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

Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements Together with Independent Auditors' Report

December 31, 2008

*Depend on our people. Count on our advice.*SM

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

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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, 2008 and 2007, and the related statements of operations and comprehensive income (loss), 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, 2008 and 2007, 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 30, 2009

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MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET
DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
INVESTMENTS:		
Fixed Maturities - At Fair Value	**$ 244,940,356**	$ 259,661,593
Equity Securities - At Fair Value		
(Cost: 2008 - $59,376,232; 2007 - $73,873,805)	**45,277,419**	86,493,730
Short-Term Investments	**11,160,655**	14,482,852
Total Investments	**301,378,430**	360,638,175
Cash	**869,981**	2,310,870
Accrued Interest and Dividends	**1,893,999**	2,027,995
Premiums Receivable	**8,032,367**	10,361,837
Reinsurance Recoverable on Unpaid Losses	**405,000,000**	382,000,000
Reinsurance Recoverable on Paid Losses	**6,783,410**	7,358,927
Deferred Service Carrier Fees	**2,102,426**	3,377,296
Deferred Policy Acquisition Costs	**1,700,636**	1,124,236
Due From Broker for Security Sales	**–**	2,140,763
Reinsurance Premium Receivable	**–**	102,614
Other Assets	**203,768**	231,932
TOTAL ASSETS	**$ 727,965,017**	$ 771,674,645

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2008	2007
LIABILITIES:		
Reserve for Losses	**$ 638,000,000**	$ 642,000,000
Reserve for Loss Adjustment Expenses	**26,000,000**	28,000,000
Unearned Premiums	**21,117,736**	25,091,248
Due to Broker for Pending Purchases	**1,153,953**	4,221,914
Special Compensation Fund Assessment Payable	**2,124,063**	3,490,491
Servicing Carrier Administration Fee Payable	**1,436,081**	1,733,769
Other Liabilities	**658,955**	315,168
Total Liabilities	**690,490,788**	704,852,590
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	**2,882,153**	2,612,840
Appropriated for State of Minnesota	**–**	16,822,055
Unassigned	**70,224,829**	34,197,780
Accumulated Other Comprehensive Income (Loss)	**(35,632,753)**	13,189,380
Total Policyholders' Surplus	**37,474,229**	66,822,055
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 727,965,017**	$ 771,674,645

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
REVENUES:		
Net Earned Premiums	**$ 41,706,941**	$ 56,823,612
Net Investment Income	**15,187,485**	14,964,861
Net Realized Capital Gains	**1,437,687**	6,477,262
Total Revenues	**58,332,113**	78,265,735
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	**9,685,789**	38,625,107
Servicing Carrier Fees	**5,725,650**	7,795,771
Special Compensation Fund Assessments	**1,077,911**	1,615,630
Other Underwriting Expenses	**5,546,401**	5,797,247
Total Losses and Expenses Incurred	**22,035,751**	53,833,755
NET INCOME	**36,296,362**	24,431,980
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in Unrealized Appreciation (Depreciation) of Investments	**(48,822,133)**	557,936
Other Comprehensive Income (Loss)	**(48,822,133)**	557,936
COMPREHENSIVE INCOME (LOSS)	**$ (12,525,771)**	$ 24,989,916

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, 2008 AND 2007

	2008	2007
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	**$ 2,612,840**	$ 2,291,386
Transfer From Unassigned Surplus	**269,313**	321,454
End of Year	**2,882,153**	2,612,840
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	**16,822,055**	–
Transfer From Unassigned Surplus	**–**	16,822,055
Distributions to the State of Minnesota	**(16,822,055)**	–
End of Year	**–**	16,822,055
UNASSIGNED:		
Beginning of Year	**34,197,780**	26,909,309
Net Income	**36,296,362**	24,431,980
Transfer to Restricted - Terrorism Coverage	**(269,313)**	(321,454)
Transfer to Appropriated for State of Minnesota	**–**	(16,822,055)
End of Year	**70,224,829**	34,197,780
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Beginning of Year	**13,189,380**	12,631,444
Change in Unrealized Appreciation (Depreciation) of Investments	**(48,822,133)**	557,936
End of Year	**(35,632,753)**	13,189,380
TOTAL POLICYHOLDERS' SURPLUS	**$ 37,474,229**	$ 66,822,055

