Financial Statements
June 30, 2017 and 2016

Workforce Safety & Insurance

WORKFORCE SAFETY & INSURANCE

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Governor of North Dakota,
Legislative Assembly and the
Board of Directors of Workforce Safety & Insurance
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of Workforce Safety & Insurance, a department of the State of North Dakota, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Workforce Safety & Insurance's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Workforce Safety & Insurance, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of Workforce Safety & Insurance, an agency of the State of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of Workforce Safety & Insurance. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2017 and 2016, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Workforce Safety & Insurance's financial statements. The loss development information and schedule of attorney fees and costs are presented for purposes of additional analysis and are not a required part of the financial statements.

The loss development information and schedule of attorney fees and costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017 on our consideration of Workforce Safety & Insurance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Workforce Safety & Insurance's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
October 12, 2017

Workforce Safety & Insurance (WSI) was established in 1919 with the purpose of providing workers compensation insurance for employers, state agencies and other governmental units working in North Dakota. WSI operates in a manner similar to any other insurance company, but is also an agency of the State of North Dakota. As management of WSI, we offer readers of these financial statements a narrative overview and analysis of WSI's financial activities for the fiscal years ended June 30, 2017, 2016, and 2015. We encourage readers to consider the information presented here in conjunction with the entire financial statement package and the notes to those statements, which follow this section.

WSI is a proprietary fund and uses the accrual basis of accounting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. WSI, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. WSI is a special government reporting unit for the State of North Dakota and is combined with other similar funds to comprise the enterprise funds of the State of North Dakota.

Overview of Financial Statements

WSI's basic financial statements include the 1) balance sheet, 2) statement of revenues, expenses and changes in fund net position, 3) statement of cash flows, and 4) statement of appropriations. The balance sheet provides readers the assets, deferred outflows of resources, liabilities and deferred inflows of resources of the fund, with the difference between the two labeled net position. It also provides the basis for determining the overall financial strength and solvency of the workers compensation fund. The statement of revenues, expenses and changes in fund net position shows the operating performance of WSI for the fiscal year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The statement of cash flows answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year. The statement of appropriations shows WSI's expenditures in relationship to the biennial appropriation approved by the 2015 Legislative Assembly.

WSI's notes to the financial statements provide readers additional information that is essential to a full understanding of data provided in the fund financial statements. The notes can be found on pages 16-41 of this report. In addition to the basic financial statements and accompanying notes, this report also presents required supplemental pension liability and contribution schedules on page 42. Other supplementary information concerning WSI's loss development and WSI's legal costs can be found on page 43-44.

WSI implemented the new GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which requires governmental agencies to report their proportionate share of pension expense and liabilities. This statement was implemented into the fiscal year 2015 financial statements.

Financial Highlights

Reduced activity in the energy and other related industries are reflected in WSI's book of business. Fiscal year 2017 shows additional reductions in earned premiums and incurred losses, relating to both a decreased number of policyholders and filed claims.

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At June 30, 2017, June 30, 2016, and June 30, 2015 coverage extended to the following employers:

	2017	2016	2015
Annual premium $250 - $5,000	18,396	17,835	18,297
Annual premium $5,001 - $50,000	4,963	5,654	6,067
Annual premium $50,001 - $100,000	458	572	588
Annual premium over $100,000	425	517	568
Total policyholders	**24,242**	**24,578**	**25,520**

North Dakota's active policyholder count decreased by 336 policies in fiscal year 2017, ending with a total of 24,242 policies. This decrease is in addition to the decrease of 942 policies in fiscal year 2016. The decline in policies is due to the slowdown of the economy in the State.

Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

REVENUE	2017	2016	2015
OPERATING REVENUE			
Premium -net of discount and reinsurance premium	**$ 233,060,185**	**$ 291,244,452**	**$ 329,690,311**
Subrogation, penalties and finance charges	**10,196,692**	**11,531,180**	**9,013,590**
Building rental revenue	**1,126,446**	**851,446**	**753,022**
Other revenue	**336,995**	**5,055,698**	**349,773**
	244,720,318	**308,682,776**	**339,806,696**
NONOPERATING REVENUE			
Earnings on investments	**152,093,334**	**69,501,734**	**60,172,170**
Total revenues	**396,813,652**	**378,184,510**	**399,978,866**
EXPENSES			
OPERATING EXPENSE			
Incurred loss	**146,856,183**	**197,467,710**	**248,084,909**
Payroll and employee benefits	**23,849,051**	**23,533,739**	**21,509,627**
Other administrative expenses	**376,370**	**1,165,833**	**1,865,241**
Pension Expenses	**2,494,363**	**581,854**	**619,152**
Bad debt expenses	**4,316,928**	**1,977,037**	**3,120,914**
Depreciation expenses	**639,129**	**398,680**	**372,402**
	178,532,024	**225,124,853**	**275,572,245**
NONOPERATING EXPENSE			
Investment and other expenses	**4,385,117**	**4,724,205**	**4,409,843**
Dividend expenses	**71,230,308**	**136,968,985**	**97,925,896**
	75,615,425	**141,693,190**	**102,335,739**
Total expenses	**254,147,449**	**366,818,043**	**377,907,984**
Change in net position	**$ 142,666,203**	**$ 11,366,467**	**$ 22,070,883**

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WSI's financial position remains stable. North Dakota is experiencing more stable economic conditions after the large growth spurt caused by the energy boom. Earned premium net of discounts and reinsurance totaled $233 million, $291 million, and $330 million for fiscal years 2017, 2016, and 2015, respectively.

Written premium for fiscal year 2017 totals $247.3 million, a 20% decrease from 2016's total of $310.3 million. Fiscal year 2016's total written premium was 17% lower than fiscal year 2015's amount of $372.6 million.

In fiscal year 2017, WSI's investment portfolio yielded a year to date return of 8.29% (net of fees), with a gain of $152 million before expenses. The year-to-date return for fiscal years 2016 and 2015 was 3.58% and 3.27%, respectively. WSI's average investment return for the five year period ending June 30, 2017 is 6.99% and the average ten year rate of return is 5.46%. WSI's estimated reserve liabilities are currently discounted at 5.0%.

WSI re-entered the Securities Lending arena in fiscal year 2016. Total income for fiscal year 2017 was $185 thousand with related expense $37 thousand , compared to fiscal year 2016 which had earnings of $214 thousand with related expense of $43 thousand.

In fiscal year 2017, the WSI Board of Directors recommended issuing a 50% dividend credit in accordance with North Dakota Century Code (NDCC) 65-04-02. The Governor of North Dakota approved this recommendation. This dividend credit is estimated to be $105 million and will be applied to renewing policyholders in good standing in accordance with NDCC 65-04-02. This is comparable to the 50% dividend credit declared in fiscal year 2016, and the 30% dividend credit declared in fiscal year 2015. The dividend credits for fiscal year 2016 and 2015 were estimated at $150 million and $100 million, respectively. WSI issued dividend credits in twelve of the past thirteen years, totaling approximately $1.15 billion.

WSI's premium billings are estimated annually based upon the employer's prior year's estimated payroll. At the end of each year, payroll reports are submitted and reviewed for accuracy. The billing is then adjusted to reconcile with actual prior year payroll reports. As estimates are reconciled to actual amounts and premiums are adjusted, dividend estimates that were derived from estimated premium are also adjusted.

The estimated dividend credit declared in June of 2016 was $150 million dollars. The fiscal year 2016 dividend credit estimate was reduced in in fiscal year 2017 by $25.2 million, due to decreases from the estimated premium to actual premiums. The fiscal year 2015 dividend credit estimate was reduced in fiscal year 2017 by $5.2 million. The bulk of these premium reductions was due to reduced payroll totals as economic conditions slowed.

Incurred loss and LAE were $147 million in fiscal year 2017, a decrease of 26% from the $197 million reported in fiscal year 2016. The $197 million reported in fiscal year 2016 was a decrease of 20% or $50.6 million less than the $248 million reported in fiscal year 2015. These decreases are a result of both the economic slowdown of oil production activity in the state and WSI's continued efforts to promote safety education.

Incurred loss includes both reported loss as identified by in-house claim adjusters, and unreported loss estimated by independent actuaries. Actuarial estimates are based on historical trends of ultimate losses and various methodologies, dependent upon benefit type. The actuarial loss report is reviewed annually as part of the financial audit.

The number of total claims filed in fiscal year 2017 decreased for the third subsequent year. Total claims filed for fiscal year 2017 totaled 20,025. This is a reduction of 1,252 claims, about 6% less than the total claims filed in fiscal year 2016 of 21,277. The total number of claims filed in fiscal year 2015 was reported as 24,798. The fiscal year 2016 total was a reduction of 3,521 claims or 14% less than the total claims filed in fiscal year 2015. WSI attributes these decreases to both the reduced activity in the energy industry, and WSI's continued commitment to safety education and injury prevention programs.

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As oil production activity has slowed and some companies have left the state, new challenges have arisen in debt collection. WSI is contracting with a third party collection agency to address these challenges. Actual premium bad debt expense was $3.3 million for fiscal year 2017, $1.7 million for fiscal year 2016, $1.4 million for fiscal year 2015.

