Olsen Thielen & Co., Ltd.
Certified Public Accountants & Consultants

Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements Together with Independent Auditors' Report

December 31, 2007

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

CONTENTS

OLSEN THIELEN & CO., LTD.
Certified Public Accountants & Consultants

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 balance sheet of the Minnesota Workers' Compensation Assigned Risk Plan (the Plan) as of December 31, 2007 and 2006, and the related statements of operations and comprehensive income, changes in policyholders' surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Plan Administrator. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Minnesota Workers' Compensation Assigned Risk Plan as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Olsen Thielen & Co., Ltd.

St. Paul, Minnesota
June 12, 2008

223 Little Canada Road, St. Paul, Minnesota 55117 651 483 4521 FAX 651 483 2467
Flagship Corporate Center, 775 Prairie Center Drive, Ste. 480, Minneapolis, Minnesota 55344 952 941 9242

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
INVESTMENTS:		
Fixed Maturities - At Fair Value	**$ 259,661,593**	$ 253,210,534
Equity Securities - At Fair Value (Cost: 2007 - $73,873,805; 2006 - $64,692,111)	**86,493,730**	79,346,861
Short-Term Investments	**14,482,852**	7,822,046
Total Investments	**360,638,175**	340,379,441
Cash	**2,310,870**	1,709,520
Accrued Interest and Dividends	**2,027,995**	2,250,890
Premiums Receivable	**10,361,837**	12,830,684
Reinsurance Recoverable on Unpaid Losses	**382,000,000**	388,000,000
Reinsurance Recoverable on Paid Losses	**7,358,927**	9,662,847
Deferred Service Carrier Fees	**3,377,296**	4,304,037
Deferred Policy Acquisition Costs	**1,124,236**	1,390,790
Due From Broker for Security Sales	**2,140,763**	6,722
Reinsurance Premium Receivable	**102,614**	615,367
Other Assets	**231,932**	345,841
TOTAL ASSETS	**$ 771,674,645**	$ 761,496,139

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2007	2006
LIABILITIES:		
Reserve for Losses	**$ 642,000,000**	$ 651,000,000
Reserve for Loss Adjustment Expenses	**28,000,000**	28,000,000
Unearned Premiums	**25,091,248**	32,111,747
Due to Broker for Pending Purchases	**4,221,914**	411,081
Special Compensation Fund Assessment Payable	**3,490,491**	5,484,018
Servicing Carrier Administration Fee Payable	**1,733,769**	2,049,076
Other Liabilities	**315,168**	608,078
Total Liabilities	**704,852,590**	719,664,000
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	**2,612,840**	2,291,386
Appropriated for State of Minnesota	**16,822,055**	–
Unassigned	**34,197,780**	26,909,309
Accumulated Other Comprehensive Income	**13,189,380**	12,631,444
Total Policyholders' Surplus	**66,822,055**	41,832,139
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 771,674,645**	$ 761,496,139

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUES:		
Net Earned Premiums	**$ 56,823,612**	$ 75,979,037
Net Investment Income	**14,964,861**	13,760,157
Net Realized Capital Gains	**6,477,262**	3,265,124
Total Revenues	**78,265,735**	93,004,318
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	**38,625,107**	77,016,743
Servicing Carrier Fees	**7,795,771**	10,581,296
Special Compensation Fund Assessments	**1,615,630**	2,543,780
Other Underwriting Expenses	**5,797,247**	6,730,927
Total Losses and Expenses Incurred	**53,833,755**	96,872,746
NET INCOME (LOSS)	**24,431,980**	(3,868,428)
OTHER COMPREHENSIVE INCOME:		
Change in Unrealized Appreciation of Investments	**557,936**	5,895,522
Other Comprehensive Income	**557,936**	5,895,522
COMPREHENSIVE INCOME	**$ 24,989,916**	$ 2,027,094

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, 2007 AND 2006

	2007	2006
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	**$ 2,291,386**	$ 1,900,999
Transfer from Unassigned Surplus	**321,454**	390,387
End of Year	**2,612,840**	2,291,386
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	**–**	–
Transfer from Unassigned Surplus	**16,822,055**	–
End of Year	**16,822,055**	–
UNASSIGNED:		
Beginning of Year	**26,909,309**	31,168,124
Net Income (Loss)	**24,431,980**	(3,868,428)
Transfer to Restricted - Terrorism Coverage	**(321,454)**	(390,387)
Transfer to Appropriated for State of Minnesota	**(16,822,055)**	–
End of Year	**34,197,780**	26,909,309
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Beginning of Year	**12,631,444**	6,735,922
Change in Unrealized Appreciation of Investments	**557,936**	5,895,522
End of Year	**13,189,380**	12,631,444
TOTAL POLICYHOLDERS' SURPLUS	**$ 66,822,055**	$ 41,832,139