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, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	**$ 40,062,899**	$ 52,271,960
Investment Income Received	**15,209,010**	15,019,361
Loss and Loss Adjustment Expenses Paid	**(38,110,272)**	(39,580,095)
Special Compensation Fund Assessments Paid	**(2,444,339)**	(3,609,157)
Underwriting and Other Expenses Paid	**(10,396,704)**	(12,122,370)
Net Cash Provided By Operating Activities	**4,320,594**	11,979,699
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	**(263,058,967)**	(231,753,031)
Purchases of Equity Securities	**(40,055,154)**	(47,523,824)
Proceeds From Sales and Paydowns of Fixed Maturities	**258,398,340**	226,947,306
Proceeds From Sales of Equity Securities	**53,381,354**	45,935,214
Due to/Due From Broker for Security Purchases and Sales	**(927,198)**	1,676,792
Net Change in Short-Term Investments	**3,322,197**	(6,660,806)
Distributions to the State of Minnesota	**(16,822,055)**	–
Net Cash Used In Investing Activities	**(5,761,483)**	(11,378,349)
NET INCREASE (DECREASE) IN CASH	**(1,440,889)**	601,350
CASH at Beginning of Year	**2,310,870**	1,709,520
CASH at End of Year	**$ 869,981**	$ 2,310,870

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 2008 or 2007. 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 - 12/31/08	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 (loss).

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 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.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform with the 2008 presentation. The reclassifications had no effect on the results of operations and comprehensive income for 2007 or policyholders’ surplus at December 31, 2007.

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:

	2008	2007
Net Cash Flow From Operating Activities:		
Net Income	**$ 36,296,362**	$ 24,431,980
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Net Realized Capital Gains	**(1,437,687)**	(6,477,262)
Amortization and Accretion	**(112,471)**	(168,395)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	**(6,000,000)**	(9,000,000)
Reinsurance Recoverable on Paid Losses	**575,517**	2,303,920
Reinsurance Recoverable on Unpaid Losses	**(23,000,000)**	6,000,000
Unearned Premiums	**(3,973,512)**	(7,020,499)
Premiums Receivable	**2,329,470**	2,468,847
Deferred Service Carrier Fees	**1,274,870**	926,741
Deferred Policy Acquisition Costs	**(576,400)**	266,554
Special Compensation Fund Assessment Payable	**(1,366,428)**	(1,993,527)
Servicing Carrier Administration Fee Payable	**(297,688)**	(315,307)
Other Liabilities	**343,787**	(292,910)
Reinsurance Premiums Payable or Receivable	**102,614**	512,753
Accrued Interest and Dividends	**133,996**	222,895
Other Assets	**28,164**	113,909
Net Cash Provided By Operating Activities	**$ 4,320,594**	$ 11,979,699

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
2008	820,000

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:

	2008	2007
Premium Written:		
Direct	**$ 39,222,486**	$ 51,347,815
Ceded	**(1,427,398)**	(835,093)
Net Premiums Written	**$ 37,795,088**	$ 50,512,722
Premiums Earned:		
Direct	**$ 43,134,339**	$ 57,658,705
Ceded	**(1,427,398)**	(835,093)
Net Premiums Earned	**$ 41,706,941**	$ 56,823,612
Losses and Loss Adjustment Expenses Incurred:		
Direct	**$ 20,438,910**	$ 48,938,575
Ceded	**(10,753,121)**	(10,313,468)
Net Losses and Loss Adjustment Expenses Incurred	**$ 9,685,789**	$ 38,625,107

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:

	2008			
	Amortized Cost	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Estimated Fair Value**
U.S. Treasury Securities and Other Obligations	**$ 90,372,280**	**$ 2,317,264**	**$ (10,234,366)**	**$ 82,455,178**
Mortgage-Backed Securities	**176,102,016**	**5,173,535**	**(18,790,373)**	**162,485,178**
Total Fixed Maturities	**$ 266,474,296**	**$ 7,490,799**	**$ (29,024,739)**	**$ 244,940,356**

	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

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2008 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	$ 6,208,581	$ 6,245,471
Due After One Year Through Five Years	29,130,469	29,171,886
Due After Five Years Through Ten Years	18,097,462	19,591,726
Due in More Than Ten Years	36,935,768	27,446,095
Mortgage-Backed Securities	176,102,016	162,485,178
	$ 266,474,296	$ 244,940,356

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

	2008	2007
Unrealized Appreciation	**$ 1,701,585**	$ 16,561,285
Unrealized Depreciation	**(15,800,398)**	(3,941,360)
Net Unrealized Gains (Losses) on Equity Securities	**$ (14,098,813)**	$ 12,619,925

NOTE 5 - INVESTMENTS (Continued)

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

At December 31, 2008, 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:

	Less Than 12 Months		12 Months or More		Total	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury Securities and Other Obligations	$ 15,598,727	$ (8,465,291)	$ 20,486,537	$ (1,769,075)	$ 36,085,264	$ (10,234,366)
Mortgage-Backed Securities	33,435,198	(18,229,151)	10,078,937	(561,222)	43,514,135	(18,790,373)
Equity Securities	25,265,684	(14,017,281)	10,479,264	(1,783,117)	35,744,948	(15,800,398)
	$ 74,299,609	$ (40,711,723)	$ 41,044,738	$ (4,113,414)	$ 115,344,347	$ (44,825,137)

Net investment income for 2008 and 2007 is summarized as follows (fixed maturities include interest on short-term investments):

	2008	2007
Fixed Maturities	**$ 14,579,842**	$ 13,995,508
Equity Securities	**1,183,579**	1,310,671
Total	**15,763,421**	15,306,179
Investment Expenses	**(575,936)**	(341,318)
Net Investment Income	**$ 15,187,485**	$ 14,964,861

Cash proceeds received from sales of investments in fixed maturities during 2008 and 2007 were $236,765,817 and $202,768,281, respectively. In 2008 and 2007, gross gains of $4,208,581 and $733,314 and gross losses of $1,599,520 and $1,849,136, respectively, were realized on those sales.

Gross gains of $6,544,706 and $8,901,356 and gross losses of $(7,716,080) and $(1,308,272) were realized on sales of equity securities in 2008 and 2007, respectively.

Fair Value of Financial Instruments

Effective January 1, 2008, the Plan adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157 or the Standard). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

The Standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-tier fair value hierarchy, which 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.

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

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.

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

At December 31, 2008, the Plan's fixed maturities and equity investments fair value measurements in accordance with SFAS No. 157 are as follows:

	Fixed Maturities	Equity Securities
Level 1 - Quoted Prices for Identical Assets in Active Markets	$ 11,216,993	$ 45,277,419
Level 2 - Quoted Prices for Similar Assets or Where Significant Inputs are Observable or Can be Corraborated by Observable Market Data	233,723,363	–
Totals	$ 244,940,356	$ 45,277,419

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, 2008 and 2007, is as follows:

	2008	2007
Liability for Losses and LAE at Beginning of Year	**$ 670,000,000**	$ 679,000,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	**(382,000,000)**	(388,000,000)
Net Liability for Losses and LAE at Beginning of Year	**288,000,000**	291,000,000
Provision for Losses and LAE for Claims Incurred:		
Current Year	**46,700,000**	48,524,000
Prior Years	**(37,014,211)**	(9,898,893)
Total Incurred	**9,685,789**	38,625,107
Losses and LAE Payments for Claims Incurred:		
Current Year	**8,383,070**	7,698,493
Prior Years	**30,302,719**	33,926,614
Total Paid	**38,685,789**	41,625,107
Net Liability for Losses and LAE at End of Year	**259,000,000**	288,000,000
Reinsurance Recoverable on Unpaid Losses - End of Year	**405,000,000**	382,000,000
Liability for Losses and LAE at End of Year	**$ 664,000,000**	$ 670,000,000

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, decreased by approximately $(37,000,000) in 2008 and $(10,000,000) in 2007.

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, 2008 was less than $4 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.

NOTE 8 - OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income or loss 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 securities. The components of comprehensive income (loss), other than net income, are as follows:

	2008	2007
Unrealized Appreciation (Depreciation) Arising During the Period	**$ (47,384,446)**	$ 7,035,198
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income	**1,437,687**	6,477,262
Total Other Comprehensive Income (Loss)	**$ (48,822,133)**	$ 557,936

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 was $16,822,055.

NOTE 10 - AMOUNTS DISTRIBUTED TO THE STATE OF MINNESOTA

During its 2008 session, 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.

The Legislature also approved an additional $10 million to be transferred from the Plan to the State of Minnesota. The Minnesota Governor signed this legislation on May 29, 2008.

The two amounts approved by legislation above and the remaining $1,922,055 appropriated for the State of Minnesota at December 31, 2007 were transferred to the State of Minnesota during 2008.

NOTE 11 - SUBSEQUENT EVENT

Subsequent to December 31, 2008, the Board of Directors of the Plan's reinsurance provider approved an action to assess its member companies to recover recent underwriting and investment losses. The Plan's portion of this assessment is estimated to be approximately $11 million and will likely be payable over five years. A liability for the entire assessment will be established by the Plan in its 2009 financial statements.