES</b>	(14,296,962)	2,880,592	5,619,706	(5,169,830)	(4,339,111)	273,054	4,702,447	2,493,518	(2,897,242)	7,582,035

**STATE INSURANCE FUND**  
**UNDERWRITING EXPENDITURES**  
(Claims and Expenses Paid)  
Ten Year History

Fiscal Year	TOTAL	Policy Year of Claim												
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997			
1997	2,482,732													2,482,732
1998	4,179,935												2,322,867	1,857,068
1999	8,499,836											6,352,944	1,997,692	149,200
2000	5,319,982										2,325,861	2,768,444	171,234	54,443
2001	9,319,931								4,302,954	3,195,300	1,751,058			70,619
2002	7,949,769							2,296,674	4,068,464	1,555,027	29,604			
2003	14,373,351						7,664,895	5,413,330	1,290,358	4,768				
2004	10,569,533					3,115,328	7,037,605	384,769	31,831					
2005	18,212,125		4,139,538	10,196,348	2,050,823	1,825,416								
2006	30,031,276	6,104,492	8,438,686	13,867,415	1,363,169	257,514								

**STATE INSURANCE FUND REVENUE EXHIBIT  
RETURN ON EQUITY ( ROE )**

<b>Fiscal Year</b>	<b>FUND EQUITY</b>	<b>NET REVENUES</b>	<b>UNDERWRITING NET REVENUES</b>	<b>INVESTMENT NET REVENUES</b>
2006	85,128,007	(14,296,962) -16.4%	(20,822,082) -23.8%	5,215,709 6.0%
2005	89,697,124	2,880,592 3.2%	(4,558,757) -5.1%	6,597,855 7.4%
2004	89,671,432	5,619,706 6.4%	(4,022,841) -4.6%	5,949,886 6.8%
2003	85,009,572	(5,169,830) -5.9%	(8,424,388) -9.7%	3,228,321 3.7%
2002	89,398,395	(4,339,111) -4.8%	(3,484,064) -3.9%	(798,802) -0.9%
2001	91,074,862	273,054 0.3%	(4,825,718) -5.3%	2,184,287 2.4%
2000	89,772,044	4,643,463 5.3%	(92,141) -0.1%	4,620,657 5.3%
1999	84,734,741	2,493,518 3.7%	(2,170,150) -3.2%	4,668,600 6.8%
*1998	51,724,659	(2,897,242) -5.6%	(1,993,749) -3.8%	2,594,919 5.0%
*1997	51,918,635	7,582,035 14.6%	3,564,653 6.9%	4,393,166 8.5%
<b>Average Return On Equity</b>		<b>1.3%</b>	<b>-3.4%</b>	<b>4.2%</b>

\* Excludes the Alabama Incentives Financing Authority \$30 Million bond — no income was recorded.

**STATE INSURANCE FUND LOSS EXPERIENCE**  
**BY FISCAL YEAR**

	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
Earned Premium	\$22,892,071	\$21,110,177	\$19,854,768	\$16,718,865	\$12,360,840
Less Reinsurance Cost	11,097,719	8,866,003	9,354,929	9,220,295	6,818,750
<b>Net Premium</b>	<b>\$11,794,352</b>	<b>\$12,244,174</b>	<b>\$10,499,839</b>	<b>\$ 7,498,570</b>	<b>\$ 5,542,090</b>
Losses Incurred	30,031,276	18,212,125	10,569,533	14,373,351	7,949,769
Loss and Expense Incurred	1,682,262	7,287,315	(1,956,008)	585,467	569,582
Loss Incurred But Not Reported	(424,750)	(3,745,955)	5,281,406	(32,283)	(730,525)
Total Losses Incurred	\$31,288,788	\$21,753,485	\$13,894,931	\$14,926,535	\$ 7,788,826
Less Recoveries	110,581	6,081,322	351,428	163,817	16,451
<b>Net Losses</b>	<b>\$31,178,207</b>	<b>\$15,672,163</b>	<b>\$13,543,503</b>	<b>\$14,762,718</b>	<b>\$ 7,772,375</b>
<b>Loss Ratio</b>	<b>264.3%</b>	<b>128.0%</b>	<b>129.0%</b>	<b>196.9%</b>	<b>140.2%</b>

\*Loss Ratio = Net Losses divided by Net Premium.

