Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements Together with Independent Auditors' Report

December 31, 2011

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, 2011 and 2010, and the related statements of income 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, 2011 and 2010, 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 25, 2012

2675 Long Lake Road, St. Paul, Minnesota 55113-1117 651 483 4521 FAX 651 483 2467
300 Prairie Center Drive, Ste. 300, Minneapolis, Minnesota 55344-7908 952 941 9242 FAX 952 941 0577

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET
DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
INVESTMENTS:		
Fixed Maturities - at Fair Value	**$ 201,650,387**	$ 240,987,099
Equity Securities - at Fair Value	**65,077,775**	66,763,058
Short-Term Investments	**14,357,537**	3,282,440
Total Investments	**281,085,699**	311,032,597
Cash	**182,630**	231,206
Accrued Interest and Dividends	**571,143**	1,105,212
Premiums Receivable	**7,118,346**	6,033,986
Reinsurance Recoverable on Unpaid Losses	**348,000,000**	354,000,000
Reinsurance Recoverable on Paid Losses	**7,833,029**	7,439,611
Deferred Service Carrier Fees	**2,408,810**	2,016,862
Deferred Policy Acquisition Costs	**910,860**	779,126
Due From Broker for Security Sales	**–**	792
Other Assets	**75,668**	288,259
TOTAL ASSETS	**$ 648,186,185**	$ 682,927,651

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2011	2010
LIABILITIES:		
Reserve for Losses	**$ 525,000,000**	$ 549,000,000
Reserve for Loss Adjustment Expenses	**25,000,000**	23,000,000
Unearned Premiums	**18,480,381**	15,738,612
Due to Broker for Pending Purchases	**–**	1,009,305
Special Compensation Fund Assessment Payable	**1,373,251**	1,284,139
Servicing Carrier Administration Fee Payable	**1,854,103**	1,381,279
Other Liabilities	**759,830**	777,326
Total Liabilities	**572,467,565**	592,190,661
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	**3,637,546**	3,441,775
Appropriated for State of Minnesota	**25,718,620**	40,736,990
Unassigned	**36,659,351**	43,589,788
Accumulated Other Comprehensive Income	**9,703,103**	2,968,437
Total Policyholders' Surplus	**75,718,620**	90,736,990
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 648,186,185**	$ 682,927,651

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
REVENUES:		
Net Earned Premiums	**$ 33,703,686**	$ 33,387,581
Net Investment Income	**7,055,653**	10,106,816
Net Realized Capital Gains	**1,268,980**	3,192,579
Total Revenues	**42,028,319**	46,686,976
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	**11,827,610**	9,619,497
Servicing Carrier Fees	**4,478,807**	4,569,965
Special Compensation Fund Assessments	**1,215,600**	944,284
Other Underwriting Expenses	**5,522,348**	4,602,312
Total Losses and Expenses Incurred	**23,044,365**	19,736,058
NET INCOME	**18,983,954**	26,950,918
OTHER COMPREHENSIVE INCOME:		
Change in Unrealized Appreciation of Investments	**6,734,666**	13,786,072
Other Comprehensive Income	**6,734,666**	13,786,072
COMPREHENSIVE INCOME	**$ 25,718,620**	$ 40,736,990

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, 2011 AND 2010

	2011	2010
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	**$ 3,441,775**	$ 3,176,271
Transfer From Unassigned Surplus	**195,771**	265,504
End of Year	**3,637,546**	3,441,775
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	**40,736,990**	22,665,498
Transfer From Unassigned Surplus	**25,718,620**	40,736,990
Distributions to the State of Minnesota	**(40,736,990)**	(22,665,498)
End of Year	**25,718,620**	40,736,990
UNASSIGNED:		
Beginning of Year	**43,589,788**	57,641,364
Net Income	**18,983,954**	26,950,918
Transfer to Restricted - Terrorism Coverage	**(195,771)**	(265,504)
Transfer to Appropriated for State of Minnesota	**(25,718,620)**	(40,736,990)
End of Year	**36,659,351**	43,589,788
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Beginning of Year	**2,968,437**	(10,817,635)
Change in Unrealized Appreciation of Investments	**6,734,666**	13,786,072
End of Year	**9,703,103**	2,968,437
TOTAL POLICYHOLDERS' SURPLUS	**$ 75,718,620**	$ 90,736,990