WSI contracted with a collection agency, Access Receivables, in March 2015, to assist with delinquent premium account collection, and continues to work with this agency. During the earlier part of fiscal year 2015 and fiscal year 2014, WSI had contracted with The Affiliated Group, another collection agency, to assist with collections on delinquent accounts. The ratio of total delinquent premiums to in-force premium ranges from 3.28% to 3.74% over the past three fiscal years, with the current year ratio at 3.69%.

Total accounts not making payments totaled $9.3 million in fiscal year 2017. This is a decrease of 11% or $1.2 million from the $10.4 million total reported in fiscal year 2016. The fiscal year 2016 total of $10.4 million was a 21% increase or $1.8 million more than the fiscal year 2015 total of $8.6 million. The collection department continues to find innovative resources and tools to streamline the delinquent premium recovery process.

Delinquent premium in active collections for fiscal year 2017 of $9.3 million is a 20% reduction, or $2.6 million less than the $12.9 million reported in fiscal year 2016. The amount from fiscal year 2016 was an increase of $1.6 million or 14% over the fiscal year 2015 total of $11.3 million. No change was made to the allocation for premium bad debt expense in fiscal year 2017. This allocation was increased from $6 million to $7.5 million in fiscal year 2015.

The allocation for other bad debt expense remained at $2,000,000, based on an analysis of the total amount outstanding. Actual other bad debt expense for fiscal year 2017 totaled $1 million, compared to $278 thousand in fiscal year 2016 and $203 thousand in fiscal year 2015.

The net position as of June 30, 2017, equaled $609 million compared to $466 million on June 30, 2016 and $455 million on June 30, 2015. The net position as of June 30, 2017 represents approximately 56.1% of the actuarial discounted reserve liability of $1.086 billion, compared to the net position on June 30, 2016 which was approximately 41.9% of the actuarial discounted reserve liability of $1.112 billion, and the net position as of June 30, 2015, which stood at approximately 41.5% of the actuarial discounted reserve liability of $ 1.097 billion.

Condensed Statements of Change in Net Position

	2017	2016	2015
Beginning net position	**$ 466,149,018**	**$ 454,782,551**	**$ 432,711,669**
Change in net position	**142,666,203**	**11,366,467**	**22,070,882**
Ending net position	**$ 608,815,221**	**$ 466,149,018**	**$ 454,782,551**

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Condensed Balance Sheets

	2017	2016	2015
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 3,190,656	$ 2,009,802	$ 2,448,255
Pooled investments			
Investments	1,885,205,871	1,822,483,705	1,753,102,799
Invested securities lending collateral	13,348,052	17,214,543	-
Premium receivables, net	25,763,739	40,153,603	47,304,062
Other accounts receivable, net	6,748,131	6,127,150	4,739,646
Investment interest receivable	9,477,938	9,667,915	9,591,339
Prepaid expenses	571,475	316,513	536,921
Total current assets	1,944,305,862	1,897,973,231	1,817,723,022
NON-CURRENT ASSETS			
Premises, furniture and equipment	13,944,444	11,888,286	10,355,807
Total assets	1,958,250,306	1,909,861,517	1,828,078,829
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow pension	7,981,691	892,196	822,588
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 1,966,231,997	$ 1,910,753,713	$ 1,828,901,417
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	7,444,302	6,944,404	6,729,959
Unearned premium	124,773,938	144,577,275	160,329,226
Dividend Payable	109,936,602	156,837,761	103,055,204
Securities lending collateral	13,348,052	17,214,543	-
Unpaid loss and LAE	130,292,160	133,408,574	131,600,880
Total current liabilities	385,795,053	458,982,557	401,715,269
NONCURRENT LIABILITIES			
Compensated absences, net	225,173	215,619	202,162
Pension liability	14,957,537	6,282,403	5,953,413
Unpaid Loss & LAE, discounted 5%	955,475,840	978,329,541	965,073,120
Total non- current liabilities	970,658,550	984,827,563	971,228,695
Total liabilities	1,356,453,603	1,443,810,120	1,372,943,964
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow pension	963,172	794,575	1,174,902
NET POSITION			
Invested in capital assets	13,944,444	11,888,286	10,355,807
Designated/Unrestricted	594,870,777	454,260,732	444,426,744
Total net position	608,815,221	466,149,018	454,782,551
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 1,966,231,997	$ 1,910,753,713	$ 1,828,901,417

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WSI's total assets and deferred outflows of resources as of June 30, 2017 totaled $1.97 billion. This is an increase of 2.9% or $55 million over the June 30, 2016 total. Total assets on June 30, 2016 of $1.91 billion increased $82 million or 4.5% over total assets on June 30, 2015 of $1.83 billion. Variances in total assets year over year are due to investment market fluctuations, reduced premium based on economic changes, premium rate modifications, changes in incurred losses, and the issuance of premium dividend credits. The difference between assets and liabilities is reported on the balance sheet as net position, which is commonly referred to as fund surplus.

Changes in net position are the result of two separate activities or major program revenues: underwriting and investing. Underwriting activities measure annual premium revenues against claims costs and administrative expenses; while investing activities measure interest, dividends and changes in the fair value of WSI's investments. WSI's investing activities are designed to support its underwriting results and so, to the extent that investments appreciate in value, WSI can operate with an underwriting loss and still maintain its financial strength.

Pension expense increased due to new legislation allowing WSI employees previously enrolled in the Defined Contribution Plan to convert to the Defined Benefit Plan. Approximately 30% of WSI employees participated in this conversion.

Fiscal year 2017 activities resulted in underwriting revenue of $60 million, a decrease of approximately $9 million less than fiscal year 2016. The fiscal year 2016 underwriting activity resulted in a gain of $69 million which was $15 million more than the underwriting gain of $54 million stated in fiscal year 2015.

The change in net position in fiscal year 2017 of $142.7 million is an increase of $131.3 million over the $11.4 million gain in fiscal year 2016. A dividend credit of 50% was declared in fiscal year 2017 and 2016, vs. a 30% credit in fiscal year 2015. Net earned premium decreased by $58 and $38 million, in fiscal year 2017 and fiscal year 2016, respectively. The strong investment returns in the past three years has contributed to the positive change in net position.

Condensed Underwriting and Investment Analysis

	2017	**2016**	**2015**
Net premium earned	**$ 233,060,185**	**$ 291,244,452**	**$ 329,690,311**
Incurred losses	**129,341,935**	**179,428,887**	**230,705,448**
Allocated loss adjustment expenses	**5,974,776**	**6,711,210**	**6,898,127**
Unallocated loss adjustment expenses	**11,539,472**	**11,327,613**	**10,481,334**
General and administrative expenses	**23,398,300**	**24,187,960**	**26,868,184**
Pension expense	**2,494,363**	**581,854**	**619,152**
Total losses and expenses	**172,748,846**	**222,237,524**	**275,572,245**
Underwriting income	**60,311,339**	**69,006,928**	**54,118,066**
Investment and other income	**153,585,172**	**79,328,524**	**65,878,712**
Dividend expenses	**(71,230,308)**	**(136,968,985)**	**(97,925,896)**
Change in net position	**$ 142,666,203**	**$ 11,366,467**	**$ 22,070,882**

Capital Assets

WSI's non-current assets include land, the Century Center office building, furniture, and equipment. A statement of changes in capital assets for fiscal year 2017, 2016, and 2015 can be found under Note 5 – Capital Assets.

Economic Factors and Next Year's Budget and Rates

WSI is a proprietary enterprise fund and does not receive any general fund dollars. Workers compensation premium and investment returns are the main sources of revenue. To ensure solvency of the fund, premium rates are actuarially established on an annual basis by external actuarial consultants. For policy year 2017, WSI anticipates average statewide premium levels to decrease by approximately 7.9%. This compares to the policy year 2016 decrease of 2.5% and policy year 2015 increase of 4.8%.

Available Fund Surplus

The 2009 Legislative Assembly revised the language regarding fund surplus requirements outlined in NDCC 65-04-02, adding clarifying parameters for determining the amount of net position, or surplus, to be considered available for dividend declaration. This language allows the net position to be reduced by special project funding which has been legislatively approved, to arrive at available surplus. Following these guidelines, the available surplus as of June 30, 2017 was $574.5 million or 52.9% of the actuarial discounted reserve liability of $1.09 billion. As of June 30, 2016 and June 30, 2015, the available surplus was 39.8% and 38.9%, respectively.

Requests for information

This financial report is designed to provide a general overview of WSI's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Workforce Safety & Insurance, 1600 East Century Avenue, Suite 1, Bismarck, ND 58503.