**GENERAL LIABILITY TRUST FUND**  
**BALANCE SHEET**  
**UNAUDITED**  
**SEPTEMBER 30, 2006**

<b>ASSETS</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 13,747	\$ 325,869	\$ 2,681,955
Due From Other Funds	2,671	12,746	1,440
Accounts Receivable	571,906	982,243	-
Accrued Interest Receivable	280,853	263,322	247,559
Investments (Fair Value)	1,645,523	4,155,299	2,599,350
Prepaid Reinsurance	487,500	499,473	437,953
<b>Total Current Assets</b>	<b>3,002,200</b>	<b>6,238,952</b>	<b>5,968,257</b>
<b>Long Term Assets:</b>			
Accounts Receivable Recoveries — Long Term	5,561,286	-	-
Investments (Fair Value)	20,565,811	18,802,297	20,083,581
<b>Total Long-Term Assets</b>	<b>26,127,097</b>	<b>18,802,297</b>	<b>20,083,581</b>
<b>Total Assets</b>	<b>\$29,129,297</b>	<b>\$25,041,249</b>	<b>\$26,051,838</b>
<b>LIABILITIES &amp; FUND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 527,944	\$ 1,546,793	\$855,532
Due to Other Funds	3,000,000	-	-
	<b>3,527,944</b>	<b>1,546,793</b>	<b>855,532</b>
<b>Liabilities for Unpaid Claims:</b>			
Unpaid Claims & Expenses	9,751,188	16,649,223	15,057,533
Claims Incurred But Not Reported	19,041,100	15,628,074	11,917,071
<b>Total Claim Liabilities</b>	<b>28,792,288</b>	<b>32,277,297</b>	<b>26,974,604</b>
<b>TOTAL Liabilities</b>	<b>32,320,232</b>	<b>33,824,090</b>	<b>27,830,136</b>
<b>Fund Equity:</b>			
Fund Balance	(3,190,935)	(8,782,841)	(1,778,298)
<b>TOTAL Liabilities &amp; Fund Equity</b>	<b>\$29,129,297</b>	<b>\$25,041,249</b>	<b>\$26,051,838</b>

**GENERAL LIABILITY TRUST FUND**  
**STATEMENT OF REVENUE AND EXPENSES**  
**UNAUDITED**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	FY 2006	FY 2005	FY 2004
<b>REVENUES:</b>			
Earned Premiums	\$ 9,226,426	\$ 8,876,441	\$ 8,570,498
Interest Income — Investments	1,037,055	1,158,129	1,003,052
Recoveries	664	-	3,024
Prior Year Refund	3,387	1,935,522	1,254,458
<b>TOTAL REVENUES</b>	<b>\$10,267,532</b>	<b>\$11,970,092</b>	<b>\$10,831,032</b>
<b>EXPENSES:</b>			
OPERATION:			
Loss and Adjustment Expenses	\$4,725,623	\$11,328,128	\$ 6,978,760
Incurred But Not Reported Expense	3,413,026	3,711,003	(116,919)
Reinsurance Expense	3,723,333	2,876,805	3,609,850
Professional Services — Non-Claim	18,417		
Actuarial Services	13,313	11,000	10,500
Total Operation	11,893,712	17,926,936	10,482,191
ADMINISTRATION:			
Personnel Salaries	381,120	347,573	308,859
Employee Benefits	117,874	107,141	80,204
Travel In-State	10,053	7,457	8,025
Out-State Travel	203	-	-
Repairs and Maintenance	931	128	32,176
Rentals and Leases	2,748	2,932	2,358
Utilities and Communication	4,237	7,075	7,736
Professional Services — Non-Claim	130,268	75,454	33,798
Supplies, Materials & Operating Expense	47,173	39,251	31,191
Transportation Equipment Operations	3,854	4,495	2,561
Total Administration	698,461	591,506	506,908
<b>TOTAL EXPENSES</b>	<b>12,592,173</b>	<b>18,518,442</b>	<b>10,989,099</b>
<b>NET REVENUES</b>	<b>\$(2,324,641)</b>	<b>\$(6,548,350)</b>	<b>\$ (158,067)</b>