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, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	**$ 52,271,960**	$ 72,512,394
Investment Income Received	**15,019,361**	13,395,423
Loss and Loss Adjustment Expenses Paid	**(39,580,095)**	(51,299,574)
Special Compensation Fund Assessments Paid	**(3,609,157)**	(4,287,002)
Underwriting and Other Expenses Paid	**(12,122,370)**	(17,546,946)
Net Cash Provided By Operating Activities	**11,979,699**	12,774,295
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	**(231,753,031)**	(211,007,888)
Purchases of Equity Securities	**(47,523,824)**	(31,454,677)
Proceeds From Sales and Paydowns of Fixed Maturities	**226,947,306**	200,448,162
Proceeds From Sales of Equity Securities	**45,935,214**	29,944,237
Due to/Due From Broker for Security Purchases and Sales	**1,676,792**	410,691
Net Change in Short-Term Investments	**(6,660,806)**	(1,303,661)
Net Cash Used In Investing Activities	**(11,378,349)**	(12,963,136)
NET INCREASE (DECREASE) IN CASH	**601,350**	(188,841)
CASH at Beginning of Year	**1,709,520**	1,898,361
CASH at End of Year	**$ 2,310,870**	$ 1,709,520

The accompanying notes are an integral part of the 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 2007 or 2006. The servicing contractors bear no share of the Plan's liabilities.

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

- Berkley Risk Administrators Company, LLC (BRAC);
- RTW, Inc. (RTW);
- 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:

	Percentage Participation					
Policy Inception Period	BRAC	RTW	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 - 12/31/07	75.0	25.0	–	–	–	–

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 from insureds. 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 remitted.

Investments

The Plan's entire fixed maturity and equity investment portfolios are classified as available-for-sale as defined by Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 polices 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.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Compensation Fund Assessments (Continued)

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 the United States Legislature in November 2002, the Plan is required to restrict a portion of its surplus for terrorism and, through December 31, 2007, the Plan restricted $1 for every $5,000 of its insureds' covered payrolls. With the passage of the "Terrorism Risk Insurance Program Reauthorization Act of 2007," that program extends through 2014 and may require an additional amount to be restricted beginning January 1, 2008.

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.

Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 presentation. The reclassifications had no effect on the results of operations and comprehensive income for 2006 or policyholders' surplus at December 31, 2006.

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:

	2007	2006
Net Cash Flow From Operating Activities:		
Net Income (Loss)	**$ 24,431,980**	$ (3,868,428)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Operating Activities:		
Net Realized Capital Gains	**(6,477,262)**	(3,265,124)
Amortization and Accretion	**(168,395)**	(284,588)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	**(9,000,000)**	53,000,000
Reinsurance Recoverable on Paid Losses	**2,303,920**	627,309
Reinsurance Recoverable on Unpaid Losses	**6,000,000**	(28,000,000)
Unearned Premiums	**(7,020,499)**	(10,334,420)
Premiums Receivable	**2,468,847**	6,867,777
Deferred Service Carrier Fees	**926,741**	1,389,202
Deferred Policy Acquisition Costs	**266,554**	338,523
Special Compensation Fund Assessment Payable	**(1,993,527)**	(1,743,222)
Service Carrier Administration Fee Payable	**(315,307)**	(861,807)
Other Liabilities	**(292,910)**	(695,978)
Reinsurance Premiums Payable or Receivable	**512,753**	(609,713)
Accrued Interest and Dividends	**222,895**	(80,146)
Other Assets	**113,909**	294,910
Net Cash Provided By Operating Activities	**$ 11,979,699**	$ 12,774,295

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 eleven 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
2006	780,000
2007	800,000

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

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

	2007	2006
Premium Written:		
Direct	**$ 51,347,815**	$ 67,623,578
Ceded	**(835,093)**	(1,239,488)
Net Premiums Written	**$ 50,512,722**	$ 66,384,090
Premiums Earned:		
Direct	**$ 57,658,705**	$ 77,218,525
Ceded	**(835,093)**	(1,239,488)
Net Premiums Earned	**$ 56,823,612**	$ 75,979,037
Losses and Loss Adjustment Expenses Incurred:		
Direct	**$ 48,938,575**	$ 89,137,928
Ceded	**(10,313,468)**	(12,121,185)
Net Losses and Loss Adjustment Expenses Incurred	**$ 38,625,107**	$ 77,016,743

NOTE 5 - INVESTMENTS

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

	2007			
	Amortized Cost	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Estimated Fair Value**
U.S. Treasury Securities and Other Obligations	**$ 146,926,598**	**$ 2,493,342**	**$ (2,180,059)**	**$ 147,239,881**
Mortgage-Backed Securities	**112,165,540**	**1,181,280**	**(925,108)**	**112,421,712**
Total Fixed Maturities	**$ 259,092,138**	**$ 3,674,622**	**$ (3,105,167)**	**$ 259,661,593**

