# Minnesota Workers' Compensation Assigned Risk Plan

## Financial Statements Together with Independent Auditors' Report

## December 31, 2009

# 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, 2009 and 2008, 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, 2009 and 2008, 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 15, 2010



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# MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

## BALANCE SHEET
## DECEMBER 31, 2009 AND 2008

### ASSETS

| | 2009 | 2008 |
|---|---|---|
| INVESTMENTS: | | |
| Fixed Maturities - at Fair Value | **$ 245,866,552** | $ 244,940,356 |
| Equity Securities - at Fair Value | | |
| (Cost: 2009 - $56,310,025; 2008 - $59,376,232) | **59,673,328** | 45,277,419 |
| Short-Term Investments | **10,321,526** | 11,160,655 |
| Total Investments | **315,861,406** | 301,378,430 |
| Cash | **947,549** | 869,981 |
| Accrued Interest and Dividends | **1,820,244** | 1,893,999 |
| Premiums Receivable | **6,677,637** | 8,032,367 |
| Reinsurance Recoverable on Unpaid Losses | **389,000,000** | 405,000,000 |
| Reinsurance Recoverable on Paid Losses | **5,264,842** | 6,783,410 |
| Deferred Service Carrier Fees | **1,933,477** | 2,102,426 |
| Deferred Policy Acquisition Costs | **1,537,727** | 1,700,636 |
| Due From Broker for Security Sales | **2,589** | – |
| Other Assets | **81,578** | 203,768 |
| TOTAL ASSETS | **$ 723,127,049** | $ 727,965,017 |

### LIABILITIES AND POLICYHOLDERS' SURPLUS

| | 2009 | 2008 |
|---|---|---|
| LIABILITIES: | | |
| Reserve for Losses | **$ 604,000,000** | $ 638,000,000 |
| Reserve for Loss Adjustment Expenses | **24,000,000** | 26,000,000 |
| Unearned Premiums | **18,799,778** | 21,117,736 |
| Due to Broker for Pending Purchases | **–** | 1,153,953 |
| Special Compensation Fund Assessment Payable | **1,587,778** | 2,124,063 |
| Servicing Carrier Administration Fee Payable | **1,355,664** | 1,436,081 |
| Other Liabilities | **718,331** | 658,955 |
| Total Liabilities | **650,461,551** | 690,490,788 |
| POLICYHOLDERS' SURPLUS: | | |
| Restricted - Terrorism Coverage | **3,176,271** | 2,882,153 |
| Appropriated for State of Minnesota | **22,665,498** | – |
| Unassigned | **57,641,364** | 70,224,829 |
| Accumulated Other Comprehensive Income (Loss) | **(10,817,635)** | (35,632,753) |
| Total Policyholders' Surplus | **72,665,498** | 37,474,229 |
| TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS | **$ 723,127,049** | $ 727,965,017 |

*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, 2009 AND 2008

| | **2009** | 2008 |
|---|---|---|
| REVENUES: | | |
| Net Earned Premiums | **$ 35,879,827** | $ 41,706,941 |
| Net Investment Income | **15,033,506** | 15,187,485 |
| Net Realized Capital Gains (Losses) | **(4,571,602)** | 1,437,687 |
| Total Revenues | **46,341,731** | 58,332,113 |
| LOSSES AND EXPENSES INCURRED: | | |
| Losses and Loss Adjustment Expenses | **15,628,187** | 9,685,789 |
| Servicing Carrier Fees | **4,734,809** | 5,725,650 |
| Special Compensation Fund Assessments | **1,011,996** | 1,077,911 |
| Deficient Premium Assessment Paid to Reinsurer | **9,390,787** | – |
| Other Underwriting Expenses | **5,199,801** | 5,546,401 |
| Total Losses and Expenses Incurred | **35,965,580** | 22,035,751 |
| NET INCOME | **10,376,151** | 36,296,362 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Change in Unrealized Appreciation (Depreciation) of Investments | **24,815,118** | (48,822,133) |
| Other Comprehensive Income (Loss) | **24,815,118** | (48,822,133) |
| COMPREHENSIVE INCOME (LOSS) | **$ 35,191,269** | $ (12,525,771) |