**GENERAL LIABILITY TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

The General Liability Trust Fund (GLTF) was established in 1984 to protect state employees from personal financial liability resulting from lawsuits that are based on alleged negligence while acting within the line and scope of state employment. Claims are investigated and defended through the Office of the Attorney General. Auto Liability is fully re-insured and the re-insurer, American Southern Insurance Company, handles all claims. The GLTF is managed much like a commercial insurance company, with exposure evaluated and commensurate premiums assigned to state agencies. Investment activities are an essential part of the fund's ability to maintain lower-cost employee liability coverage. Funds in excess of those needed for immediate operations are invested to maximize return and keep premiums down.

Losses are recorded as current liabilities and expenses in the year reported. IBNR recognizes losses that have occurred but have not yet been reported. This liability and expense is determined by a professional actuary. Excess insurance was not renewed in April 2002; therefore, the GLTF is currently without excess coverage. The GLTF had a \$3,300,000 deductible on claims. Payments received in fiscal years 2006 and 2005 for settlements in excess of deductibles totaled \$0 and \$1,000,000, respectively.

The following table represents the changes in claims liabilities for the past two years:

	<b>2006</b>	<b>2005</b>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$32,277,297	\$26,974,604
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	3,602,051	5,450,476
Increases in provision for insured events of prior fiscal years	4,536,598	9,796,701
Total incurred claims and claim adjustment expenses	8,138,649	15,247,177
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(766,615)	(3,227,460)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(8,472,429)	(6,717,024)
Total payments	(9,239,044)	(9,944,484)
Total unpaid claims and claim adjustment expenses at end of fiscal year	\$31,176,902	\$32,277,297

**GENERAL LIABILITY TRUST FUND  
INVESTMENT NOTES**

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**Status — September 30, 2006**

	2006	2005	% Change
Commercial Paper	\$1,645,523	\$4,155,299	(60.4)
US Agency Securities	20,393,966	18,604,911	9.6
Mortgage Backed Securities	171,845	197,387	(12.9)
 Total Investments	 \$22,211,334	 \$22,957,597	 (3.3)
 <b>Investment Income</b>	 <b>\$1,037,055</b>	 <b>\$1,158,129</b>	 <b>(10.5)</b>

**GENERAL LIABILITY TRUST FUND**  
**UNDERWRITING REVENUES AND EXPENSES**  
Other Revenues and Expenses  
Ten Year Income Summary

