

Michigan Municipal League Workers' Compensation Fund

Notes to Financial Statements June 30, 2007 and 2006

Note 6 - Commitments and Contingencies

The Fund has a contract with a service agent to provide claims administration services, law enforcement risk reduction services, and marketing and risk control services. This contract contains future obligations to pay service fees through fiscal year 2008. Maximum service fees under this agreement as of June 30, 2007 are approximately \$1,399,000 for fiscal year 2008.

In 2006, the Fund had an agreement with the Michigan Municipal League to provide services to the Fund including claims administration, data processing, staff travel, printing, and supplies. Under the terms of this agreement, the Fund paid the League \$860,000 annually for all services provided. At the end of each fiscal year, the League provides a report of the expenses incurred by the League on behalf of the Fund and an adjustment to the fee is made to reflect actual costs incurred. In 2006, the Fund paid approximately \$125,000 to the League relating to certain additional expenses that the League incurred on its behalf.

In addition to service fees, the Fund paid \$250,000 in 2006 for its affiliation with the League. In June 2007, the Fund entered into a new lease agreement with the League through 2047 for the use of common space and facilities within the League Capitol Office. The Fund prepaid the total rent of \$1,200,000, which will be amortized over the lease term. Total rent expense under the new agreement was \$2,500 for the year ended June 30, 2007. Total rent expense was \$45,000 for the year ended June 30, 2006.

The Fund had approximately \$833,100 and \$869,100 as of June 30, 2007 and 2006, respectively, of annuity contracts outstanding from third-party life insurance companies to make structured settlements of claims. Neither the annuity asset nor the related claim liability is reflected in the statement of accumulated members' equity. The Fund is contingently liable for these settlements if the third-party insurance companies are unable to meet their annuity contract commitments. Management believes the likelihood that the Fund will be required to make future payments on these claims is remote.