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, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	**$ 35,361,095**	$ 30,970,066
Investment Income Received	**7,601,703**	10,668,491
Loss and Loss Adjustment Expenses Paid	**(28,221,029)**	(32,794,266)
Special Compensation Fund Assessments Paid	**(1,126,488)**	(1,247,923)
Underwriting and Other Expenses Paid	**(9,856,918)**	(8,619,132)
Net Cash Provided By (Used In) Operating Activities	**3,758,363**	(1,022,764)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	**(449,462,397)**	(481,922,961)
Purchases of Equity Securities	**(27,344,189)**	(25,765,317)
Proceeds From Sales and Paydowns of Fixed Maturities	**499,268,609**	498,272,579
Proceeds From Sales of Equity Securities	**26,551,638**	24,337,430
Due to/Due From Broker for Security Purchases and Sales	**(1,008,513)**	1,011,102
Net Change in Short-Term Investments	**(11,075,097)**	7,039,086
Distributions to the State of Minnesota	**(40,736,990)**	(22,665,498)
Net Cash Provided By (Used In) Investing Activities	**(3,806,939)**	306,421
NET DECREASE IN CASH	**(48,576)**	(716,343)
CASH at Beginning of Year	**231,206**	947,549
CASH at End of Year	**$ 182,630**	$ 231,206

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 2011 or 2010. The servicing contractors bear no share of the Plan's liabilities.

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

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

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

	Percentage Participation						
Policy Inception Period	BRAC	RTW	SFM	EIW	OHMS	DCA	SPRS
Inception - 6/30/83	7.0%	–%	–%	30.0%	–%	3.0%	60.0%
7/1/83 - 12/31/86	18.0	–	–	67.0	–	15.0	–
1/1/87 - 3/31/89	50.0	–	–	33.0	–	17.0	–
4/1/89 - 3/31/92	65.0	–	–	35.0	–	–	–
4/1/92 - 3/31/94	50.0	–	–	50.0	–	–	–
4/1/94 - 3/31/97	50.0	–	–	25.0	25.0	–	–
4/1/97 - 6/30/00	50.0	–	–	50.0	–	–	–
7/1/00 - 6/30/04	100.0	–	–	–	–	–	–
7/1/04 - 12/31/09	75.0	25.0	–	–	–	–	–
1/1/10 - 12/31/11	33.3	33.3	33.3	–	–	–	–

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Risks and Uncertainties

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

Financial Statements Risk

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

Investments Risk

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

Premiums Receivable Risk

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

Investments

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

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

Deferred Costs and Fees

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

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

Unearned Premiums

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

Losses and LAE

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

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

For 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Compensation Fund Assessments

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

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

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

Restricted Surplus - Terrorism Coverage

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

Income Taxes

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

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through June 25, 2012, 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:

	2011	2010
Net Cash Flow From Operating Activities:		
Net Income	**$ 18,983,954**	$ 26,950,918
Adjustments to Reconcile Net Income to		
Net Cash Provided By (Used In) Operating Activities:		
Net Realized Capital Gains	**(1,268,980)**	(3,192,579)
Amortization and Accretion	**11,980**	(153,357)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	**(22,000,000)**	(56,000,000)
Reinsurance Recoverable on Paid Losses	**(393,418)**	(2,174,769)
Reinsurance Recoverable on Unpaid Losses	**6,000,000**	35,000,000
Unearned Premiums	**2,741,769**	(3,061,166)
Premiums Receivable	**(1,084,360)**	643,651
Deferred Service Carrier Fees	**(391,948)**	(83,385)
Deferred Policy Acquisition Costs	**(131,734)**	758,601
Special Compensation Fund Assessment Payable	**89,112**	(303,639)
Servicing Carrier Administration Fee Payable	**472,824**	25,615
Other Liabilities	**(17,496)**	58,995
Accrued Interest and Dividends	**534,069**	715,032
Other Assets	**212,591**	(206,681)
Net Cash Provided By (Used In) Operating Activities	**$ 3,758,363**	$ (1,022,764)