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97
<b>UNDERWRITING REVENUES:</b>										
Earned Premium	\$9,226,426	\$8,876,441	\$8,570,498	\$7,761,570	\$7,607,325	\$7,369,736	\$7,363,084	\$7,269,520	\$7,606,156	\$5,862,140
<b>UNDERWRITING EXPENSES:</b>										
Losses and Adjustments										
Loss Expenses	1,342,320	4,160,394	2,690,280	4,798,492	4,015,847	3,413,072	2,589,829	3,620,757	1,094,727	800,676
Adjustment Expenses	3,383,303	7,167,734	4,288,480	4,589,140	4,261,636	1,756,478	1,202,739	1,186,688	1,042,305	1,435,956
IBNR Expenses	3,413,026	3,711,003	(116,919)	1,256,681	(242,402)	1,649,106	(1,196,798)	(1,552,032)	3,126,985	(2,369,714)
Total Losses Incurred	8,138,649	15,039,131	6,861,841	10,644,313	8,035,081	6,818,656	2,595,770	3,255,413	5,264,017	(133,082)
Less Recoveries	664	-	3,024	7,679	600	2,386	1,843	150	170,977	481,920
Net Claims	8,137,985	15,039,131	6,858,817	10,636,634	8,034,481	6,816,270	2,593,927	3,255,263	5,093,040	(615,002)
Reinsurance Premium — Liability	-	-	-	-	290,333	517,667	454,667	334,950	374,900	437,761
Reinsurance Premium — Automobile	3,723,333	2,876,805	3,609,850	4,019,655	1,866,455	1,340,280	2,389,277	1,944,327	2,288,064	2,115,174
Actuarial Services	13,313	11,000	10,500	10,000	10,475	9,985	9,500	4,988	19,040	35,994
Professional Services—non claim	18,417	-	-	-	-	-	12,838	-	-	-
Administrative Expenses	698,461	591,506	506,908	488,084	478,290	400,143	474,285	536,187	559,106	551,644
Net Underwriting Expenses	12,591,509	18,518,442	10,986,075	15,154,373	10,680,034	9,084,345	5,934,494	6,075,715	8,334,150	2,525,571
Net Underwriting Revenues	(3,365,083)	(9,642,001)	(2,415,577)	(7,392,803)	(3,072,709)	(1,714,609)	1,428,590	1,193,805	(727,994)	3,336,569
<b>OTHER REVENUES:</b>										
Investment Income	1,037,055	1,158,129	1,003,052	950,678	1,218,784	1,665,939	590,281	945,845	1,252,740	1,067,478
Prior Year Refund	3,387	1,935,522	1,254,458	-	15,119	-	450	-	-	-
Net Other Revenues	1,040,442	3,093,651	2,257,510	950,678	1,233,903	1,665,939	590,731	945,845	1,252,740	1,067,478
<b>NET REVENUES</b>	<b>\$(2,324,641)</b>	<b>\$(6,548,350)</b>	<b>\$(158,067)</b>	<b>\$(6,442,125)</b>	<b>\$(1,838,806)</b>	<b>\$(48,670)</b>	<b>\$2,019,321</b>	<b>\$2,139,650</b>	<b>\$524,746</b>	<b>\$4,404,047</b>

**GENERAL LIABILITY TRUST FUND**  
**UNDERWRITING EXPENDITURES**  
(Claims and Expenses Paid)  
Ten Year History

Fiscal Year	TOTAL	Policy Year of Claim											
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997		
1997	699,963												699,963
1998	1,185,502											633,503	551,999
1999	3,615,320										2,196,683	433,117	985,520
2000	2,894,665									447,824	2,006,961	208,899	230,981
2001	3,692,807					15,193				166,918	3,399,725	20,358	90,613
2002	3,582,842					1,251,418	830,891			185,186	1,231,833	488	83,026
2003	3,985,169					1,006,310	1,447,314	1,070,090		419,289	37,862	296	4,008
2004	7,156,822			1,275,075	1,432,722	2,904,628	1,307,219	226,436			8,912		1,830
2005	9,944,484		3,255,698	2,132,403	694,324	1,360,663	2,232,685	215,249			3,135	45,327	5,000
2006	9,239,044	766,616	609,643	8,233	1,132,822	2,160,076	1,822,352	995,981	45,143	1,669,488			28,690

