

Protecting The Public Trust

NORTH DAKOTA INSURANCE RESERVE FUND



**NORTH DAKOTA
INSURANCE
RESERVE FUND**

2007

ANNUAL REPORT



Mission Statement

To be a stable source of risk services to public entities
using sound business practices.



Steven L. Spilde
Chief Executive Officer
North Dakota Insurance Reserve Fund

Dear NDIRF Member:

The North Dakota Insurance Reserve Fund is providing this copy of its 2007 Annual Report to inform you of the Fund's activities and financial performance in the past year.

The NDIRF highly values the participation of its members and agents, working together with us to keep liability and property risk costs to North Dakota political subdivisions under control. As this report shows, the effort has been very successful over the entire history of the Fund.

On behalf of the NDIRF Board of Directors and Staff, I thank you for your support over the past 22 years and your continued participation as we meet the challenges of the future.

Sincerely,

A handwritten signature in black ink that reads "Steven L. Spilde".

Steven L. Spilde
Chief Executive Officer
North Dakota Insurance Reserve Fund



Membership

The board of directors, management and staff of the North Dakota Insurance Reserve Fund (NDIRF) are pleased to present this report of 2007 business activity. We trust you will find this information to be clear evidence of your role in the NDIRF's success.

All political subdivisions in North Dakota are eligible for membership in the NDIRF. The total number of Fund participants grew to 2,526 in 2007. Approximately 90% of the entities eligible for membership have now become part-owners of the NDIRF through their purchase of coverage. (Fig. 1) A popular way for risk pools in other states to indicate their membership participation is to place colored dots within an outline of the state to show the location of members. If NDIRF were to attempt to graphically illustrate its membership in this way, North Dakota would simply appear as a solid mass in whatever primary color was chosen for the dots.

Distribution of NDIRF membership by entity-type is obviously very broad across all categories of local government and the relative premium distribution among them remained fairly stable in 2007, as it has historically. (Fig. 2)

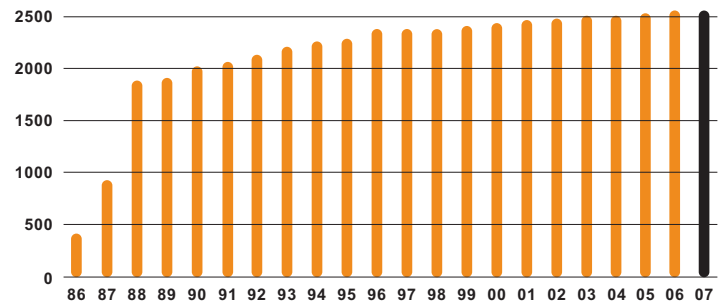


Fig. 1 NDIRF MEMBERSHIP

Conferment of Benefits

The NDIRF is proud of its 22 year track record and pleased to be able to share that success with our members through the Conferment of Benefits program. Over the past 14 years, the Fund has paid out over \$47 million in benefits to members including a conferment in excess of \$3.8 million declared for 2007, to be paid in 2008.

This major advantage of membership in the NDIRF results in a significant reduction of the actual cost of financing liability and property risks for local government in North Dakota. (Fig. 3)

Premiums and Losses

Unlike recent experience many of us have had personally or in private business with fluctuating insurance costs, the NDIRF's annual written premium has remained very stable. Addition of new members and the increasing value of covered property provided a modest rise in written premium for 2007, as in previous years. (Fig. 4)

Claim losses in 2007 increased somewhat (9.5%) from the prior year. Losses remained, however, in what has identified itself as the normal range over the past several years. Auto physical damage and liability losses were problems for a number of members over the past year (there is a reason the NDIRF offers defensive driving training at no charge to Fund members), and property damage claims for owned equipment spiked upward in 2007. Employment practices litigation is a subject on which the NDIRF remains concerned because of the potential for claims to exceed the statutory caps on damages that apply to most other liability claims. We want to be sure that Fund members are aware of the actual and potential costs related to this risk so, in 2007, the NDIRF again presented or sponsored training opportunities and resources dealing with employment issues. (Figs. 5 and 6)

Investments

The NDIRF's investment portfolio, as of December 31, 2007, was distributed 83% in fixed income securities; 11% in equity securities; 2% in cash or equivalents; and 4% in real estate (office building). The quality of the fixed income portfolio remained strong, with an average S&P rating exceeding AA+. The cash position maintained by the NDIRF is necessary to fund the Conferment of Benefits payable in 2008.

