

MINNESOTA WORKERS' COMPENSATION
ASSIGNED RISK PLAN

FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

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INDEPENDENT AUDITORS' REPORT

Plan Administrator and the Commerce Department
of the State of Minnesota
Minnesota Workers' Compensation Assigned Risk Plan
Minneapolis, Minnesota

We have audited the accompanying financial statements of the Minnesota Workers' Compensation Assigned Risk Plan (the Plan), which comprise the balance sheet as of December 31, 2012 and 2011, and the related statements of income and comprehensive income, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

St. Paul, Minnesota
June 19, 2013

Olsen Thielen & Co., Ltd.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET DECEMBER 31, 2012 AND 2011

ASSETS		
	2012	2011
INVESTMENTS:		
Fixed Maturities - at Fair Value	\$ 216,178,831	\$ 201,650,387
Equity Securities - at Fair Value	53,192,265	65,077,775
Short-Term Investments	7,752,016	14,357,537
Total Investments	277,123,112	281,085,699
Cash	2,016,939	182,630
Accrued Interest and Dividends	487,182	571,143
Premiums Receivable	10,860,732	7,118,346
Reinsurance Recoverable on Unpaid Losses	327,000,000	348,000,000
Reinsurance Recoverable on Paid Losses	7,179,079	7,833,029
Deferred Service Carrier Fees	3,250,047	2,408,810
Deferred Policy Acquisition Costs	1,165,244	910,860
Due From Broker for Security Sales	166,999	-
Other Assets	5,837	75,668
 TOTAL ASSETS	 \$ 629,255,171	 \$ 648,186,185
LIABILITIES AND POLICYHOLDERS' SURPLUS		
LIABILITIES:		
Reserve for Losses	\$ 506,000,000	\$ 525,000,000
Reserve for Loss Adjustment Expenses	28,000,000	25,000,000
Unearned Premiums	24,961,961	18,480,381
Due to Broker for Pending Purchases	212,922	-
Special Compensation Fund Assessment Payable	1,966,543	1,373,251
Servicing Carrier Administration Fee Payable	2,755,194	1,854,103
Other Liabilities	837,586	759,830
Total Liabilities	564,734,206	572,467,565
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	3,809,101	3,637,546
Appropriated for State of Minnesota	14,520,965	25,718,620
Unassigned	34,800,799	36,659,351
Accumulated Other Comprehensive Income	11,390,100	9,703,103
Total Policyholders' Surplus	64,520,965	75,718,620
 TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	 \$ 629,255,171	 \$ 648,186,185

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF INCOME AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES:		
Net Earned Premiums	\$ 46,358,083	\$ 33,703,686
Net Investment Income	3,268,980	7,055,653
Net Realized Capital Gains	10,180,033	1,268,980
Total Revenues	<u>59,807,096</u>	<u>42,028,319</u>
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	33,337,712	11,827,610
Servicing Carrier Fees	6,324,050	4,478,807
Special Compensation Fund Assessments	1,664,876	1,215,600
Other Underwriting Expenses	5,646,490	5,522,348
Total Losses and Expenses Incurred	<u>46,973,128</u>	<u>23,044,365</u>
NET INCOME	<u>12,833,968</u>	<u>18,983,954</u>
OTHER COMPREHENSIVE INCOME:		
Change in Unrealized Appreciation of Investments	1,686,997	6,734,666
Other Comprehensive Income	<u>1,686,997</u>	<u>6,734,666</u>
COMPREHENSIVE INCOME	<u>\$ 14,520,965</u>	<u>\$ 25,718,620</u>

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	\$ 3,637,546	\$ 3,441,775
Transfer From Unassigned Surplus	171,555	195,771
End of Year	3,809,101	3,637,546
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	25,718,620	40,736,990
Transfer From Unassigned Surplus	14,520,965	25,718,620
Distributions to the State of Minnesota	(25,718,620)	(40,736,990)
End of Year	14,520,965	25,718,620
UNASSIGNED:		
Beginning of Year	36,659,351	43,589,788
Net Income	12,833,968	18,983,954
Transfer to Restricted - Terrorism Coverage	(171,555)	(195,771)
Transfer to Appropriated for State of Minnesota	(14,520,965)	(25,718,620)
End of Year	34,800,799	36,659,351
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Beginning of Year	9,703,103	2,968,437
Change in Unrealized Appreciation of Investments	1,686,997	6,734,666
End of Year	11,390,100	9,703,103
TOTAL POLICYHOLDERS' SURPLUS	\$ 64,520,965	\$ 75,718,620