**STATE EMPLOYEE INJURY COMPENSATION TRUST FUND**  
**BALANCE SHEET**  
**UNAUDITED**  
**September 30, 2006**

<b>ASSETS</b>	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$26,119	\$1,773,716	\$2,736,319
Due From Other Funds — Premiums	832,040	880,924	756,040
Due From Other Funds — Other	3,000,000	-	
Accrued Interest Receivable	229,342	179,713	177,872
Investments (Fair Value)	2,291,335	4,454,168	1,727,568
<b>TOTAL Assets</b>	<b>6,378,836</b>	<b>7,288,521</b>	<b>5,397,799</b>
<b>Long-Term Assets:</b>			
Investments (Fair Value)	16,159,450	14,313,700	14,507,504
<b>Total Long -Term Assets</b>	<b>16,159,450</b>	<b>14,313,700</b>	<b>14,507,504</b>
<b>TOTAL ASSETS</b>	<b>\$22,538,286</b>	<b>\$21,602,221</b>	<b>\$19,905,303</b>
<b>LIABILITIES &amp; FUND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$947,106	\$704,213	\$881,018
SEICTF Self Insured Deposits	257,000	257,000	257,000
Total Current Liabilities	1,204,106	961,213	1,138,018
<b>Liabilities for Unpaid Claims:</b>			
Unpaid Claims & Expenses	4,578,312	3,830,302	4,434,345
Claims Incurred But Not Reported	4,246,508	4,344,645	5,558,336
Total Claim Liabilities	8,824,820	8,174,947	9,992,681
<b>TOTAL Liabilities</b>	<b>10,028,926</b>	<b>9,136,160</b>	<b>11,130,699</b>
<b>Fund Equity:</b>			
Fund Balance	12,509,360	12,466,061	8,774,604
<b>TOTAL Liabilities &amp; Fund Equity</b>	<b>\$22,538,286</b>	<b>\$21,602,221</b>	<b>\$19,905,303</b>

**STATE EMPLOYEE INJURY COMPENSATION TRUST FUND**  
**STATEMENT OF REVENUE AND EXPENSES**  
**UNAUDITED**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	FY 2006	FY 2005	FY 2004
<b>REVENUES:</b>			
Earned Premiums	<b>\$3,253,101</b>	\$2,936,164	\$2,924,803
Interest Income — Investments	<b>1,016,978</b>	870,503	734,468
Subrogation Recoveries	<b>149,161</b>	140,085	111,329
Prior year Refund	-	219,399	66,590
Other Income — Administrative Fees	<b>1,266,809</b>	1,384,356	1,618,303
<b>TOTAL REVENUES</b>	<b>5,686,049</b>	5,550,507	5,455,493
<b>EXPENSES:</b>			
OPERATION:			
Loss and Adjustment Expenses	<b>3,262,817</b>	499,372	723,230
Incurred But Not Reported Expnse	<b>(98,137)</b>	(1,213,691)	883,634
Reinsurance Expense	-	-	105,843
Actuarial Services	-	47,388	-
Professional Services	<b>1,070,260</b>	906,510	1,877,427
Total Operation	<b>4,234,940</b>	239,579	3,590,134
ADMINISTRATION:			
Personnel Salaries	<b>727,354</b>	698,134	680,985
Employee Benefits	<b>253,725</b>	244,942	205,780
Travel In-State	<b>975</b>	100	449
Travel Out-of-State	-	973	429
Repairs and Maintenance	<b>1,121</b>	973	9,045
Rentals and Leases	<b>5,017</b>	5,354	4,943
Utilities and Communication	<b>19,904</b>	32,039	39,203
Professional Services — Non-Claim	<b>123,989</b>	118,515	116,254
Supplies, Materials & Operating Expense	<b>67,799</b>	74,688	53,705
Transportation Equipment Operations	-	27	63
Total Administration	<b>1,199,884</b>	1,175,745	1,110,856
<b>TOTAL EXPENSES</b>	<b>5,434,824</b>	1,415,324	4,700,990
<b>NET REVENUES</b>	<b>\$ 251,225</b>	\$4,135,183	\$754,503

**STATE EMPLOYEE INJURY COMPENSATION TRUST FUND**  
**NOTES TO FINANCIAL STATEMENTS**

The State Employee Injury Compensation Trust Fund (SEICTF) was created by the legislature on October 1, 1994. Its purpose is to provide benefits to eligible state employees for job-incurred injury. Benefits under SEICTF are administered by the Division of Risk Management in accordance with the Alabama Administrative Code and include all reasonable medical expenses arising from a job-incurred injury, lost wages (including benefits for time lost from the job), and benefits to dependents of employees who are fatally injured on the job. Specifically excluded from coverage are employees of the State Port Authority, educational institutions, and boards of education. A key element in assuring effective and efficient operation of SEICTF was the creation of a statewide medical provider network with a focus on professionals who are experts in treating occupational injury.