WORKFORCE SAFETY & INSURANCE
BALANCE SHEETS
YEARS ENDED JUNE 30, 2017 AND 2016

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 3,190,656	$ 2,009,802
Pooled investments		
Investments	1,885,205,871	1,822,483,705
Invested securities lending collateral	13,348,052	17,214,543
Premium receivable, net	25,765,982	40,153,603
Due from other state agencies	3	-
Other accounts receivable, net	6,745,885	6,127,150
Investment interest receivable	9,477,938	9,667,915
Prepaid expenses	571,475	316,513
Total current assets	1,944,305,862	1,897,973,231
NON-CURRENT ASSETS		
Land, not depreciated	901,974	901,974
Capital assets, net	12,204,657	10,393,691
Construction in progress, not depreciated	837,813	592,621
Total assets	1,958,250,306	1,909,861,517
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow pension	7,981,691	892,196
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,966,231,997	$ 1,910,753,713
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 4,848,926	$ 4,400,732
Due to other state agencies	330,888	198,631
Unearned premium	124,773,938	144,577,275
Dividend payable	109,936,602	156,837,761
Compensated absences payable	1,383,207	1,324,517
Investment accounts payable	881,281	1,020,524
Securities lending collateral	13,348,052	17,214,543
Unpaid loss and LAE	130,292,160	133,408,574
Total current liabilities	385,795,053	458,982,557
NON-CURRENT LIABILITIES		
Compensated absences payable, net of current	225,173	215,619
Pension liability	14,957,537	6,282,403
Unpaid loss and LAE, discounted at 5%	955,475,840	978,329,541
Total non-current liabilities	970,658,550	984,827,563
Total liabilities	1,356,453,603	1,443,810,120
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow pension	963,172	794,575
NET POSITION		
Net investment in capital assets	13,944,444	11,888,286
Designated/Unrestricted	594,870,777	454,260,732
Total net position	608,815,221	466,149,018
Total liabilities and net position	1,965,268,824	1,909,959,138
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,966,231,997	$ 1,910,753,713

WORKFORCE SAFETY & INSURANCE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Net premiums earned	$ 233,060,185	$ 291,244,452
Penalties and finance charges	2,896,044	3,997,490
Third party subrogation recoveries	7,300,648	7,533,690
Rental operations	1,126,446	851,446
Other revenue	336,995	5,055,698
Total operating revenues	244,720,318	308,682,776
OPERATING EXPENSES		
Incurred losses	146,856,183	197,467,710
Payroll and benefits	23,849,051	23,533,739
Pension expense	2,494,363	581,854
Other administrative expenses	376,370	1,165,833
Bad debt expense	4,316,928	1,977,037
Depreciation expense	639,129	398,680
Total operating expenses	178,532,024	225,124,853
OPERATING INCOME	66,188,294	83,557,923
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	86,468,873	50,381,724
Investment expenses	(4,348,175)	(4,681,476)
Securities lending investment revenue	184,972	213,849
Securities lending expenses	(36,942)	(42,729)
Net increase in fair value of investments	65,439,489	18,906,161
Dividend credit expense	(71,230,308)	(136,968,985)
Net non-operating revenues (expenses)	76,477,909	(72,191,456)
CHANGE IN NET POSITION	142,666,203	11,366,467
TOTAL NET POSITION, BEGINNING OF YEAR	466,149,018	454,782,551
TOTAL NET POSITION, END OF YEAR	$ 608,815,221	$ 466,149,018

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from employers	$ 140,619,817	$ 226,808,140
Receipts from other funds	2,628,985	2,518,866
Receipts from others	11,854,812	14,838,995
Payments to medical providers	(97,528,948)	(97,821,360)
Payments to injured workers	(72,718,527)	(80,138,512)
Payments to employers	(24,393,940)	(17,335,307)
Payments to employees	(23,849,051)	(23,505,057)
Payments to other funds	(3,823,149)	(3,481,929)
Payments to others	(13,918,625)	(15,397,133)
Net cash (used in) provided by operating activities	(81,128,626)	6,486,703
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,695,287)	(1,931,159)
Net cash (used in) financing activities	(2,695,287)	(1,931,159)
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to pooled investments	(7,495,233)	(27,993,997)
Withdrawals from pooled investments	92,500,000	23,000,000
Net cash (used in) provided by investing activities	85,004,767	(4,993,997)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,180,854	(438,453)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,009,802	2,448,255
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,190,656	$ 2,009,802

SCHEDULE OF OTHER NONCASH ACTIVITIES		
Net increase in fair value of investments	$ 65,439,489	$ 19,403,106
Change in securities lending collateral	(3,866,491)	17,214,543
Investment revenue	82,248,873	46,245,738
Dividends credited to premium billings	118,131,467	83,186,428
Account receivable premium reductions	(118,131,467)	(83,186,428)

	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 66,188,294	$ 83,557,923
Adjustments to reconcile operating revenue to net cash provided (used) by operating activities		
Deferred outflows Retirement & Investment office (RIO)	28,478	10,431
Deferred inflows Retirement & Investment office (RIO)	2,012	3,281
Decrease in due to other state agencies (RIO)	1,187	1,245
Depreciation/amortization expense	639,129	398,680
Dividend credits applied to receivables	(71,230,308)	(136,968,985)
Change in assets and liabilities		
Decrease (increase) in premium receivable	14,387,622	7,150,458
Decrease (increase)in other accounts receivable	(618,735)	(1,387,504)
Decrease (increase)in prepaid expenses	(254,962)	220,408
Increase (decrease) in accounts payable	447,007	436,089
Increase (decrease) in due to other state agencies	133,443	(5,217)
Increase (decrease) in pension liability	8,675,134	328,990
Increase (decrease) in dividend payable	(46,901,159)	53,782,557
Increase (decrease) in unearned premium	(19,802,999)	(15,751,951)
Increase (decrease) in compensated absences payable	68,244	96,119
Increase (decrease) in unpaid loss and loss adjustment expense	(25,970,115)	15,064,115
(Increase) decrease in deferred outflows	(7,089,495)	(69,609)
Increase (decrease) in deferred inflows	168,597	(380,327)
Net cash (used in) provided by operating activities	$ (81,128,626)	$ 6,486,703

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF APPROPRIATIONS
YEAR ENDED JUNE 30, 2017

	Approved 2015-17 Biennial Appropriation	Expenditures 2016	Expenditures 2017	Unexpended Appropriation
APPROPRIATED EXPENDITURES	**$ 68,865,170**	**$ 32,393,004**	**$ 33,181,130**	**$ 3,291,036**
CONTINUING APPROPRIATIONS				
Collection agency fees	**-**	**127,261**	**116,636**	**-**
Vocational rehabilitation grant	**-**	**94,186**	**80,767**	**-**
Employer fraud & field investigation	**-**	**50,617**	**14,367**	**-**
Medical provider litigation	**-**	**-**	**88,343**	
Litigation fees & costs	**-**	**205,349**	**306,144**	**-**
Provider fraud	**-**	**54**	**909**	**-**
Other states coverage	**-**	**600,000**	**750,000**	**-**
Building operations	**-**	**803,380**	**879,841**	**-**
Safety programs	**-**	**4,176,823**	**3,938,442**	**-**
Reinsurance	**-**	**7,127,375**	**4,908,867**	**-**
Total*	**$ 68,865,170**	**$ 45,578,049**	**$ 44,265,446**	**$ 3,291,036**

*This total represents WSI's expenditures through the State Treasurer's Office using the State's PeopleSoft system. WSI has received an authorization from the State Treasurer's Office to also issue payments directly from the Bank of North Dakota; these payments include policyholder refunds, indemnity benefits, medical benefits, allocated loss adjustment expenses, and the educational revolving loan fund transactions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statements and Reporting Entity

Workforce Safety & Insurance (WSI) is an agency of the State of North Dakota, operating through the legislative authority of Title 65 of the North Dakota Century Code (NDCC).

WSI was established in 1919 for the administration of the Workers Compensation Act and other designated acts. As a state agency, WSI is a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report as an enterprise fund. The director of WSI is appointed by the Governor. Workforce Safety & Insurance provides no-fault medical and disability insurance to North Dakota employers. The state of North Dakota is a "monopolistic" state where WSI is the sole provider of workers compensation insurance. WSI is financed by premiums charged to employers doing business in North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The accompanying financial statements of Workforce Safety & Insurance follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

For financial reporting purposes, WSI has included all funds and has considered all potential component units for which WSI is financially accountable, and other organizations for which the nature and significance of their relationship with WSI are such that exclusion would cause WSI's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization's governing body and (1) the ability of WSI to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burden on WSI.

Based upon these criteria, there are no component units to be included within WSI as a reporting entity and WSI is an agency within the State of North Dakota as a reporting entity.

Fund Financial Statements

WSI uses a fund to report financial position and operational results. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of WSI reported in the accompanying statements are classified into one fund category, the proprietary fund. The proprietary fund includes the Enterprise Fund, which is used to account for the operations of the workers compensation insurance program for North Dakota employers and employees.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of WSI are premiums charged to policyholders for workers compensation insurance. WSI also recognizes as operating revenues, penalties and interest billed for delinquent premium, third party liability subrogation recoveries, student loan interest and rental revenue from building tenants.