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	\$ 49,097,277	\$ 35,361,095
Investment Income Received	3,502,040	7,601,703
Loss and Loss Adjustment Expenses Paid	(27,683,763)	(28,221,029)
Special Compensation Fund Assessments Paid	(1,071,584)	(1,126,488)
Underwriting and Other Expenses Paid	(12,017,483)	(9,856,918)
Net Cash Provided By Operating Activities	11,826,487	3,758,363
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	(235,217,658)	(449,462,397)
Purchases of Equity Securities	(49,640,578)	(27,344,189)
Proceeds From Sales and Paydowns of Fixed Maturities	222,212,526	499,268,609
Proceeds From Sales of Equity Securities	71,720,708	26,551,638
Due to/Due From Broker for Security Purchases and Sales	45,923	(1,008,513)
Net Change in Short-Term Investments	6,605,521	(11,075,097)
Distributions to the State of Minnesota	(25,718,620)	(40,736,990)
Net Cash Used In Investing Activities	(9,992,178)	(3,806,939)
NET INCREASE (DECREASE) IN CASH	1,834,309	(48,576)
CASH at Beginning of Year	182,630	231,206
CASH at End of Year	\$ 2,016,939	\$ 182,630

The accompanying notes are an integral part of the financial statements.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF PLAN

The Minnesota Workers' Compensation Assigned Risk Plan (the Plan) is the source of workers' compensation and employers' liability coverage for Minnesota employers who have been unable to obtain an insurance policy through the voluntary market. Coverage provided through the Plan is substantially the same as coverage available from licensed workers' compensation insurance companies.

The Plan was established in 1982 and contracts with servicing contractors who review applications, issue policies, collect premiums, pay claims, and perform other administrative duties for the Plan per contractual requirements. To the extent that the assets of the Plan are inadequate to meet its obligations, the Commissioner of the Minnesota Department of Commerce shall assess all licensed workers' compensation insurance companies doing business in the state of Minnesota an amount sufficient to fully fund the obligations of the Plan. The assessment of each insurer shall be in a proportion equal to the proportion that the amount of workers' compensation insurance written by that insurer in Minnesota during the calendar year preceding the assessment bears to the total workers' compensation insurance written in Minnesota during the same calendar year by all licensed insurers. No assessments were made in either 2012 or 2011. The servicing contractors bear no share of the Plan's liabilities.

Since inception, the Plan has contracted with seven servicing contractors to administer the program. These contractors are as follows:

- Berkley Risk Administrators Company, LLC (BRAC);
- RTW, Inc. (RTW);
- SFM Risk Solutions, Inc. (SFM);
- Employers Insurance of Wausau, a Mutual Company (EIW);
- Occupational Healthcare Management Services (OHMS);
- Deferred Compensation Administrators, Inc. (DCA); and
- St. Paul Risk Services, Inc. (SPRS)

Policies are allocated to servicing carriers according to each carrier's contractual percentage participation in the program. The percentage participations have varied over time, as outlined in the following chart:

Policy Inception Period	Percentage Participation						
	BRAC	RTW	SFM	EIW	OHMS	DCA	SPRS
Inception - 6/30/83	7.0%	—%	—%	30.0%	—%	3.0%	60.0%
7/1/83 - 12/31/86	18.0	—	—	67.0	—	15.0	—
1/1/87 - 3/31/89	50.0	—	—	33.0	—	17.0	—
4/1/89 - 3/31/92	65.0	—	—	35.0	—	—	—
4/1/92 - 3/31/94	50.0	—	—	50.0	—	—	—
4/1/94 - 3/31/97	50.0	—	—	25.0	25.0	—	—
4/1/97 - 6/30/00	50.0	—	—	50.0	—	—	—
7/1/00 - 6/30/04	100.0	—	—	—	—	—	—
7/1/04 - 12/31/09	75.0	25.0	—	—	—	—	—
1/1/10 - 12/31/12	33.3	33.3	33.3	—	—	—	—

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Risks and Uncertainties

Certain risks and uncertainties are inherent in the Plan's day-to-day operations and in the process of preparing its financial statements. The more significant of those risks and uncertainties, as well as the Plan's methods for mitigating, quantifying, and minimizing such risks, are presented below and throughout the notes to the financial statements.