*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, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| RESTRICTED - TERRORISM COVERAGE: | | |
| Beginning of Year | **$ 2,882,153** | $ 2,612,840 |
| Transfer From Unassigned Surplus | **294,118** | 269,313 |
| End of Year | **3,176,271** | 2,882,153 |
| APPROPRIATED FOR STATE OF MINNESOTA: | | |
| Beginning of Year | **–** | 16,822,055 |
| Transfer From Unassigned Surplus | **22,665,498** | – |
| Distributions to the State of Minnesota | **–** | (16,822,055) |
| End of Year | **22,665,498** | – |
| UNASSIGNED: | | |
| Beginning of Year | **70,224,829** | 34,197,780 |
| Net Income | **10,376,151** | 36,296,362 |
| Transfer to Restricted - Terrorism Coverage | **(294,118)** | (269,313) |
| Transfer to Appropriated for State of Minnesota | **(22,665,498)** | – |
| End of Year | **57,641,364** | 70,224,829 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Beginning of Year | **(35,632,753)** | 13,189,380 |
| Change in Unrealized Appreciation (Depreciation) of Investments | **24,815,118** | (48,822,133) |
| End of Year | **(10,817,635)** | (35,632,753) |
| TOTAL POLICYHOLDERS' SURPLUS | **$ 72,665,498** | $ 37,474,229 |

*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, 2009 AND 2008

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Premiums Collected, Net of Reinsurance | **$ 34,916,599** | $ 40,062,899 |
| Investment Income Received | **15,118,778** | 15,209,010 |
| Loss and Loss Adjustment Expenses Paid | **(34,109,619)** | (38,110,272) |
| Deficient Premium Assessment Paid to Reinsurer | **(9,390,787)** | – |
| Special Compensation Fund Assessments Paid | **(1,548,281)** | (2,444,339) |
| Underwriting and Other Expenses Paid | **(9,501,603)** | (10,396,704) |
| Net Cash Provided By (Used In) Operating Activities | **(4,514,913)** | 4,320,594 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of Fixed Maturities | **(140,589,402)** | (263,058,967) |
| Purchases of Equity Securities | **(24,875,386)** | (40,055,154) |
| Proceeds From Sales and Paydowns of Fixed Maturities | **146,004,354** | 258,398,340 |
| Proceeds From Sales of Equity Securities | **24,370,328** | 53,381,354 |
| Due to/Due From Broker for Security Purchases and Sales | **(1,156,542)** | (927,198) |
| Net Change in Short-Term Investments | **839,129** | 3,322,197 |
| Distributions to the State of Minnesota | **–** | (16,822,055) |
| Net Cash Provided By (Used In) Investing Activities | **4,592,481** | (5,761,483) |
| NET INCREASE (DECREASE) IN CASH | **77,568** | (1,440,889) |
| CASH at Beginning of Year | **869,981** | 2,310,870 |
| CASH at End of Year | **$ 947,549** | $ 869,981 |

*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 2009 or 2008. 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 - 12/31/09 | 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, 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.

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.

### Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through June 15, 2010, the date the financial statements were available to be issued.

## NOTE 3 - CASH PROVIDED BY OPERATING ACTIVITIES

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

| | **2009** | 2008 |
|---|---|---|
| Net Cash Flow From Operating Activities: | | |
| Net Income | **$ 10,376,151** | $ 36,296,362 |
| Adjustments to Reconcile Net Income to | | |
| Net Cash Provided By (Used In) Operating Activities: | | |
| Net Realized Capital (Gains) Losses | **4,571,602** | (1,437,687) |
| Amortization and Accretion | **11,517** | (112,471) |
| Changes in Operating Assets and Liabilities: | | |
| Reserve for Losses and Loss Adjustment Expenses | **(36,000,000)** | (6,000,000) |
| Reinsurance Recoverable on Paid Losses | **1,518,568** | 575,517 |
| Reinsurance Recoverable on Unpaid Losses | **16,000,000** | (23,000,000) |
| Unearned Premiums | **(2,317,958)** | (3,973,512) |
| Premiums Receivable | **1,354,730** | 2,329,470 |
| Deferred Service Carrier Fees | **168,949** | 1,274,870 |
| Deferred Policy Acquisition Costs | **162,909** | (576,400) |
| Special Compensation Fund Assessment Payable | **(536,285)** | (1,366,428) |
| Servicing Carrier Administration Fee Payable | **(80,417)** | (297,688) |
| Other Liabilities | **59,376** | 343,787 |
| Reinsurance Premiums Payable or Receivable | **–** | 102,614 |
| Accrued Interest and Dividends | **73,755** | 133,996 |
| Other Assets | **122,190** | 28,164 |
| Net Cash Provided By (Used In) Operating Activities | **$ (4,514,913)** | $ 4,320,594 |