Investment income was over 20% higher in 2007 as compared to the prior year, due to significantly increased unrealized fixed income market value gains and higher interest and dividend income when compared to 2006. The unrealized market value gains in fixed income investments last year were partially offset by weaker unrealized gains on the equity side (primarily occurring in the 4th quarter).

Reporting the NDIRF's investment portfolio at market value (as has been required since 1998) rather than at cost can result in wide variations of investment income, particularly in years when interest rates move significantly. (Fig. 7) The strategy of adding a limited equity exposure in the NDIRF's investment portfolio has proven quite effective over time, as a relatively small equity position has tended to counterbalance significant unrealized fixed-income market swings caused primarily by fluctuating interest rates.

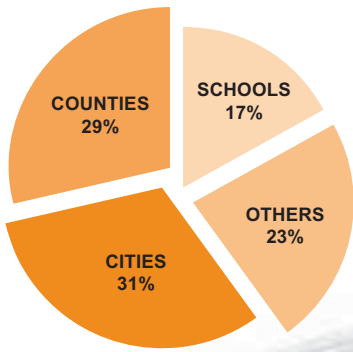


Fig. 2 MEMBER PREMIUM DISTRIBUTION

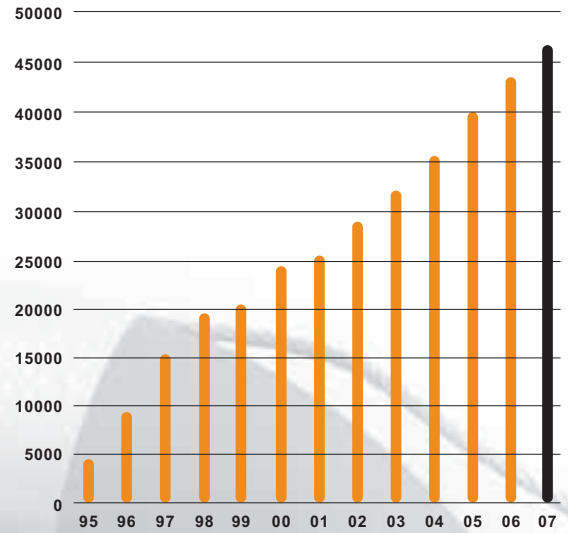


Fig. 3 TOTAL BENEFITS CONFERRED (in thousands)

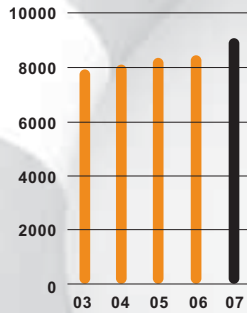


Fig. 4 WRITTEN PREMIUM (in thousands)

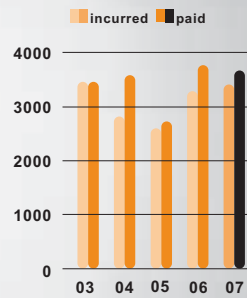


Fig. 5 LOSSES (in thousands)

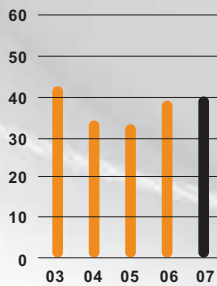


Fig. 6 LOSS RATIOS (in percent)

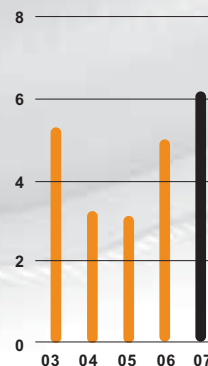


Fig. 7 INVESTMENT YIELD RATIOS (in percent)

Earnings and Equity

Due to the significant increase in investment income, as previously described, net earnings increased over \$300,000 in 2007, as compared to 2006, despite the increase in claim losses. (Fig. 8) This had the positive effect for NDIRF members of raising the Conferment of Benefits payable in 2008 by \$240,000 from the prior year.