Financial Statements Risk

The preparation of financial statements requires the plan administrator to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. The most significant of these amounts is the liability for loss and loss adjustment expense (LAE) reserves. While the plan administrator believes the reserve for losses and LAE makes a reasonable provision to cover the ultimate liability, it is reasonably possible that the actual ultimate loss and LAE costs may vary from amounts provided, and the variance could be material to the financial statements.

Investments Risk

The Plan is exposed to risks that issuers of securities owned by the Plan will default or that interest rates will change and cause a decrease in the value of its investments. The Plan mitigates these risks by investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Premiums Receivable Risk

Premiums receivable represent amounts to be received for policies issued. Premiums are calculated based upon information provided by the insured. Audits are performed on the information provided after the policy expiration date. These audits may result in an additional premium billing or a premium refund. Any difference between the initial premium and the audit premium is reflected in current operations when the audit premium is billed or premium refund is recorded.

Investments

The Plan's entire fixed maturity and equity investment portfolios are classified as available-for-sale, in accordance with the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*. Accordingly, the Plan carries these investments on the balance sheet at estimated fair value.

Short-term investments include investments maturing within one year and money market instruments and are carried at cost, which approximates fair value.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Realized gains and losses from sales of investments are reflected in earnings based on the average cost of the investments sold. The difference between the cost and estimated fair value of investments is monitored. If any investments experience a decline in value that the Plan believes is other than temporary, the asset is written down for the decline and a realized loss is reflected in earnings. Changes in unrealized appreciation or depreciation resulting from changes in the fair value of investments are reflected directly in policyholders' surplus as accumulated other comprehensive income (loss).

Deferred Costs and Fees

Policy acquisition costs, such as commissions and premium taxes which vary with and are primarily related to the production of business, are deferred and amortized over the effective period of the related insurance policies. If deferred policy acquisition costs were to exceed the sum of unearned premiums and related anticipated investment income less related losses and loss adjustment expenses, the excess costs would be expensed immediately.

Service carrier fees, which are primarily related to the production and maintenance of business, are deferred and amortized over the effective period of the related insurance policies.

Unearned Premiums

Premiums are earned ratably over the terms of the policies. Unearned premiums are calculated on the daily pro-rata method and represent the unexpired portion of premiums written.

Losses and LAE

The reserves for losses and LAE represent an estimate of the ultimate net cost of all claims that have occurred and are unpaid. The reserves are based on loss factors determined by independent consulting actuaries, using statistical analyses and projections and the historical loss experience of the Plan, and give effect to estimates of trends in claim severity and frequency. As claim settlements occur that differ from reserves estimates, these differences are included in current operations.

For policies with inception dates prior to April 1, 1992, the servicing contractors were responsible for all allocated and unallocated LAE incurred in the settlement of losses. Allocated loss adjustment expenses (ALAE) include legal fees and related expenses (expert testimony, investigations, etc.), medical examinations, and other costs paid to third parties associated with the defense and settlement of particular claims. Unallocated loss adjustment expenses (ULAE) include that portion of the cost of settling claims that cannot be attributed to a specific claim and are more in the nature of an overhead expense (servicing contractors' claim adjuster salaries, rent, etc.).

For policies with inception dates after April 1, 1992, the Plan is responsible for legal and related expenses incurred in the settlement of losses and, accordingly, a liability for these amounts has been established. All other ALAE and all ULAE continue to be the responsibility of the servicing contractors.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Compensation Fund Assessments

The Minnesota Department of Labor and Industry currently assesses all insurers writing workers' compensation insurance in Minnesota. The assessment pays for the operation of the Special Compensation Fund (SCF). The SCF pays the cost of administration by the State of Minnesota of the workers' compensation laws; reimburses supplementary benefits paid to claimants; reimburses certain benefits paid to claimants with qualifying, prior registered conditions; and pays claims of injured employees of uninsured employers.

In March 2002, legislation was passed by the Minnesota state legislature and signed into law to change the method of assessing insured employers from a loss-based assessment to a premium-based assessment. This change was effective beginning in 2003, from which point the obligating event for assessment liability became the writing of, or becoming obligated to write or renew, the premiums on which the future assessments are to be based. According to MN Senate File 3136, the premium-based method of assessment is to be collected through a policyholder surcharge.

The special compensation fund assessment payable represents those assessments currently due based on pure premiums and the estimated liabilities for future SCF assessments based on SCF surcharges collected on policies with an effective date on or after January 1, 2003.