## 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 |
| 5006 | 780,000 |
| 2007 | 800,000 |
| 2008 | 820,000 |
| 2009 | 1,720,000 |

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:

| | **2009** | 2008 |
|---|---|---|
| Premium Written: | | |
| Direct | **$ 33,768,135** | $ 39,222,486 |
| Ceded | **(55,158)** | (1,427,398) |
| Net Premiums Written | **$ 33,712,977** | $ 37,795,088 |
| Premiums Earned: | | |
| Direct | **$ 35,934,985** | $ 43,134,339 |
| Ceded | **(55,158)** | (1,427,398) |
| Net Premiums Earned | **$ 35,879,827** | $ 41,706,941 |
| Losses and Loss Adjustment Expenses Incurred: | | |
| Direct | **$ 27,422,049** | $ 20,438,910 |
| Ceded | **(11,793,862)** | (10,753,121) |
| Net Losses and Loss Adjustment Expenses Incurred | **$ 15,628,187** | $ 9,685,789 |

## 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:

| | **2009** | | | |
|---|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Appreciation** | **Gross Unrealized Depreciation** | **Estimated Fair Value** |
| U.S. Treasury Securities and Other Obligations | **$ 150,522,453** | **$ 4,795,707** | **$ (11,791,840)** | **$ 143,526,320** |
| Mortgage-Backed Securities | **109,525,037** | **3,446,446** | **(10,631,251)** | **102,340,232** |
| Total Fixed Maturities | **$ 260,047,490** | **$ 8,242,153** | **$ (22,423,091)** | **$ 245,866,552** |

| | 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 |

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2009 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 | $ 4,691,104 | $ 4,660,140 |
| Due After One Year Through Five Years | 80,209,375 | 80,681,114 |
| Due After Five Years Through Ten Years | 20,113,348 | 19,149,967 |
| Due in More Than Ten Years | 45,508,626 | 39,035,099 |
| Mortgage-Backed Securities | 109,525,037 | 102,340,232 |
| | $ 260,047,490 | $ 245,866,552 |

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

| | **2009** | 2008 |
|---|---|---|
| Unrealized Appreciation | **$ 6,770,788** | $ 1,701,585 |
| Unrealized Depreciation | **(3,407,485)** | (15,800,398) |
| Net Unrealized Gains (Losses) on Equity Securities | **$ 3,363,303** | $ (14,098,813) |

## NOTE 5 - INVESTMENTS (Continued)

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

At December 31, 2009 and 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:

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | **$42,414,107** | **$ (4,125,877)** | **$ 25,520,795** | **$ (7,665,963)** | **$ 67,934,902** | **$(11,791,840)** |
| Mortgage-Backed Securities | **20,210,261** | **(1,815,899)** | **13,210,786** | **(8,815,352)** | **33,421,047** | **(10,631,251)** |
| Equity Securities | **967,952** | **(108,638)** | **15,143,124** | **(3,298,847)** | **16,111,076** | **(3,407,485)** |
| | **$63,592,320** | **$ (6,050,414)** | **$ 53,874,705** | **$ (19,780,162)** | **$117,467,025** | **$(25,830,576)** |

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| | 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) |

The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2009. The Plan believes that its unrealized losses in fixed maturities and 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.

Net investment income for 2009 and 2008 is summarized as follows (fixed maturities include interest on short-term investments):

| | **2009** | 2008 |
|---|---|---|
| Fixed Maturities | **$ 14,591,324** | $ 14,579,842 |
| Equity Securities | **865,408** | 1,183,579 |
| Total | **15,456,732** | 15,763,421 |
| Investment Expenses | **(423,226)** | (575,936) |
| Net Investment Income | **$ 15,033,506** | $ 15,187,485 |

Cash proceeds received from sales of investments in fixed maturities during 2009 and 2008 were $146,004,354 and $258,398,340, respectively. In 2009 and 2008, gross gains of $5,757,296 and $4,208,581 and gross losses of $(6,757,633) and $(1,599,520), respectively, were realized on those sales.