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 fifteen years:

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

NOTE 4 - REINSURANCE (Continued)

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

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

	2011	2010
Premium Written:		
Direct	**$ 36,787,322**	$ 30,413,304
Ceded	**(267,634)**	(266,958)
Net Premiums Written	**$ 36,519,688**	$ 30,146,346
Premiums Earned:		
Direct	**$ 33,971,320**	$ 33,654,539
Ceded	**(267,634)**	(266,958)
Net Premiums Earned	**$ 33,703,686**	$ 33,387,581
Losses and Loss Adjustment Expenses Incurred:		
Direct	**$ 25,880,161**	$ 25,678,881
Ceded	**(14,052,551)**	(16,059,384)
Net Losses and Loss Adjustment Expenses Incurred	**$ 11,827,610**	$ 9,619,497

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:

	2011			
	Amortized Cost	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Estimated Fair Value**
U.S. Treasury Securities and Other Obligations	**$ 133,239,065**	**$ 4,785,712**	**$ –**	**$ 138,024,777**
Mortgage-Backed Securities	**63,290,725**	**334,885**	**–**	**63,625,610**
Total Fixed Maturities	**$ 196,529,790**	**$ 5,120,597**	**$ –**	**$ 201,650,387**

	2010			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	$ 122,041,599	$ 3,227,841	$ (6,572,562)	$ 118,696,878
Mortgage-Backed Securities	125,330,541	3,409,502	(6,449,822)	122,290,221
Total Fixed Maturities	$ 247,372,140	$ 6,637,343	$ (13,022,384)	$ 240,987,099

NOTE 5 - INVESTMENTS (Continued)

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

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2011 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 After One Year Through Five Years	$ 96,290,179	$ 98,118,879
Due After Five Years Through Ten Years	36,948,886	39,905,898
Mortgage-Backed Securities	63,290,725	63,625,610
	$ 196,529,790	$ 201,650,387

The cost and fair values of equity securities available-for-sale at 2011 and 2010 were as follows:

	2011			
Description	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity Securities	**$ 60,495,269**	**$ 8,221,168**	**$ (3,638,662)**	**$ 65,077,775**

	2010			
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	$ 57,409,580	$ 10,398,232	$ (1,044,754)	$ 66,763,058

At December 31, 2011 and 2010, 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:

	2011					
	Less Than 12 Months		**12 Months or More**		**Total**	
Description	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Equity Securities	**$ 13,769,307**	**$ (1,879,728)**	**$ 4,838,259**	**$ (1,758,934)**	**$ 18,607,566**	**$ (3,638,662)**

	2010					
	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	$ 6,301,606	$ (1,470,133)	$ 24,420,093	$ (5,102,430)	$ 30,721,699	$ (6,572,563)
Mortgage-Backed Securities	41,270,826	(677,019)	7,565,105	(5,772,802)	48,835,931	(6,449,821)
Equity Securities	6,227,784	(404,171)	4,213,979	(640,583)	10,441,763	(1,044,754)
	$ 53,800,216	$ (2,551,323)	$ 36,199,177	$ (11,515,815)	$ 89,999,393	$ (14,067,138)

NOTE 5 - INVESTMENTS (Continued)

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

The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2011. The Plan believes that its unrealized losses in equity securities are caused by market conditions influenced by the existing economic downturn, as opposed to deterioration in the fundamentals of individual investments, and intends to maintain its investments through this downturn.