Losses are recorded as current liabilities and expenses in the year reported. IBNR recognizes losses that have occurred but have not yet been reported. This liability and expense is determined by a professional actuary. Re-insurance was not renewed in 2004 due to high market insurance premiums and retentions as compared with payout probabilities. Payments received in fiscal years 2006 and 2005 in excess of deductibles totaled \$0 and \$219,299, respectively.

The following table represents the changes in claims liabilities for the past two years:

	<u>2006</u>	<u>2005</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$8,174,947	\$9,992,681
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	423,914	866,356
Increases in provision for insured events of prior fiscal years	<u>2,740,766</u>	<u>(1,580,675)</u>
Total incurred claims and claim adjustment expenses	3,164,680	(714,319)
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(402,369)	(187,581)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>(2,112,438)</u>	<u>(915,834)</u>
Total payments	(2,514,807)	(1,103,415)
Total unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$8,824,820</u>	<u>\$8,174,947</u>

**STATE EMPLOYEE INJURY COMPENSATION TRUST FUND  
INVESTMENT NOTES**

**Status — September 30, 2006**

	2006	2005	% Change
Commercial Paper	\$2,291,335	\$4,454,168	(48.6)
US Agency Securities	16,159,450	14,313,700	12.9
<b>Total Investments</b>	<b>\$18,450,785</b>	<b>\$18,767,868</b>	<b>(1.7)</b>
<b>Investment Income</b>	<b>\$1,016,978</b>	<b>\$870,503</b>	<b>16.8</b>

**STATE EMPLOYEE INJURY COMPENSATION TRUST FUND**  
**UNDERWRITING EXPENDITURES**  
(Claims and Expenses Paid)  
Ten Year History

Fiscal Year	Policy Year of Claim										
	TOTAL	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
1997	1,477,218										1,477,218
1998	2,062,180									347,888	1,714,292
1999	1,118,740								208,497	57,131	853,112
2000	1,038,952						262,641	(478,794)		571,892	683,213
2001	2,395,099					541,368	386,617	694,847		349,821	422,446
2002	2,543,137					584,418	(581,797)	611,352		354,924	580,686
2003	1,603,888				600,570	(2,039,715)	1,712,015	444,360	370,153	196,270	320,235
2004	1,774,983			354,997	188,703	616,389	614,894				
2005	1,048,244		187,581	242,751	253,785	66,205	55,171	33,102	11,034	11,034	187,581
2006	2,514,807	427,517	603,554	251,481	477,813	176,037	125,740	75,444	50,296	25,148	301,777

# STAFF

RISK MANAGER.....	Ben M. Spillers
ADMINISTRATIVE .....	Marilyn Tucker Beverly McDonald Laura Robinson
INFORMATION SYSTEMS .....	Becky Cole Sharon Henderson
LEGAL.....	Jerry Carpenter Hank Draughon
CLAIMS .....	Kim Huggins Leigh Warner Dorothy Roberts Hugh Gale Teresa Nobles
EMPLOYEE ASSISTANCE.....	Sam Boswell Janice Carter
LOSS CONTROL.....	Jack Pierce Walter Cooper Harper Pruett Ken Barnett Matthew Payne
UNDERWRITING .....	Carl Walter Dale Whittle
EMPLOYEE INJURY.....	Pete Maddock Sandra Landers Ann Jackson Dorothy Kelly Georgia Ivey Jana Blake Lou Scholl Paula Cole Paulette Weeks Rosanna McHargue Sirena Sheridan Sylvia Williams Tammy Montgomery Tammy Sasser Terri Loving