Members' equity (surplus) was maintained at a strong level in 2007 and the fiscal policies of the Fund are designed to provide continued stability of members' equity in future years, even while NDIRF participants enjoy the outstanding returns of the Conferment of Benefits program.

The Fund's consulting actuaries indicate that the current amount of members' equity provides an outstanding confidence level (well in excess of 90%) that all expected obligations can be met. (Fig. 9)

A review of the NDIRF's entire 22 year history regarding total revenues, net earnings, total assets and members' equity provides a graphic representation of the growth, maturity and success enjoyed by the NDIRF and its membership. (Figs. 10 and 11)

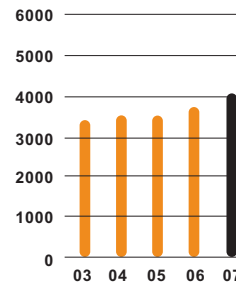


Fig. 8 NET EARNINGS (in thousands)

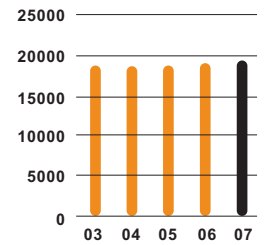


Fig. 9 MEMBERS' EQUITY (in thousands)

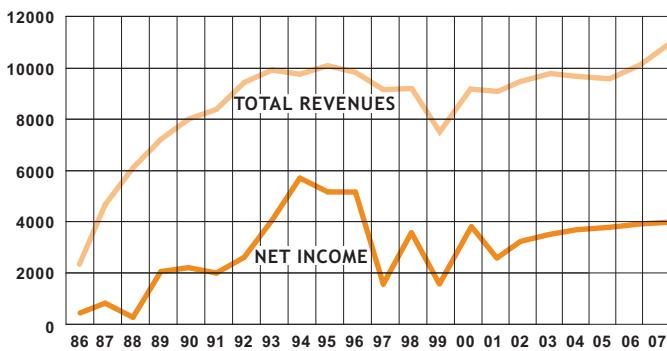


Fig. 10 22-YEAR REVENUES (in thousands)

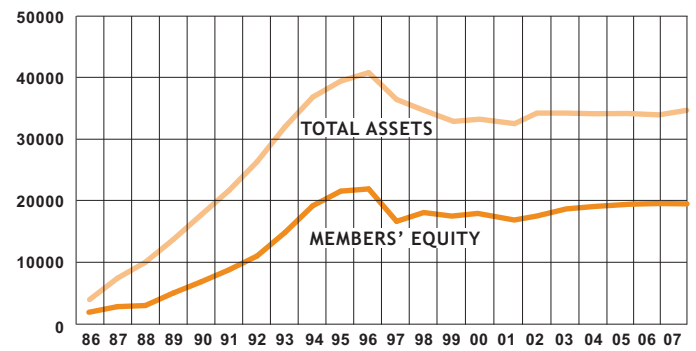


Fig. 11 22-YEAR BALANCE SHEET (in thousands)

Training

In 2007, the NDIRF continued its commitment to assist members in controlling their cost of risk through appropriate training opportunities. This effort was substantial and included providing information and assistance to thousands of officials and employees of Fund members on the following subjects:

- Defensive driving
- Employment practices
- Road maintenance
- Law enforcement liability
- Playground safety
- Special coverage issues for specific member groups

An updated Municipal Laws Handbook for City Officials was developed and distributed, and the NDIRF's library of training videos and DVD's, available for member use, was expanded and updated in 2007 along with expanded access to content and check-out information via the Fund's website. A new coverage brochure was also developed and distributed, outlining coverage changes and enhancements effective in 2007.

All of these tools are intended to provide NDIRF members with the resources to meet and deal successfully with challenges they encounter in the execution of their responsibilities.

Conclusion

Since its founding in 1986, the NDIRF has become the premier provider of dependable risk services to local government in North Dakota. As we reflect on 22 years of remarkable success in meeting a critical need for our members, we also look forward to building on this tradition of excellence in the years to come.