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Measurement Focus, Basis of Accounting and Financial Statement Presentation

Operating expenses for the enterprise fund include the incurred losses, payroll and benefits, other administrative expenses, bad debt expense, depreciation on capital assets and building expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This measurement focus includes all assets and liabilities associated with the operations of these funds on the balance sheet.

Proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the related liability is incurred.

Budgetary Policies and Procedures

WSI operates through a biennial appropriation provided by the State Legislature. WSI prepares a biennial budget for administrative expenses which is included in the Governor's budget and is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor may veto any specific appropriation, subject to legislative override. Once passed and signed, the appropriation becomes WSI's administrative budget for the next two years. Any changes to the budget appropriation require Emergency Commission authorization. The Legislative Assembly approved a single-line appropriation for WSI beginning with the 2001-2003 biennium.

The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate any intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. Unexpended appropriations lapse at the end of each biennium.

The State of North Dakota does not formally budget revenues, thus, a Statement of Revenues, Expenditures, and Changes in Fund Net Position - Budget and Actual cannot be prepared as required by accounting principles generally accepted in the United States of America. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis.

Cash and Investments

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. GASB Statement 72 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*." Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less any purchases of investments at cost, plus sales of investments at fair value. Investment expense consists of those administrative expenses directly related to the Retirement and Investment Office investment operations.

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WSI's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. WSI's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

As the master custodian for the Retirement and Investment Office, Northern Trust is the Agent of Record for WSI's portfolio.

Premium Receivable

Premium receivables are stated net of allowance for doubtful accounts in the amount of $7.5 million at June 30, 2017 and June 30, 2016. Premium receivables also include an estimate of premiums that have yet to be billed at year-end, but will be billed in subsequent periods.

Through 2005, several WSI policyholders participated in the Retrospective Rating Program whereby annual adjustments were made to reflect the insured's annual loss experience. Per the terms of the retrospective rating contract, these adjustments were required to be made over a 10 year period, effectively closing out the program June 30, 2015.

Other Accounts Receivable

Other accounts receivable consists of medical assessments, deductibles, reinsurance receivable on loss payments, receivables resulting from overpayments on claims, and other miscellaneous receivables. These receivables are stated net of allowance for doubtful accounts in the amount of $2 million at June 30, 2017 and June 30, 2016.

Prepaid Expenses

Payments made to vendors which exceed $12,000 per year, for services that will benefit periods beyond June 30, 2017 and 2016 are recorded as prepaid expenses.

Capital Assets and Depreciation

All capital assets are recorded in the accompanying financial statements at cost. WSI capitalizes equipment and software costing over $5,000 in accordance with section 54-27-21 of the NDCC.

WSI's capital assets are being depreciated on a straight-line basis over estimated useful lives ranging from 3 to 50 years.

Due to/from Other State Agencies

During the course of operations, numerous transactions occur between other state agencies for goods provided or services rendered. These receivables and payables are classified as "Due from other state agencies "Due to other state agencies" on the statement of net position in the period for which the receivable or liability applies.

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Compensated Absences Payable

Annual Leave: WSI employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 54 -06-14 of the NDCC. Accrued annual leave cannot exceed 30 days at April 30 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: WSI employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per NDCCxx section 54-06-14, employees vest at 10 years of continuous service at which time the State is liable for 10% of the employee's accumulated unused sick leave.

WSI's liability for accumulated unpaid annual leave and sick leave is reported in the enterprise fund, and will be funded by WSI's appropriation when the liability is to be liquidated. The net change in the liability is recorded as an adjustment to other administrative expenses within the enterprise fund.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Unearned Premium

Premiums are billed to the employer at the beginning of the employer's policy year. The billed premium is recognized as revenue on a straight-line basis over the applicable year. Unearned premiums consist of the unamortized portion of premiums at WSI's fiscal year-end.

Unpaid Loss and Loss Adjustment Expenses (LAE)

The liability for unpaid loss and loss adjustment expense (LAE) is estimated by WSI's actuaries, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computations also include a 5% discount to report this liability at its estimated present value.

Management believes the estimated liability for unpaid loss and LAE is sufficient to cover the ultimate net costs of incurred losses, but such loss reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated. Any adjustments to this estimated liability are reflected as part of current operations.

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Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employee Retirement System (NDPERS) and additions to/deductions from NDPERS's fiduciary net position have been determined on the same basis as they are reported by the NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date* were adopted in fiscal year 2015. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

Reinsurance

In accordance with NDCC Sections 65-02-13 and 65-02-13.1, WSI obtained reinsurance coverage with Munich Re America, formerly American Re-Insurance Company. The contracts for reinsurance were in effect for all losses incurred on or after December 1, 1999 through November 30, 2002. Under the reinsurance contract, Munich Re America agrees to reimburse WSI on an excess of loss basis. In 2002, global influences such as the 9-11 attacks hardened the reinsurance market and pushed the price of reinsurance to an inefficient level. As a result, WSI withdrew from the reinsurance market.

When the reinsurance market softened, WSI again sought reinsurance coverage. Working through a reinsurance intermediary, Guy Carpenter, WSI obtained catastrophic coverage beginning in calendar year 2010 and has continued to purchase excess of loss coverage through calendar year 2017. Terms, limits, and pricing are re-evaluated annually.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, liabilities, deferred inflows of resources, and deferred outflow of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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NOTE 2 - RECONCILIATION FROM APPROPRIATIONS TO GAAP REPORTING

Because accounting principles applied for purposes of developing data on an appropriations basis differ from those used to present financial statements in conformity with GAAP, a reconciliation of the expenses on an appropriations basis to the expenses on a GAAP basis for Enterprise Fund administrative expenses for the years ended June 30, 2017 and 2016 are presented below:

	2017	2016
Administrative expenses on an appropriations basis	$ 44,265,446	$ 45,578,049
Reconciling adjustments		
Capital asset additions	(2,695,286)	(1,931,159)
Payroll and benefits	(23,849,051)	(23,533,739)
Unallocated loss adjustment expense	(11,539,472)	(11,327,613)
Increase (decrease) in compensated absences payable	68,244	96,119
Increase (decrease) in pension payable	8,675,134	328,990
Increase (decrease) in administrative payable	(1,460,111)	(1,171,346)
Decrease (Increase) in prepaid expenses	(254,962)	220,408
Refund of prior biennium expenses		(124,316)
Increase (decrease) in deferred outflow	(7,089,495)	(69,609)
Increase (decrease) in deferred inflow	168,597	(380,327)
Revolving loan fees and banking fees	1,220	1,345
Ceded Reinsurance Premium	(5,913,894)	(6,520,969)
Administrative expenses on a GAAP basis	$ 376,370	$ 1,165,833

NOTE 3 - CASH DEPOSITS AND INVESTMENT SECURITIES

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, WSI will not be able to recover deposits that are in the possession of an outside party. WSI does not have a formal policy that limits custodial credit risk for deposits. All of WSI's cash deposits are uncollateralized. The carrying amount of WSI's cash deposits were $3,190,656 on June 30, 2017, and $2,009,802 on June 30, 2016. Bank balances for June 30, 2017 and June 30, 2016 were $6,631,473 and $6,844,554, respectively. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota under NDCC 6-09-10.

WSI is required to have all funds deposited at the Bank of North Dakota in accordance with North Dakota Century Code 6-09-07.

Investments

WSI is required to use the North Dakota State Investment Board (SIB) for its investing activities. The State Investment Board directs the activities of the North Dakota Retirement and Investment Office (RIO) in order to manage the day to day operations of the fund. The SIB and RIO exercise the prudent investor rules as described in NDCC 21-10-07.

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The SIB administers the portfolio according to WSI's investment allocation policy. The SIB selects money managers and monitors performance on a continual basis. The investment allocation policy includes a portfolio mix with 16% in domestic equity, 9% in international equity, 53% in domestic fixed income, 15% in diversified real assets, 6% in real estate, and 1% in cash equivalents. The former allocation mix contained 13% in domestic equity, 7% in international equity, 51% in domestic fixed income, 22% in inflation protected assets, 6% in real estate, and 1% in cash equivalents.

WSI's investment policy does not address credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Credit Risk

WSI is invested in an external investment pool managed by the North Dakota State Investment Board. The pool is not rated.

Interest Risk

The SIB has chosen to use the Segmented Time Distribution disclosure method. A table detailing WSI's portion of the investment pool as of June 30, 2017 is reported below. Readers may refer to the RIO financial statements regarding highly sensitive securities that are disclosed at the SIB level.