Gross gains of $1,812,910 and $6,544,706 and gross losses of $(5,384,175) and $(7,716,080) were realized on sales of equity securities in 2009 and 2008, respectively.

## NOTE 5 - INVESTMENTS (Continued)

### Fair Value of Financial Instruments

The FASB *Accounting Standards Codification*, Section 820, 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.

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, 2009 and 2008 are as follows:

| | Total | Quoted Prices for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **2009:** | | | | |
| Fixed Maturities | **$ 245,866,552** | **$ 29,049,064** | **$ 216,817,488** | **$ –** |
| Equity Securities | **59,673,328** | **59,673,328** | **–** | **–** |
| Totals | **$ 305,539,880** | **$ 88,722,392** | **$ 216,817,488** | **$ –** |
| 2008: | | | | |
| Fixed Maturities | $ 244,940,356 | $ 11,216,993 | $ 233,723,363 | $ – |
| Equity Securities | 45,277,419 | 45,277,419 | – | – |
| Totals | $ 290,217,775 | $ 56,494,412 | $ 233,723,363 | $ – |

## 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, 2009 and 2008, is as follows:

| | **2009** | 2008 |
|---|---|---|
| Liability for Losses and LAE at Beginning of Year | **$ 664,000,000** | $ 670,000,000 |
| Reinsurance Recoverable on Unpaid Losses - Beginning of Year | **(405,000,000)** | (382,000,000) |
| Net Liability for Losses and LAE at Beginning of Year | **259,000,000** | 288,000,000 |
| Provision for Losses and LAE for Claims Incurred: | | |
| Current Year | **34,563,000** | 46,700,000 |
| Prior Years | **(18,934,813)** | (37,014,211) |
| Total Incurred | **15,628,187** | 9,685,789 |
| Losses and LAE Payments for Claims Incurred: | | |
| Current Year | **5,217,525** | 8,383,070 |
| Prior Years | **30,410,662** | 30,302,719 |
| Total Paid | **35,628,187** | 38,685,789 |
| Net Liability for Losses and LAE at End of Year | **239,000,000** | 259,000,000 |
| Reinsurance Recoverable on Unpaid Losses - End of Year | **389,000,000** | 405,000,000 |
| Liability for Losses and LAE at End of Year | **$ 628,000,000** | $ 664,000,000 |

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred, net of reinsurance, decreased by approximately $19,000,000 in 2009 and $37,000,000 in 2008.

## 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, 2009 was approximately $3 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:

| | 2009 | 2008 |
|---|---|---|
| Unrealized Appreciation (Depreciation) Arising During the Period | **$ 20,243,516** | $ (47,384,446) |
| Less Reclassification Adjustment for Realized Capital Gains (Losses) Included in Net Income | **(4,571,602)** | 1,437,687 |
| Total Other Comprehensive Income (Loss) | **$ 24,815,118** | $ (48,822,133) |

## NOTE 9 - POLICYHOLDERS' SURPLUS

In 2002, a Minnesota law was enacted that requires 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, 2009 was $22,665,498. See Note 12 for specific requirements for $14,000,000 of this appropriated amount.

## NOTE 10 - DEFICIENT PREMIUM ASSESSMENT PAID TO REINSURER

During 2009, the Plan’s reinsurer assessed all of its member insurers and self-insurers to recover recent underwriting and investment losses. Payment of this “deficient premium assessment” to the reinsurer was to be in installments over a five-year period, or in a discounted lump sum. The Plan paid the entire assessment during 2009 and, accordingly, has reflected that amount in the accompanying statement of operations and comprehensive income (loss).

## NOTE 11 - 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 12 - SUBSEQUENT EVENT

During its 2010 session, the Legislature of the State of Minnesota enacted legislation providing for $14 million to be transferred from the Plan to the State of Minnesota by June 30, 2010.