NDIRF sponsorship has helped secure, in cooperation with the North Dakota Recreation and Parks Association and Bismarck Park District, a National Playground Safety Training Institute held in Bismarck on an annual basis. Locating the Institute here makes advanced training for playground safety personnel in North Dakota far easier to obtain.



“Lifesavers”

The message behind the image of this year’s NDIRF Annual Report cover is pretty obvious – the coverage provided by the Fund can be a “lifesaver” in the event a member finds itself in over its head as a result of a claim.

Flotation devices are used for more than critical life support in accidents, however – they also help us maintain our heads above water as we go about more ordinary activities.

The NDIRF believes that regular communication with members now, providing information designed to help avoid claim incidents, is an effective means by which to reduce the possibility of needing urgent assistance later.

Shown here are some of the member resource “flotation devices” we use for this purpose, including the Participator newsletter; the North Dakota Employment Law Letter; “Check It Out” member and agent bulletins; the NDIRF website, including the “Employment Issues Helpline” feature; our coverage brochure and the Public Employer’s Handbook.

NDIRF BOARD OF DIRECTORS AND MEMBER AFFILIATION



Corene Vaughn
Chairperson
Counties



Mark Johnson
Chairperson-Elect
Counties



Richard Aberle
Counties



Fred Bott
Cities



Burdell Johnson
Schools



Shawn Kessel
Cities



Rod Landblom
Others



Steve Neu
Others



Connie Sprynczynatyk
Cities



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
North Dakota Insurance Reserve Fund
Bismarck, North Dakota

We have audited the accompanying balance sheets of the **North Dakota Insurance Reserve Fund** as of December 31, 2007 and 2006, and the related statements of activities 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the **North Dakota Insurance Reserve Fund** as of December 31, 2007 and 2006, and the results of its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Bismarck, North Dakota
February 21, 2008

NORTH DAKOTA INSURANCE RESERVE FUND
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents - Note 3	\$ 761	\$ 679
Investments - Note 4	31,225	30,826
Agents' balances	305	304
Interest receivable	283	328
Deferred policy acquisition costs - Note 5	391	385
Land, building and equipment, net - Note 6	1,107	1,126
Other assets	<u>27</u>	<u>21</u>
	<u>\$ 34,099</u>	<u>\$ 33,669</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 43	\$ 35
Conferment payable - Note 7	3,810	3,571
Accrued expenses	114	107
Unearned premiums	3,145	3,086
Losses and loss adjustment expenses	5,234	5,234
Incurred but not reported losses	<u>2,943</u>	<u>3,065</u>
	<u>15,289</u>	<u>15,098</u>
NET ASSETS		
Unrestricted	<u>18,810</u>	<u>18,571</u>
	<u>\$ 34,099</u>	<u>\$ 33,669</u>

See Notes to Financial Statements



NORTH DAKOTA INSURANCE RESERVE FUND
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
REVENUES		
Premiums earned	\$ <u>8,956</u>	\$ <u>8,542</u>
EXPENSES		
Losses and loss adjustment expenses	3,658	3,340
Underwriting and administrative	<u>3,254</u>	<u>3,155</u>
Total expenses	<u>6,912</u>	<u>6,495</u>
REVENUES OVER EXPENSES	<u>2,044</u>	<u>2,047</u>
NONOPERATING REVENUES		
Investment revenues, net of investment expenses of \$84 and \$76 in 2007 and 2006	1,416	1,399
Realized and unrealized gains and losses on investments	<u>589</u>	<u>260</u>
Total nonoperating revenues	<u>2,005</u>	<u>1,659</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>4,049</u>	<u>3,706</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	18,571	18,436
CONFIRMATION DECLARED	<u>(3,810)</u>	<u>(3,571)</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ <u>18,810</u></u>	<u>\$ <u>18,571</u></u>