Segmented Time Distribution table

	All Values in $000				
	Total Fair Value	Less Than 1 year	1-6 Years	6-10 Years	Over 10 years
Segmented Time Distribution Duration (in thousands)					
Fixed Income Pool	$ 916,343	$ 15,585	$ 161,678	$ 458,333	$ 280,747
Fixed Income Pool (closed)	47,070	-	47,070	-	-
Fixed Income Pool	963,413	15,585	208,748	458,333	280,747
Large Cap Domestic Equity Pool	31,742	236	5,352	274	25,880
Small Cap Domestic Equity Pool	24,839	323	4,857	114	19,545
Diversified Real Assets Pool	111,426	-	-	-	111,426
Total debt securities	$1,131,420	$ 16,144	$ 218,957	$ 458,721	$ 437,598

Securities Lending

GASB Pronouncements for "*Accounting and Financial Reporting for Securities Lending Transactions*," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

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State statutes permit and the SIB has authorized the use of securities lending – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Northern Trust is the securities lending agent for the SIB. Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower. Cash open collateral is invested in a short term investment pool, which had an interest sensitivity of 1 day as of this statement date. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust’s responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

For securities loaned at fiscal year end, the SIB has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceeds the amounts the borrowers owe the SIB.

As of June 30, 2017 and June 30, 2016, the total amount of cash collateral related to these lent securities was $13,348,052 and $17,214,543, respectively.

Foreign Currency Risk

WSI is invested in an external investment pool managed by the SIB. Any applicable risk policies would be included in policy statements issued at the SIB level and not at the individual agency level.

NOTE 4 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

WSI extends short-term credit to its customers, most of whom are located within the state of North Dakota. With this credit risk, WSI has established an estimate of allowance for doubtful accounts for both premium receivables and possible overpayments to medical providers or injured workers. The allowance for doubtful accounts for premium receivables as of June 30, 2017 and June 30, 2016 is $7.5 million, respectively. The allowance for doubtful accounts for overpayments to medical providers or injured workers as of June 30, 2017 and June 30, 2016 is $2 million, respectively.

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NOTE 5 - CAPITAL ASSETS

A statement of changes in capital assets for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in Progress	592,621	245,192	-	837,813
Total capital assets, not being depreciated	$ 1,494,595	$ 245,192	$ -	$ 1,739,787
Capital assets, being depreciated				
Building	$ 11,474,168	$ -	$ -	$ 11,474,168
Furniture and equipment	414,728	5,568	(6,928)	413,369
Intangibles				
Software	4,169,703	2,444,527	-	6,614,228
Total capital assets, being depreciated	16,058,599	2,450,095	(6,928)	18,501,766
Less accumulated depreciation for				
Building	(2,898,091)	(229,483)	-	(3,127,574)
Furniture and equipment	(333,404)	(34,111)	6,928	(360,586)
Intangibles				
Software	(2,433,413)	(375,535)		(2,808,948)
Accumulated depreciation and amortization	(5,664,908)	(639,129)	6,928	(6,297,109)
Total capital assets, net	$ 11,888,286	$ 2,056,158	$ -	$ 13,944,444

A statement of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in Progress		592,621		592,621
Total capital assets, not being depreciated	$ 901,974	$ 592,621	$ -	$ 1,494,595
Capital assets, being depreciated				
Building	$ 11,474,168	$ -	$ -	$ 11,474,168
Furniture and equipment	409,539	5,189		414,728
Intangibles				
Software	2,836,354	1,333,349	-	4,169,703
Total capital assets, being depreciated	14,720,061	1,338,538	-	16,058,599
Less accumulated depreciation for				
Building	(2,668,608)	(229,483)	-	(2,898,091)
Furniture and equipment	(293,967)	(39,437)	-	(333,404)
Intangibles				
Software	(2,303,653)	(129,760)	-	(2,433,413)
Accumulated depreciation and amortization	(5,266,228)	(398,680)	-	(5,664,908)
Total capital assets, net	$ 10,355,807	$ 1,532,479	$ -	$ 11,888,286

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NOTE 6 - DUE FROM (TO) OTHER STATE AGENCIES

The following is a detail of amounts due to and from other State of North Dakota agencies at June 30, 2017 and June 30, 2016.

DUE TO	2017	2016
ND Secretary of State	$ 200	$ -
Attorney General Office	173	1,985
Bismarck State College	-	5,400
Central Services/Office Management & Budget	9,829	6,522
Department of Transportation	10,457	10,856
Information Technology	294,439	170,024
Office of Administrative Hearing	15,790	3,844
Total	$ 330,888	$ 198,631

DUE FROM	2017	2016
ND Surplus Property	$ 3	$ -
	$ 3	$ -

NOTE 7 - UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES (LAE)

An independent actuarial review of WSI's liability for unpaid loss and loss adjustment expenses was conducted for the years ended June 30, 2017 and 2016. The actuarial computations for unpaid loss and LAE include a 5% discount to report this liability at its estimated present value.

For the year ended June 30, 2017 and June 30, 2016, the consulting actuaries presented an estimate in the form of a range to emphasize the uncertainty which is typical for a "long-tailed" liability insurer such as workers' compensation. Amounts stated are net of reinsurance. Ranges are displayed in thousands.

FY 2017		(In Thousands)	
	Low	Central Value	High
Full value basis, undiscounted	$ 1,683,139	$ 1,779,776	$ 1,898,826
Present value basis, discounted at 5%	1,025,786	1,085,768	1,156,974

WSI management recorded the consulting actuary's central estimate of the ultimate cost for unpaid loss and LAE of $1,085,768,000.

FY 2016		(In Thousands)	
	Low	Central Value	High
Full value basis, undiscounted	$ 1,716,741	$ 1,842,107	$ 1,941,869
Present value basis, discounted at 5%	1,035,636	1,111,738	1,177,260

WSI management recorded the consulting actuary's central estimate of the ultimate cost for unpaid loss and LAE of $1,111,738,000.

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WSI establishes a liability for both reported and incurred but not reported (IBNR) losses, which includes estimates of both future payments of losses and the related loss adjustment expenses, both allocated and unallocated. A reconciliation of the changes in unpaid loss and LAE during the past two years is shown as follows:

	(In Thousands)	
	2017	**2016**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	**$ 1,111,738**	**$ 1,096,674**
Discount	**730,369**	**727,601**
Undiscounted Reserves	**1,842,107**	**1,824,275**
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	**198,315**	**228,620**
Change in provision for prior fiscal years	**(78,699)**	**(37,759)**
Change in LAE and other claim recoveries	**(9,120)**	**9,375**
Total incurred claims and claim adjustment expenses	**110,496**	**200,236**
Payments:		
Claims and claim adjustment expenses attributable:		
To events of the current year	**(39,799)**	**(40,871)**
To insured events of prior years	**(133,028)**	**(141,533)**
Total payments	**(172,827)**	**(182,404)**
Change in provision for liability discount	**(694,008)**	**(730,369)**
Total unpaid claims and claim adjustment expenses at fiscal year end	**$ 1,085,768**	**$ 1,111,738**

NOTE 8 - ALL STATES COVERAGE

WSI is the sole provider of workers' compensation coverage in North Dakota and insures employers for work related injuries. A North Dakota employer that operates outside of the state may be at risk for claims filed in another jurisdiction. As a solution, in September 2004, WSI contracted with the Accident Fund of America to provide "temporary and incidental" coverage for North Dakota employers who operate outside the state on an incidental basis. Effective July 1, 2010, the program was expanded to include all North Dakota policyholders at no charge to the individual policyholder.

NOTE 9 - OPERATING LEASES

WSI has entered into various operating leases for office space and equipment. Leases contain a clause allowing for termination with a 90-120 day notice and a clause stating that renewal is dependent on appropriation funding by the State Legislature. Expenditures for operating leases were $292,034 for fiscal year 2017 and $299,476 for fiscal year 2016.

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The following is a schedule of future minimum lease payments required under the operating leases. Future renewal or termination options that may be available, are not included in the totals below.

Year Ending June 30,	
2018	**$ 294,503**
2019	**236,045**
2020	**31,343**
	$ 561,891

NOTE 10 - LONG-TERM LIABILITIES

Compensated Absences Payable

WSI employees can earn annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month and accrued annual leave cannot exceed 30 days as of April 30th of each year. WSI employees earn sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. At 10 years of continuous service, the State is liable for 10 percent of the employee's accumulated unused sick leave.

The reported liabilities for compensated absences were $1,608,380 and $1,540,136 on June 30, 2017, and June 30, 2016 respectively. This balance includes the employer's share of FICA taxes.

	FY 2017 Beginning Balance	Additions	Reductions	FY 2017 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	**$ 1,540,136**	**$ 1,383,080**	**$ 1,314,836**	**$ 1,608,380**	**$ 1,383,207**

	FY 2016 Beginning Balance	Additions	Reductions	FY 2016 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	**$ 1,444,017**	**$ 1,303,732**	**$ 1,207,613**	**$ 1,540,136**	**$ 1,324,517**

WSI's employee turnover rate for fiscal year 2017 and 2016 were 3.5% and 5.1%, respectively.

NOTE 11 - PENSION PLANS

WSI participates in the North Dakota Public Employees Retirement System (NDPERS) administered by the State of North Dakota. NDPERS is an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. The following is a brief description of the plans, for general information only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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Defined Benefit Pension Plan

NDPERS is a cost -sharing multiple-employer defined benefit pension plan that covers most of the classified employees of WSI. The plan provides for pension, disability and death benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor, one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the Board was expanded to include two members of the legislative assembly appointed by the Chairman of Legislative Management.