Restricted Surplus - Terrorism Coverage

As a result of the "Terrorism Risk Insurance Act" passed by Congress and signed into law by the President in November 2002, the Plan is required to restrict a portion of its surplus for terrorism. Through December 31, 2008, the Plan restricted \$1 for every \$5,000 of payroll covered by the Plan's policies. The "Terrorism Risk Insurance Program Reauthorization Act of 2007" extends this program through 2014 and may require additional amounts to be restricted in future years.

Income Taxes

The Plan is exempt from paying income taxes under Section 501 of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Plan reviews income tax positions taken or expected to be taken to determine if there are any income tax uncertainties. This includes positions that the Plan is exempt from income taxes and as such has not filed Federal or Minnesota Income Tax Returns. The Plan recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Plan has identified no income tax uncertainties.

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through June 19, 2013, the date the financial statements were available to be issued.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH PROVIDED BY OPERATING ACTIVITIES

A reconciliation of cash provided by operating activities to the amount reflected in the statement of cash flows is as follows:

	2012	2011
Net Cash Flow From Operating Activities:		
Net Income	\$ 12,833,968	\$ 18,983,954
Adjustments to Reconcile Net Income to		
Net Cash Provided By Operating Activities:		
Net Realized Capital Gains	(10,180,033)	(1,268,980)
Amortization and Accretion	149,098	11,980
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	(16,000,000)	(22,000,000)
Reinsurance Recoverable on Paid Losses	653,950	(393,418)
Reinsurance Recoverable on Unpaid Losses	21,000,000	6,000,000
Unearned Premiums	6,481,580	2,741,769
Premiums Receivable	(3,742,386)	(1,084,360)
Deferred Service Carrier Fees	(841,237)	(391,948)
Deferred Policy Acquisition Costs	(254,384)	(131,734)
Special Compensation Fund Assessment Payable	593,292	89,112
Servicing Carrier Administration Fee Payable	901,091	472,824
Other Liabilities	77,756	(17,496)
Accrued Interest and Dividends	83,961	534,069
Other Assets	69,831	212,591
Net Cash Provided By Operating Activities	\$ 11,826,487	\$ 3,758,363

NOTE 4 - REINSURANCE

The Plan is reinsured by the Minnesota Workers' Compensation Reinsurance Association (WCRA). There is not, nor has there ever been, any other applicable reinsurance. The following table lists the selected per-occurrence retentions by accident year for the past sixteen years:

Accident Year	Loss only Per-Occurrence Retention
1997	\$ 270,000
1998	280,000
1999	290,000
2000	310,000
2001	330,000
2002	350,000
2003	360,000
2004	360,000
2005	380,000
5006	780,000
2007	800,000
2008	820,000
2009	1,720,000
2010	1,800,000
2011	1,800,000
2012	1,840,000

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - REINSURANCE (Continued)

A contingent liability exists with respect to reinsurance ceded to the extent that the reinsurer is unable to meet its obligations assumed under the reinsurance agreement.

The effect of ceded reinsurance on premiums written, premiums earned, and losses and LAE is reflected in the following table:

	<u>2012</u>	<u>2011</u>
Premium Written:		
Direct	\$ 52,580,747	\$ 36,787,322
Ceded	<u>(360,279)</u>	<u>(267,634)</u>
Net Premiums Written	<u>\$ 52,220,468</u>	<u>\$ 36,519,688</u>
Premiums Earned:		
Direct	\$ 46,718,362	\$ 33,971,320
Ceded	<u>(360,279)</u>	<u>(267,634)</u>
Net Premiums Earned	<u>\$ 46,358,083</u>	<u>\$ 33,703,686</u>
Losses and Loss Adjustment Expenses Incurred:		
Direct	\$ 46,287,709	\$ 25,880,161
Ceded	<u>(12,949,997)</u>	<u>(14,052,551)</u>
Net Losses and Loss Adjustment Expenses Incurred	<u>\$ 33,337,712</u>	<u>\$ 11,827,610</u>

NOTE 5 - INVESTMENTS

Invested Amounts, Investment Income and Gains and Losses

The amortized cost, gross unrealized appreciation and depreciation, and the estimated fair values of investments in fixed maturities are as follows:

	<u>2012</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Estimated Fair Value</u>
U.S. Treasury Securities and Other Obligations	\$ 173,315,487	\$ 4,109,303	\$ (7,511)	\$ 177,417,279
Mortgage-Backed Securities	<u>38,590,594</u>	<u>197,156</u>	<u>(26,198)</u>	<u>38,761,552</u>
Total Fixed Maturities	<u>\$ 211,906,081</u>	<u>\$ 4,306,459</u>	<u>\$ (33,709)</u>	<u>\$ 216,178,831</u>
	<u>2011</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Estimated Fair Value</u>
U.S. Treasury Securities and Other Obligations	\$ 133,239,065	\$ 4,785,712	\$ —	\$ 138,024,777
Mortgage-Backed Securities	<u>63,290,725</u>	<u>334,885</u>	<u>—</u>	<u>63,625,610</u>
Total Fixed Maturities	<u>\$ 196,529,790</u>	<u>\$ 5,120,597</u>	<u>\$ —</u>	<u>\$ 201,650,387</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2012 by contractual maturity are shown below. Expected maturities will likely differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in One Year or Less	\$ 6,256,020	\$ 6,265,392
Due After One Year Through Five Years	137,206,967	139,471,465
Due After Five Years Through Ten Years	29,852,500	31,680,422
Mortgage-Backed Securities	38,590,594	38,761,552
	\$ 211,906,081	\$ 216,178,831

The cost and fair values of equity securities available-for-sale at 2012 and 2011 were as follows:

2012				
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	\$ 46,074,915	\$ 7,995,819	\$ (878,469)	\$ 53,192,265
2011				
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	\$ 60,495,269	\$ 8,221,168	\$ (3,638,662)	\$ 65,077,775

At December 31, 2012 and 2011, gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

2012						
Description	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	\$ 3,461,717	\$ (7,511)	\$ -	\$ -	\$ 3,461,717	\$ (7,511)
Mortgage-Backed Securities	8,888,165	(26,198)	-	-	8,888,165	(26,198)
Total Fixed Maturities	12,349,882	(33,709)	-	-	12,349,882	(33,709)
Equity Securities	4,887,352	(345,376)	5,720,037	(533,093)	10,607,389	(878,469)
Totals	\$ 17,237,234	\$ (379,085)	\$ 5,720,037	\$ (533,093)	\$ 22,957,271	\$ (912,178)
2011						
Description	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity Securities	\$ 13,769,307	\$ (1,879,728)	\$ 4,838,259	\$ (1,758,934)	\$ 18,607,566	\$ (3,638,662)

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2012. The Plan believes that its unrealized losses in equity securities are caused by market conditions influenced by the existing economic downturn, as opposed to deterioration in the fundamentals of individual investments, and intends to maintain its investments through this downturn.

The Plan holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the balance sheet.

Net investment income for 2012 and 2011 is summarized as follows (fixed maturities include interest on short-term investments):

	<u>2012</u>	<u>2011</u>
Fixed Maturities	\$ 2,354,292	\$ 6,411,311
Equity Securities	<u>1,351,469</u>	<u>1,081,240</u>
Total	<u>3,705,761</u>	7,492,551
Investment Expenses	<u>(436,781)</u>	<u>(436,898)</u>
Net Investment Income	<u>\$ 3,268,980</u>	<u>\$ 7,055,653</u>

Cash proceeds received from sales of investments in fixed maturities during 2012 and 2011 were \$222,212,526 and \$499,268,609, respectively. In 2012 and 2011, gross gains of \$3,440,121 and \$29,285,570 and gross losses of \$(919,864) and \$(30,309,728) respectively, were realized on those sales.

Gross gains of \$10,835,700 and \$3,750,122 and gross losses of \$(3,175,924) and \$(1,456,984) were realized on sales of equity securities in 2012 and 2011, respectively.

Fair Value of Financial Instruments

The FASB *Accounting Standards Codification* establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value, as follows: Level 1, defined as observable inputs (i.e. quoted prices in active markets); Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and, Level 3, defined as unobservable inputs for which little or no market data exists, which then requires an entity to develop its own assumptions.

The Plan utilizes a pricing service to estimate its fair value measurements for its fixed maturities and equity securities. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, most fair value estimates for fixed maturities are based on observable market information rather than quoted prices. Accordingly, the estimates of fair value for fixed maturities, other than U.S. Treasury securities, are included in Level 2 of the Standard's hierarchy. U.S. Treasury securities are included in Level 1.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

The fair value of the Plan's mortgage-backed securities and other debt obligations were determined based on Level 2 inputs and are estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its term, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs including probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

All equity securities owned by the Plan have active markets and are included in Level 1 of the Standard's hierarchy.