See Notes to Financial Statements



NORTH DAKOTA INSURANCE RESERVE FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,049	\$ 3,706
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	86	86
Increase in fair value of investments	(589)	(260)
Gain on sale of equipment	(3)	(4)
Changes in assets and liabilities		
Agents' balances	(1)	(29)
Interest receivable	45	(13)
Deferred policy acquisition costs	(6)	(18)
Other assets	(6)	14
Losses and loss adjustment expenses	-	(618)
Incurred but not reported losses	(122)	97
Unearned premiums	59	140
Accounts payable	8	(6)
Accrued expenses	7	9
Net cash provided by operating activities	<u>3,527</u>	<u>3,104</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(14,227)	(16,949)
Proceeds from sale and maturities of investments	14,417	16,785
Purchase of property and equipment	(67)	(18)
Proceeds from sale of property	3	4
Net cash provided by (used in) investing activities	<u>126</u>	<u>(178)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Conferment paid	(3,571)	(3,435)
NET CHANGE IN CASH AND CASH EQUIVALENTS	82	(509)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>679</u>	<u>1,188</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 761</u>	<u>\$ 679</u>
SCHEDULE OF OTHER NONCASH ACTIVITIES		
Conferment Payable	<u>\$ 3,810</u>	<u>\$ 3,571</u>

See Notes to Financial Statements



NORTH DAKOTA INSURANCE RESERVE FUND
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2007 AND 2006
(Dollars in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

The North Dakota Insurance Reserve Fund (NDIRF) is a non-profit corporation engaged in the underwriting and insuring of property and casualty risks. NDIRF was organized January 1, 1986, and was incorporated on June 5, 1989. All political subdivisions in the State of North Dakota are eligible to participate in accordance with the North Dakota Century Code (Chapter 26.1- 23.1). The purpose of NDIRF is to establish a fund for self-insurance by the members against various types of property and casualty risks to which they are exposed in the ordinary course of their operations. Political subdivisions may terminate their membership at any time. Members include cities, counties, townships, school districts, fire districts, park districts, ambulance associations, soil conservation districts and water districts within the State of North Dakota. Total membership is 2,526.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities.

Concentration of Credit Risk

The Fund's cash balances are maintained in various bank deposit accounts and typically the Fund has deposits in excess of federally insured limits.

Concentration of credit risk with respect to agents' balances is related principally to agents located within North Dakota. The Fund performs periodic credit evaluations of its agents' financial condition and generally does not require collateral. Receivables are generally due in 30 days.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of activities.

Agents' Balances and Credit Policy

Agents' balances are uncollateralized obligations due under normal trade terms requiring payment within 30 days from the invoice date. The balances are non-interest bearing. Payments are applied to the earliest unpaid invoices. Management reviews agents' balances on a regular basis and charges operations for those considered uncollectible. All remaining agents' balances are considered collectible.

Recognition of Premium Revenue and Related Expenses

Premiums are earned principally on a pro-rata basis over the lives of the policies. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of policies in force. Related expenses associated with the unearned premiums are recognized as deferred policy acquisition costs and amortized over the lives of the policies.

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NOTES TO FINANCIAL STATEMENTS

Land, Building and Equipment

Equipment and building are stated at cost. The Fund capitalizes equipment and building purchases in excess of \$1,000. Depreciation is computed using the straight-line method over the following estimated useful lives:

Equipment	3-10 years
Building	3-30 years

Insurance Liabilities

The liability for losses, loss-adjustment expenses and incurred but not reported losses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently. The reserve for losses and loss-adjustment expenses is reported net of receivables for salvage and subrogation.

Income Taxes

A ruling was received from the Internal Revenue Service (IRS) stating the income of the Fund is excludable for tax purposes from gross income under Section 115 of the Internal Revenue Code. However, it should be noted that the IRS also stated that no opinion is expressed as to the federal income tax consequences or whether the Fund is an insurance company for federal tax purposes. As a result, no provision for income taxes has been provided for.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Fund considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Advertising

Marketing costs are expensed as incurred. Marketing expense was \$268 and \$284 for the years ended December 31, 2007 and 2006.