This state statute requires contributions be made to the plan by either the employee or the employer under a "*salary reduction*" agreement. WSI has implemented a salary reduction agreement and is currently contributing the employees' shares. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 was replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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Eligible members, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the System in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member is not vested (is not 65 or does not have three years of service credited for the NDPERS) they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the WSI reported a liability of $14,957,537 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. This compares to the proportionate liability of $6,282,403 reported on June 30, 2016, which was measured as of June 30, 2015; and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

WSI's proportion of the net pension liability was based on the WSI's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, WSI's proportion was measured as 1.534740 percent, which is an increase of 0.610834 from its proportionate share of 0.923906 percent measured as of June 30, 2015.

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For the year ended June 30, 2017, WSI recognized pension expense of $2,494,363. WSI's pension expense of $2,499,749 was reduced by $5,386 as a result of integrating the allocation of deferred outflows and deferred inflows that are tied to the Retirement and Investment Office's administrative expense. At June 30, 2017, WSI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	**$ 224,694**	**$ (138,494)**
Change in assumptions	**1,378,894**	**(743,090)**
Net differences between projected and actual earnings on pension plan investments	**2,086,792**	**-**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**3,529,147**	**(74,109)**
Employer contributions subsequent to the measurement date	**709,637**	**-**
WSI Total	**7,929,164**	**(955,693)**
Allocation from Retirement Investment Office	**52,527**	**(7,479)**
Total	**$ 7,981,691**	**$ (963,172)**

In the year ended, June 30, 2017, $709,637 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date. This will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2018	**$ (1,214,145)**
2019	**(1,214,145)**
2020	**(1,669,373)**
2021	**(1,324,761)**
2022	**(841,410)**

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As of June 30, 2016, WSI recognized pension expense of $581,854. At June 30, 2016, WSI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experiences	$ 182,261	$ -
Change is assumptions		(559,733)
Net differences between projected and actual earnings on pension plan investments	-	(132,621)
Changes in proportion and differences between employer contributions and proportionate share of contributions of contributions	-	(92,730)
Employer contributions subsequent to the measurement date	685,886	-
WSI Total	868,147	(785,084)
Allocation from Retirement Investment Office	24,049	(9,491)
Total	$ 892,196	$ (794,575)

In the year ended, June 30, 2016, $685,886 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date. This was recognized as a reduction of the net pension liability in the year ended June 30, 2017.

In the year ended June 30, 2015, WSI recognized pension expense of $619,152 was reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date. This was recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2017	$ (188,721)
2018	(188,721)
2019	(188,721)
2020	85,323
2021	(107,425)

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Actuarial assumptions

The total North Dakota PERS pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increase (Payroll Growth)	4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost of Living Adjustment	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long -term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
Employer's proportionate share of the net pension liability	**$ 21,216,978**	**$ 14,957,537**	**$ 9,683,634**

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. This report may be obtained by writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

Changes of assumptions. Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

Defined Contribution Retirement Plan

The North Dakota Defined Contribution Retirement Plan (Plan) is administered by the North Dakota Public Employees Retirement System Board. The Plan was established on January 1, 2000, and is administered in accordance with Chapter 54-52.6 of the NDCC. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

Member contributions to the Plan are vested immediately and employer contributions to the Plan made on behalf of the member are 100% vested after four years of service. Contribution rates for the Plan are set by statute. In January 2013, member contributions were established at 6% and employer contribution were established at 6.12%. Employees were contributing 2% and WSI was paying the remaining portion of the member contribution.

In January 2014, both the member and employer contributions increased by 1% to 7% and 7.12% respectively. At this time, employees contributed 3% with WSI paying the remainder of the member contribution.

Contributions made to the Plan, by the members and WSI, for fiscal years ended June 30, 2017, 2016, and 2015, totaled $67,148, $478,825, and $851,022, respectively. Contributions decreased significantly in fiscal year 2016 and 2017 as a large number of WSI employees transferred from the defined contribution plan to the defined benefit plan during fiscal year 2016.

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. This report may be obtained by writing to: North Dakota Public Employees Retirement System; 400 East Broadway, Suite 505; PO Box 1657, Bismarck, ND 58502-1657.

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NOTE 12 - POSTRETIREMENT BENEFITS

Former WSI employees receiving retirement benefits under the Retirement Plan are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple -employer plan, as administered by the Public Employees Retirement Board. During each month of employment, WSI contributes a percentage based upon each employee's salary into the Retiree Health Benefits Fund.

Total contributions for the fiscal years ended June 30, 2017, 2016, and 2015 were $186,228, $180,404, and $167,842, respectively. The 61st Legislative Assembly increased the contribution percentage from 1.00% to 1.14%, effective August 1, 2009.

NOTE 13 - EMPLOYEE DEFERRED COMPENSATION PLAN

Employees of WSI may participate in an employee deferred compensation plan in accordance with Internal Revenue Service Code Section 457. The plan allows participating employees to defer a portion of their salary until future years. The deferred compensation is not available to the participants until termination, retirement, death, or unforeseeable emergency. The plan is administered by the State of North Dakota Retirement Board. All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary. Since the investments are not held by WSI, the investments and the related obligation to employees is not included in WSI's statement of net position.

NOTE 14 - RISK MANAGEMENT

WSI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

WSI is insured by the State Fire & Tornado Fund as well as the State Bonding Fund. WSI pays an annual premium to the Fire & Tornado Fund for 90% replacement cost of its personal property. Replacement cost is estimated on the office building and all furniture and equipment in consultation with the Fire & Tornado Fund.

The State Bonding Fund currently provides WSI with blanket fidelity bond coverage in the amount of $2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

WSI is insured through the OMB Risk Management Division for workers compensation insurance as well as tort liability. WSI pays an annual premium to the OMB Risk Management Division for both of these exposures. The Risk Management Division manages all workers compensation claims for all state agencies.

NOTE 15 - REINSURANCE

WSI currently contracts with reinsurance intermediary, Guy Carpenter, for placement of catastrophic claim insurance. WSI has four coverage levels, with retention limits of $3 million, $5 million, $10 million and $20 million dollars. WSI deems this protection essential to protect the fund against catastrophic losses. Terms, limits, and pricing are re-evaluated annually. For the year ended June 30, 2017 and 2016 WSI recorded ceded losses of $21,867,182 and $11,102,810 and ceded premiums of $5,913,894 and $6,520,756, respectively.

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NOTE 16 - SIGNIFICANT LEGISLATIVE CHANGES

Significant legislative changes relating to WSI that were enacted by the 2017 Legislative Assembly are listed below:

- HB 1137 creates a new section allowing WSI to issue a cease and desist order and notice of hearing in the event an employer is operating without workers' compensation coverage.
- HB 1156 defines medical marijuana for workers' compensation purposes; prohibits payment for medical marijuana; and prohibits wage loss payments if they are in any way related to the use of medical marijuana.
- SB 2048 provides for payment of an injured worker's attorney fees and costs at the level in which they prevailed regardless of whether the organization ultimately prevails.
- Several administrative changes were contained in HB 1086, SB 2093, and SB 2094 that were less significant.

NOTE 17 - RELATED PARTIES

As stated in Note 1 of these financial statements, WSI is an agency of the state of North Dakota; as such, the other state agencies and political subdivisions are related parties.

NOTE 18 - TENANT LEASES

WSI leases six suites to five tenants in their main office building at 1600 East Century Avenue, Bismarck, ND. The Department of Human Services has two suites, one for Child Support and one for Provider Audit. These tenants, identified below, began leasing space at WSI's Century Center on July 1, 2003. All tenants had an increase in their lease rates on July 1, 2007, July 1, 2011, and again on July 1, 2015; with the lease continuing through June 30, 2017.

WSI reduced the lease rates on office space to all tenants effective July 1, 2017. All tenants have renewed their leases with a term of July 1, 2017 through June 30, 2019 as provided below:

	Monthly Rent	Annual Rent
ND Council on the Arts	$ 1,659	$ 19,908
ND Department of Commerce	19,802	237,624
ND Human Services Child Support	9,753	117,036
ND Human Services Provider Audit	1,975	23,700
ND OMB Risk Management	1,932	23,184
ND Parks & Recreation	7,099	85,188
Total	$ 42,220	$ 506,640

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WSI's lease rates on office space for fiscal year 2016 are provided below.

	Monthly Rent	Annual Rent
ND Council on the Arts	$ 1,764	$ 21,171
ND Department of Commerce	21,083	252,993
ND Human Services Child Support	10,392	124,701
ND Human Services Provider Audit	2,107	25,280
ND OMB Risk Management	2,057	24,690
ND Parks & Recreation	7,551	90,611
Total	$ 44,954	$ 539,446

NOTE 19 - FINANCIAL RESERVES AND SURPLUS

NDCC 65-04-02 requires WSI to maintain adequate financial reserves plus surplus of at least 120% to a maximum of 140% of the actuarial established discounted reserve. Should WSI's available surplus be outside of these levels, statute allows WSI two years to come into compliance. However, statute restricts WSI from granting a dividend credit of greater than 50% of the prior year's premium.