The Plan's fixed maturities and equity investments fair value measurements at December 31, 2012 and 2011 are as follows:

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2012:				
Fixed Maturities				
U.S. Treasury Securities and Other Obligations	\$ 177,417,279	\$ 176,409,739	\$ 1,007,540	\$ -
Mortgage-Backed Securities	38,761,552	-	38,761,552	-
Total Fixed Maturities	<u>216,178,831</u>	<u>176,409,739</u>	<u>39,769,092</u>	<u>-</u>
Equity Securities	<u>53,192,265</u>	<u>53,192,265</u>	-	-
Totals	<u>\$ 269,371,096</u>	<u>\$ 229,602,004</u>	<u>\$ 39,769,092</u>	<u>\$ -</u>
2011:				
Fixed Maturities				
U.S. Treasury Securities and Other Obligations	\$ 138,024,777	\$ 136,558,705	\$ 1,466,072	\$ -
Mortgage-Backed Securities	63,625,610	-	63,625,610	-
Total Fixed Maturities	<u>201,650,387</u>	<u>136,558,705</u>	<u>65,091,682</u>	<u>-</u>
Equity Securities	<u>65,077,775</u>	<u>65,077,775</u>	-	-
Totals	<u>\$ 266,728,162</u>	<u>\$ 201,636,480</u>	<u>\$ 65,091,682</u>	<u>\$ -</u>

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

A reconciliation of beginning and end of year balances in the liability for unpaid losses and loss adjustment expenses (LAE), net of reinsurance recoverable for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Liability for Losses and LAE at Beginning of Year	\$ 550,000,000	\$ 572,000,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	(348,000,000)	(354,000,000)
Net Liability for Losses and LAE at Beginning of Year	<u>202,000,000</u>	<u>218,000,000</u>
Provision for Losses and LAE for Claims Incurred:		
Current Year	41,733,000	26,387,000
Prior Years	(8,395,288)	(14,559,390)
Total Incurred	<u>33,337,712</u>	<u>11,827,610</u>
Losses and LAE Payments for Claims Incurred:		
Current Year	6,423,045	4,765,812
Prior Years	21,914,667	23,061,798
Total Paid	<u>28,337,712</u>	<u>27,827,610</u>
Net Liability for Losses and LAE at End of Year	207,000,000	202,000,000
Reinsurance Recoverable on Unpaid Losses - End of Year	<u>327,000,000</u>	<u>348,000,000</u>
Liability for Losses and LAE at End of Year	<u>\$ 534,000,000</u>	<u>\$ 550,000,000</u>

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred, net of reinsurance, decreased by approximately \$8,395,000 in 2012 and approximately \$14,559,000 in 2011.

NOTE 7 - CONTINGENCIES

Since inception, the Plan has contracted with seven servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon standard written premium. Contingent liabilities exist with respect to the performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general services agreement.

The Plan, through EIW, has purchased annuities to settle certain claims with the claimant as payee but for which the Plan remains contingently liable. The Plan eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The issuer, Employers Life Insurance Company of Wausau, is an affiliate of EIW. The present value of all annuity contracts still in force at December 31, 2012 was approximately \$2.2 million.

The Plan is presently not engaged in any litigation that it considers will have a material adverse effect on its business. As is common with other insurance providers, the Plan is regularly engaged in the defense of claims arising out of the conduct of the insurance business.

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - OTHER COMPREHENSIVE INCOME

Comprehensive income is defined as any change in policyholders' surplus originating from non-owner transactions. The Plan has identified those changes as being comprised of net income and change in unrealized appreciation or depreciation on investments. The components of comprehensive income (loss), other than net income, are as follows:

	<u>2012</u>	<u>2011</u>
Unrealized Appreciation Arising During the Period	\$ 11,867,030	\$ 8,003,646
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income	<u>10,180,033</u>	<u>1,268,980</u>
Total Other Comprehensive Income	<u>\$ 1,686,997</u>	<u>\$ 6,734,666</u>

NOTE 9 - POLICYHOLDERS' SURPLUS

A Minnesota law requires the Plan to transfer its "excess surplus" (as defined in the statute) to the general fund of the State of Minnesota. The amount appropriated by the Plan for the State of Minnesota was \$14,520,965 at December 31, 2012 and \$25,718,620 at December 31, 2011.