	2006			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	$ 126,668,797	$ 258,649	$ (1,928,710)	$ 124,998,736
Mortgage-Backed Securities	128,565,043	758,959	(1,112,204)	128,211,798
Total Fixed Maturities	$ 255,233,840	$ 1,017,608	$ (3,040,914)	$ 253,210,534

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2007 by contractual maturity are shown below. Expected maturities will likely differ from contractual maturities because 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	$ 3,529,914	$ 3,537,230
Due After One Year Through Five Years	39,174,750	39,399,647
Due After Five Years Through Ten Years	46,225,814	47,737,787
Due in More Than Ten Years	57,996,120	56,565,217
Mortgage-Backed Securities	112,165,540	112,421,712
	$ 259,092,138	$ 259,661,593

The gross unrealized appreciation and depreciation on equity securities are as follows:

	2007	2006
Unrealized Appreciation	**$ 16,561,285**	$ 15,529,608
Unrealized Depreciation	**(3,941,360)**	(874,858)
Net Unrealized Gains on Equity Securities	**$ 12,619,925**	$ 14,654,750

NOTE 5 - INVESTMENTS (Continued)

Net investment income for 2007 and 2006 is summarized as follows (fixed maturities include interest on short-term investments):

	2007	2006
Fixed Maturities	$ 13,995,508	$ 12,769,543
Equity Securities	1,310,671	1,447,184
Total	15,306,179	14,216,727
Investment Expenses	(341,318)	(456,570)
Net Investment Income	$ 14,964,861	$ 13,760,157

Cash proceeds received from sales of investments in fixed maturities during 2007 and 2006 were $202,768,281 and $180,882,034, respectively. In 2007 and 2006, gross gains of $733,314 and $541,114 and gross losses of $1,849,136 and $1,831,062, respectively, were realized on those sales.

Gross gains of $8,901,356 and $5,322,097 and gross losses of $1,308,272 and $767,025 were realized on sales of equity securities in 2007 and 2006, respectively.

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, 2007 and 2006, is as follows:

	2007	2006
Liability for Losses and LAE at Beginning of Year	$ 679,000,000	$ 626,000,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	(388,000,000)	(360,000,000)
Net Liability for Losses and LAE at Beginning of Year	291,000,000	266,000,000
Provision for Losses and LAE for Claims Incurred:		
Current Year	20,040,353	50,739,020
Prior Years	18,584,754	26,277,723
Total Incurred	38,625,107	77,016,743
Losses and LAE Payments for Claims Incurred:		
Current Year	7,698,493	10,954,929
Prior Years	33,926,614	41,061,814
Total Paid	41,625,107	52,016,743
Net Liability for Losses and LAE at End of Year	288,000,000	291,000,000
Reinsurance Recoverable on Unpaid Losses - End of Year	382,000,000	388,000,000
Liability for Losses and LAE at End of Year	$ 670,000,000	$ 679,000,000

NOTE 6 - LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES (Continued)

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred (net of reinsurance) increased by $18,584,754 in 2007 and $26,277,723 in 2006. The increases in 2007 and 2006 of prior years' losses were due primarily to worsening of claim experience incurred from original estimates established and severity of covered claims.

NOTE 7 - CONTINGENCIES

Since inception, the Plan has contracted with six 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, 2007 and 2006 was approximately $3.5 million and $3.7 million, respectively.

At present, the Plan is not engaged in any litigation known to the Plan that 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.

NOTE 8 - OTHER COMPREHENSIVE INCOME

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

	2007	2006
Unrealized Appreciation Arising During the Period	**$ 7,035,198**	$ 9,160,646
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income or Loss	**(6,477,262)**	(3,265,124)
Total Other Comprehensive Income	**$ 557,936**	$ 5,895,522

NOTE 9 - POLICYHOLDERS' SURPLUS

In 2002, a Minnesota law was enacted that required the Plan to transfer its "excess surplus" (as defined in statute) to the general fund of the State of Minnesota. Based on the criteria for "excess surplus," the amount appropriated for the State of Minnesota at December 31, 2007 is $16,822,055.

See Note 10 for transfers already determined.

NOTE 10 - SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the Legislature of the State of Minnesota (the Legislature) enacted legislation providing for a $4.9 million evidence-based study of workers' lung health to be performed by the University of Minnesota. The Minnesota Governor signed this legislation on April 28, 2008. The Plan is to provide the funding for this study and a transfer of $4.9 million to the general fund of the State of Minnesota will be made by June 30, 2008.

In addition, the Legislature also approved a $10 million transfer from the Plan to the State of Minnesota to be made by June 30, 2009. The Minnesota Governor signed this legislation on May 29, 2008.

After considering the transfers above, the balance of the amount appropriated for the State of Minnesota of $1,922,055 will be transferred by June 30, 2008.