The 2009 Legislative Assembly modified this statute via 2009 HB1035. The legislation defined "available surplus" as net position excluding funds designated or obligated to specific programs or projects pursuant to a directive or specific approval by the legislative assembly. This legislation also set parameters on when a dividend declaration should and should not be considered.

WSI's available surplus of $574.5 million plus discounted reserves on June 30, 2017 equals 152.9% of the estimated actuarial discounted reserve liability of $1.086 billion. This compares to the available surplus of $442.8 million plus estimated discounted reserve liabilities on June 30, 2016, which equaled 139.8% of the estimated actuarial discounted reserve liabilities of $1.112 billion. The available surplus of $427.1 million plus estimated discounted reserve liabilities on June 30, 2015, equaled 138.9% of the estimated actuarial discounted reserve liabilities of $1.097 billion. WSI granted a 50%, 50% and 30% dividend credit in fiscal year 2017, 2016 and 2015, respectively.

	Actual June 2015	Actual June 2016	Actual June 2017
Estimated Discounted Financial Reserves	**$ 1,096,674,000**	**$ 1,111,738,115**	**$ 1,085,768,000**
NET POSITION or "SURPLUS"	**$ 454,782,551**	**$ 466,149,018**	**$ 608,815,221**
2009 HB 1035 Allowable Deductions from Net Assets (Surplus)			
Safety & Education Grants	12,881,858	8,705,035	19,766,593
Revolving School Loan Fund	14,797,047	14,637,495	14,556,728
Total Exclusions from Net Position(Surplus)	**27,678,905**	**23,342,530**	**34,323,321**
Available Fund Surplus	**$ 427,103,646**	**$ 442,806,488**	**$ 574,491,900**
	38.9%	**39.8%**	**52.9%**

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NOTE 20 - COMMITMENT - CAPS (CLAIMS AND POLICY SYSTEM)

WSI is working with several outside companies and ITD to replace its current Claims and Policy software systems. This program, titled Claims and Policy System (CAPS) Program, replaces core business applications in order to improve customer service, enhance system maintainability, provide enhanced reporting and accessibility to information, and enable WSI to remain current with technology. This program is being completed in phases, with each phase consisting of multiple releases. Each release delivers functionality in a production environment, ready to be used.

Phase 1, the planning phase of the CAPS Program was completed in June of 2015. Completion of the entire program is projected to extend through 2023 or beyond. Phase 2, which shared components between Claims and Policy, consisted of 3 Releases and was completed ahead of schedule and under budget, in February 2017.

Phase 3, the Policy system replacement which consists of 6 Releases, is projected to be completed by end of calendar year 2019 or early 2020. This phase is budgeted at $10.8 million. Release 4, the first Release of Phase 3 is currently in progress and is scheduled to go into production in October 2017 and is on schedule and within budget. Phase 4, the Claims system replacement consists of 11 Releases. WSI is currently under contract for $1.5 million, with an additional amendment estimated at $77 thousand being reviewed.

NOTE 21 - CONTINUING APPROPRIATIONS

The following information discloses WSI's continuing appropriation authority of funding from the workers' compensation fund. WSI does not receive any general fund dollars.

NDCC 54-06-29 Collection Agency Fees - WSI maintains an internal collections unit to manage its premium receivable. From time to time, after all collection efforts have been exhausted, account balances may be written off as uncollectible. Some of these account balances may be turned over to external collection agencies.

This continuing appropriation is addressed in OMB Fiscal and Administrative Policy 212. The dollars reported are the fees paid to collection agencies for amounts recovered.

NDCC 65-01-13 Information Fund - This fund was established to recapture costs of providing publications and statistical information to private citizens, businesses, associations, corporations and limited liability companies. Direct costs of operating this fund are expensed as incurred, such as publication printing costs and file storage and retrieval fees. Indirect costs, such as employee wages, are not specifically allocated to this fund. Fees collected for publications and other information requests are deposited into this fund.

NDCC 65-02-05.1 Building Operations – Workforce Safety & Insurance manages the day-to-day operations and maintenance of the building, such as utilities, janitorial service and grounds keeping.

NDCC 65-02-06.1 Allocated Loss Adjustment Expenses – WSI's allocated loss adjustment expenses are charged directly to specific claims and authorized as a continuing appropriation, just like indemnity and medical benefits for injured workers. These expenses include legal fees, and cost containment expenses for return to work case management, fraud investigation services, and the costs of other services required as part of the claims adjudication process.

NDCC 65-02-06.2 Litigation Expense – The 2009 Legislative Assembly authorized a continuing appropriation for expenses associated with litigating employer-related issues and for payment of organization expenses associated with litigating medical provider related issues as identified under sections 65-02-23 and 65-02-20.

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NDCC 65-02-13.1 Other States Coverage – An amount necessary to allow the organization to establish a program of reinsurance and a program of extraterritorial coverage and other states' insurance is to be appropriated out of the Workforce Safety & Insurance Fund, as a continuing appropriation. The organization may execute a contract for reinsurance and a contract for extraterritorial coverage and other states' insurance binding on the organization and the contracting party.

NDCC 65-02-13.1 Reinsurance – This statute authorizes the organization to reinsure any risk or any part thereof and may enter into agreements of reinsurance. Costs of reinsurance are to be appropriated from the Workforce Safety and Insurance fund, as a continuing appropriation. The annual financial audit report must report on any contracts executed pursuant to this statute.

NDCC 65-02-23 Insurance Fraud – This statute authorizes a continuing appropriation for "costs associated with identifying, preventing and investigating employer and provider fraud." Injured worker fraud investigative expenses are charged directly to the claim. WSI’s special investigations unit (SIU) works to investigate and prevent insurance fraud by employers, medical providers and injured workers.

NDCC 65-02-13.1 Reinsurance – This statute authorizes the organization to reinsure any risk or any part thereof and may enter into agreements of reinsurance. Costs of reinsurance are to be appropriated from the Workforce Safety and Insurance fund, as a continuing appropriation. The annual financial audit report must report on any contracts executed pursuant to this statute.

NDCC 65-02-23 Insurance Fraud – This statute authorizes a continuing appropriation for "costs associated with identifying, preventing and investigating employer and provider fraud." Injured worker fraud investigative expenses are charged directly to the claim. WSI’s special investigations unit (SIU) works to investigate and prevent insurance fraud by employers, medical providers and injured workers.

NDCC 65-02-30 Performance Evaluation – This statute requires a performance evaluation be conducted on WSI operations every other biennium through the coordination of the State Auditor’s Office. Funding is provided through a continuing appropriation.

NDCC 65-03-04 Safety Programs – This statute provides a continuing appropriation for promoting safety through education, training, consultation, grants and other incentives. WSI’s loss control employees and their related administrative expenses are not included as part of this continuing appropriation.

NDCC 65-05.1-08 Educational Revolving Loan Fund – The 2005 Legislative Assembly established a revolving loan fund to provide low interest loans to individuals that have suffered compensable work injuries. The loans must be used to pursue an education at an accredited institution of higher education or an institution of technical education. The loan program is administered by the Bank of North Dakota. In June 2005, WSI’s board of directors earmarked $15 million for the educational revolving loan fund. WSI began marketing the loan program in August 2005.

NDCC 65-05-36 Preferred Worker Program – WSI established a program for injured workers who, while employable, are unable to return to the employer at the time of their injury. The preferred worker program offers benefits to North Dakota employers for hiring people under this program. This continuing appropriation funds any employment-related expenses such as equipment purchases and work-site modifications for the preferred worker.

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NOTE 22 - FAIR VALUE MEASUREMENT

Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' that are measured at fair value using Net Asset Value per share (NAV), are measured as follows as of June 30, 2017 and June 30, 2016:

June 30, 2017		**Fair Value Measurements Using**		
Investments	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Investments held with RIO	**$1,898,553,923**	**$ -**	**$ -**	**$1,898,553,923**

June 30, 2016		**Fair Value Measurements Using**		
Investments	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Investments held with RIO	**$1,839,698,248**	**$ -**	**$ -**	**$1,839,698,248**

Investments held with RIO are categorized as level 3 and are reported at NAV by RIO.

NOTE 23 - CONTINGENCY

During fiscal year 2017, there was activity on two lawsuits as noted below:

Valley Med Flight

<u>Valley Med Flight v. Terry Dwelle, in his capacity as State Health Officer, and Bryan Klipfel, in his capacity as Executive Director of WSI (Valley Med Flight I)</u>

Valley Med Flight is an emergency air ambulance service provider in North Dakota. In June 2015, Valley Med Flight commenced an action in United States District Court to declare invalid and to stop the enforcement of 2015 North Dakota House Bill No. 1255, enacted as North Dakota Century Code section 23-27-04.10. This law pertains to air ambulance services in North Dakota and is primarily administered by the North Dakota Department of Health.