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NOTES TO FINANCIAL STATEMENTS

NOTE 2 - UNRESTRICTED NET ASSETS

Unrestricted net assets are comprised entirely of membership equity surplus.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Cash	\$ 453	\$ 418
Money market	<u>308</u>	<u>261</u>
	<u>\$ 761</u>	<u>\$ 679</u>

NOTE 4 - INVESTMENTS

Cost and fair value of investments at December 31, 2007 and 2006, follows:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
FIXED MATURITIES				
Corporate bonds	\$ 20,103	\$ 20,073	\$ 18,954	\$ 18,874
U.S. Government securities	<u>5,802</u>	<u>5,921</u>	<u>7,003</u>	<u>6,907</u>
	<u>25,905</u>	<u>25,994</u>	<u>25,957</u>	<u>25,781</u>
MARKETABLE EQUITY SECURITIES				
Mutual funds	1,228	1,505	1,264	1,521
Stocks	<u>1,641</u>	<u>2,215</u>	<u>1,485</u>	<u>1,929</u>
	<u>2,869</u>	<u>3,720</u>	<u>2,749</u>	<u>3,450</u>
CERTIFICATES OF DEPOSIT	<u>1,517</u>	<u>1,511</u>	<u>1,615</u>	<u>1,595</u>
	<u>\$ 30,291</u>	<u>\$ 31,225</u>	<u>\$ 30,321</u>	<u>\$ 30,826</u>

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NOTES TO FINANCIAL STATEMENTS

Major categories of net investment income, follows:

	<u>2007</u>	<u>2006</u>
Fixed maturities	\$ 1,333	\$ 1,285
Marketable equity securities	50	68
Certificates of deposit	44	53
Cash and cash equivalents	73	69
	<u>1,500</u>	<u>1,475</u>
Investment expenses	(84)	(76)
Gain (loss) on sale and maturity of investments	159	(443)
Increase in fair value of investments	430	703
	<u>\$ 2,005</u>	<u>\$ 1,659</u>

As of December 31, 2007 and 2006, investments with a fair value of approximately \$803,000 and \$975,000 were pledged to the North Dakota Insurance Department.

NOTE 5 - DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs consist of unearned commissions which have been paid to agents. These costs are amortized as a percent of unearned premiums in the same ratio as the percent of written premiums. Amortization in 2007 and 2006 was \$1,116 and \$1,067.

NOTE 6 – LAND, BUILDING AND EQUIPMENT

Depreciation charged to operations was \$86 in 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Equipment	\$ 577	\$ 564
Building	1,073	1,073
Land	215	215
	<u>1,865</u>	<u>1,852</u>
Less accumulated depreciation	<u>(758)</u>	<u>(726)</u>
	<u>\$ 1,107</u>	<u>\$ 1,126</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CONFERMENT PAYABLE

During 2007 and 2006, the Board of Directors elected to confer benefits to the participating members of the Fund. The amount of benefits allocated to a specific member is based upon a pro-rata share of the total benefit to be conferred. The benefits conferred for the years ended December 31, 2007 and 2006, were \$3,810 and \$3,571.

NOTE 8 - EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

The Fund has a qualified profit-sharing plan which covers all employees who meet eligibility requirements. The Fund's contribution to the plan is at the sole discretion of the employer. The contributions become 100 percent vested once disbursed to the plan. The Fund's contributions for 2007 and 2006 were \$108 and \$94.

Deferred Compensation Plan

The Fund has an elective employees' deferred compensation plan for substantially all employees. The plan qualifies as a deferred arrangement under Section 457 of the Internal Revenue Code. The plan allows employees to contribute up to the maximum allowable by law per year. These contributions are not subject to federal income taxes. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Fund does not contribute to this plan.

NOTE 9 – RELATED PARTIES

The Fund sponsors seminars, special projects, and advertising for Associations whose members are eligible to participate in the Fund. Certain of these Associations' Executive Directors or Board members are members of the Fund's Board of Directors. This would include the North Dakota Association of Counties, North Dakota League of Cities, North Dakota Recreation and Parks Association, and North Dakota School Board Association. In 2007 and 2006 the total amount paid to the related parties for these types of services was \$137 and \$135.

NOTE 10 - STATUTORY NET INCOME AND MEMBERSHIP EQUITY

Accounting principles generally accepted in the United States of America differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis). Statutory net income was \$3,637 and \$3,029 in 2007 and 2006, and statutory surplus was \$18,278 and \$18,309 at December 31, 2007 and 2006.

Protecting The Public Trust



NORTH DAKOTA
INSURANCE
RESERVE FUND





**NORTH DAKOTA
INSURANCE
RESERVE FUND**

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