Net investment income for 2011 and 2010 is summarized as follows (fixed maturities include interest on short-term investments):

	2011	2010
Fixed Maturities	**$ 6,411,311**	$ 9,559,177
Equity Securities	**1,081,240**	996,223
Total	**7,492,551**	10,555,400
Investment Expenses	**(436,898)**	(448,584)
Net Investment Income	**$ 7,055,653**	$ 10,106,816

Cash proceeds received from sales of investments in fixed maturities during 2011 and 2010 were $499,268,609 and $498,272,579, respectively. In 2011 and 2010, gross gains of $29,285,570 and $18,053,087 and gross losses of $(30,309,728) and $(14,532,186), respectively, were realized on those sales.

Gross gains of $3,750,122 and $2,132,463 and gross losses of $(1,456,984) and $(2,460,785) were realized on sales of equity securities in 2011 and 2010, respectively.

Fair Value of Financial Instruments

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

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

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

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

The Plan's fixed maturities and equity investments fair value measurements at December 31, 2011 and 2010 are as follows:

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2011:				
Fixed Maturities				
U.S. Treasury Securities and Other Obligations	**$ 138,024,777**	**$ 136,558,705**	**$ 1,466,072**	**$ –**
Mortgage-Backed Securities	**63,625,610**	**–**	**63,625,610**	**–**
Total Fixed Maturities	**201,650,387**	**136,558,705**	**65,091,682**	**–**
Equity Securities	**65,077,775**	**65,077,775**	**–**	**–**
Totals	**$ 266,728,162**	**$ 201,636,480**	**$ 65,091,682**	**$ –**
2010:				
Fixed Maturities				
U.S. Treasury Securities and Other Obligations	$ 118,696,878	$ 68,853,451	$ 49,843,427	$ –
Mortgage-Backed Securities	122,290,221	–	122,290,221	–
Total Fixed Maturities	240,987,099	68,853,451	172,133,648	
Equity Securities	66,763,058	66,763,058	–	–
Totals	$ 307,750,157	$ 135,616,509	$ 172,133,648	$ –

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, 2011 and 2010, is as follows:

	2011	2010
Liability for Losses and LAE at Beginning of Year	**$ 572,000,000**	$ 628,000,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	**(354,000,000)**	(389,000,000)
Net Liability for Losses and LAE at Beginning of Year	**218,000,000**	239,000,000
Provision for Losses and LAE for Claims Incurred:		
Current Year	**26,387,000**	33,647,000
Prior Years	**(14,559,390)**	(24,027,503)
Total Incurred	**11,827,610**	9,619,497
Losses and LAE Payments for Claims Incurred:		
Current Year	**4,765,812**	5,309,180
Prior Years	**23,061,798**	25,310,317
Total Paid	**27,827,610**	30,619,497
Net Liability for Losses and LAE at End of Year	**202,000,000**	218,000,000
Reinsurance Recoverable on Unpaid Losses - End of Year	**348,000,000**	354,000,000
Liability for Losses and LAE at End of Year	**$ 550,000,000**	$ 572,000,000

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 $14,559,000 in 2011 and $24,000,000 in 2010.

NOTE 7 - CONTINGENCIES

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

The Plan, through EIW, has purchased annuities to settle certain claims with the claimant as payee but for which the Plan remains contingently liable. The Plan eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The issuer, Employers Life Insurance Company of Wausau, is an affiliate of EIW. The present value of all annuity contracts still in force at December 31, 2011 was approximately $2.5 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

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

	2011	2010
Unrealized Appreciation Arising During the Period	**$ 8,003,646**	$ 16,978,651
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income	**1,268,980**	3,192,579
Total Other Comprehensive Income	**$ 6,734,666**	$ 13,786,072

NOTE 9 - POLICYHOLDERS' SURPLUS

A Minnesota law requires the Plan to transfer its "excess surplus" (as defined in the statute) to the general fund of the State of Minnesota. The amount appropriated by the Plan for the State of Minnesota was $25,718,620 at December 31, 2011 and $40,736,990 at December 31, 2010.