Also part of this lawsuit is Valley Med Flight's attempt to declare invalid and to stop the enforcement of WSI's medical fee schedule and laws that pertain to air ambulance services in workers' compensation cases. Valley Med Flight asserts WSI's fee schedule for air ambulance services is preempted by federal law, namely, the Airline Deregulation Act of 1978. The Office of the Attorney General represents WSI's interests in this matter. In March, 2016, the Court ruled in Valley Med Flight's favor, precluding WSI from applying its medical fee schedule to medical air ambulance bills. WSI did not appeal the Court's decision.

<u>Ray Charles Brewer and Valley Med Flight, Inc., A North Dakota corporation v. Bryan Klipfel, in his Official Capacity as Executive Director of the North Dakota Workforce Safety and Insurance (Valley Med Flight II)</u>

(continued on next page)

In December, 2016, Valley Med Flight and Ray Charles Brewer, an injured employee, brought a legal action against WSI to effectively require WSI to pay the balance of Valley Med Flight's bill for the air transport of Mr. Brewer. This transport occurred prior to the Federal Court's order in Valley Med Flight I. The Plaintiffs apparently maintain WSI owes the balance of Valley Med Flight's air transport bills that were submitted to WSI and subject to WSI's medical bill fee schedule for transports occurring prior to the Federal Court's order in Valley Med Flight I. The Plaintiffs originally asserted claims on behalf of other similarly situated unnamed third parties. WSI brought a counter claim and maintains the Plaintiffs are not entitled to the relief sought.

In July, 2017, WSI received a favorable state district court ruling, determining WSI did not owe the balance of Mr. Brewer's medical air transport bill, nor did Valley Med Flight have standing to assert claims on behalf of unnamed third parties. The Plaintiff's did not appeal the District Court's favorable ruling for WSI. As a result, this litigation is over.

Indirect Litigation

WSI is indirectly connected to two class actions involving holdings in investment account overseen by the State Investment Board (SIB). The SIB has been named as a defendant in two cases, arising out of the Tribune and General Motors bankruptcy proceedings, relating to securities that were purchased by external investment managers in one or more portfolios held by the SIB on behalf of its investment client funds. Outside counsel has been retained for both cases, in addition to assistance received from the ND Office of Attorney General. As of June 30, 2017, no liability has been recorded for the General Motors bankruptcy proceedings, as it is too early in the litigation process to reasonably determine whether any payments will be required.

The claim against the SIB in the Tribune bankruptcy litigation has been dismissed, but a final order has not entered because the court has yet to decide the remaining claims in the case against unrelated defendants. Any final judgment, (including with respect to the claim against the SIB), is subject to appeal. Accordingly, no liability has been recorded at this time.

NOTE 24 - ISSUED BUT NON-EFFECTIVE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by WSI. The first statement issued but not yet implemented that will affect WSI is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at WSI in the year ended June 30, 2018.

(continued on next page)

The second statement issued but not yet implemented that will affect WSI is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at WSI in the year ended June 30, 2020.

The third statement issued but not yet implemented that will affect WSI is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at WSI in the year ended June 30, 2018.

The final statement issued but not yet implemented that will affect WSI is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at WSI in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on WSI's financial statements.

(continued on next page)

Schedules of Required Supplementary Information
Schedule of WSI's Share of Net Pension Liability
Last 10 Fiscal Years* **

	2017	2016	2015
WSI's portion of NDPERS net pension liability (asset)	**1.5347400%**	**0.9239060%**	**0.937957%**
WSI's proportionate share of NDPERS net pension liability (asset)	**$ 14,957,537**	**$ 6,282,403**	**$ 5,953,414**
WSI's covered employee payroll (measurement date as of 06/2016)	**$ 15,466,560**	**$ 8,230,866**	**8,087,854**
WSI's proportionate share of NDPERS net pension liability (asset) as a percentage of its covered employee payroll	**96.7%**	**76.3%**	**73.6%**
NDPERS Plan fiduciary net position as a percentage of the total pension liability	**70.5%**	**77.2%**	**77.7%**

*Amounts presented have a measurement date of the previous fiscal year end.

Prior to 2016, the payroll above was based on actual pay received during the year for members active at the end of the fiscal year. Beginning with the 2016 payroll, payroll is based on annualized payroll as of the valuation date.

Changes of assumptions. Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2016. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

Schedules of Required Supplementary Information
Schedule of WSI's Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years**

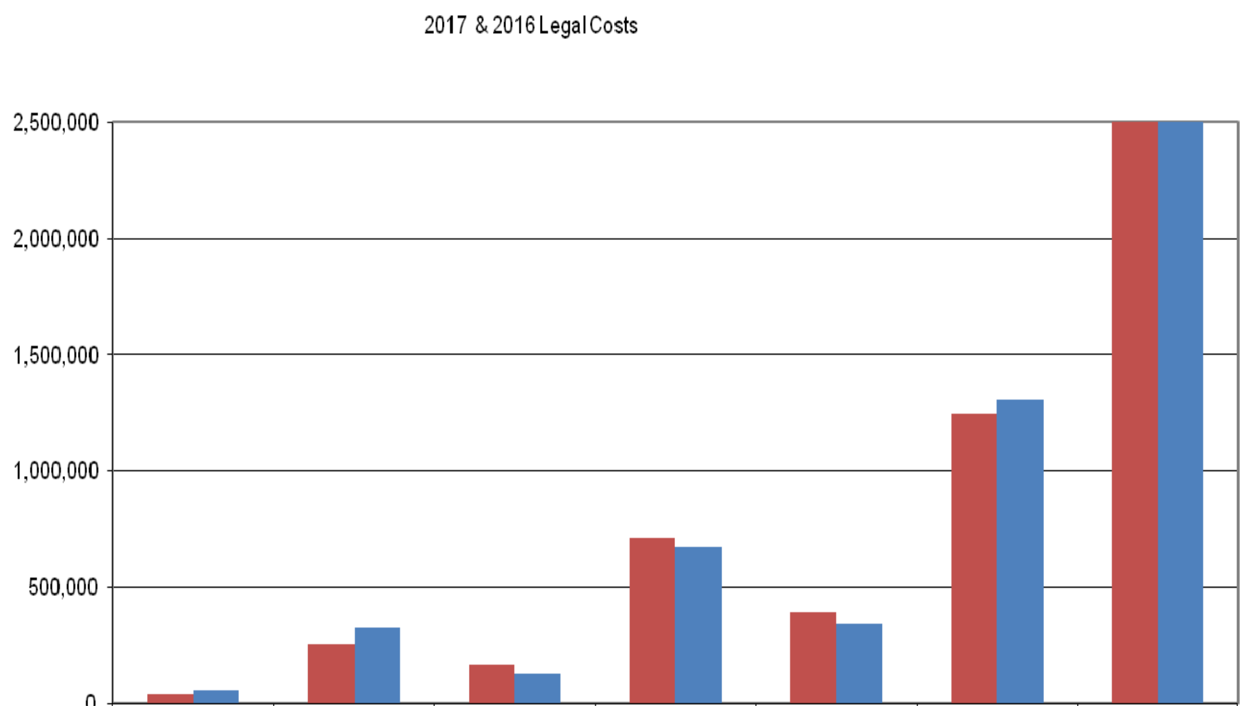
	2017	2016	2015
Statutorily required contribution	**$ 1,163,111**	**$ 1,119,754**	**$ 625,201**
Contributions in relation to the actuarially determined contribution	**(1,163,111)**	**(884,731)**	**(617,554)**
Contribution deficiency (excess)	**-**	**235,023**	**7,647**
Covered employee payroll	**$ 16,335,835**	**$ 15,466,560**	**$ 8,230,866**
Contributions as a percentage of covered employee payroll	**7.12%**	**7.24%**	**7.60%**

**Complete data for these schedules is not available prior to 2015.

(continued on next page)

WORKFORCE SAFETY & INSURANCE
SUPPLEMENTARY INFORMATION
SCHEDULE OF ATTORNEY FEES AND COSTS
JUNE 30, 2017 AND JUNE 30, 2016

Pursuant to Section 65-02-06.1 of the NDCC, the following chart shows the breakdown of allocated loss adjustment expenses (ALAE) for legal fees and costs paid to attorneys representing both the injured workers and WSI, amounts paid for administrative law judges through the Office of Administrative Hearings, court reporter fees, and other miscellaneous legal fees. Legal fees and costs paid in fiscal years 2017 and 2016 were $2,836,742 and $2,806,889, respectively. These costs are included as a portion of incurred losses within the "Statements of Revenues, Expenses and Changes in Fund Net Position" of this report.



	Court Reporter Fees	Miscellaneous Fees and Costs	Third Party Attorney Fees and Costs	Office of Administrative Hearings	Claimant Attorney Fees and Costs	WSI Attorney Fees and Costs	Total Legal Costs Paid
Fiscal Year 2016	39,881	253,002	164,681	712,272	392,954	1,244,099	2,806,889
Fiscal Year 2017	60,560	325,640	124,571	671,246	344,139	1,310,586	2,836,742

(continued on next page)

WORKFORCE SAFETY & INSURANCE
SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION
JUNE 30, 2017

The table below illustrates how the Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operation costs of the Fund including overhead and claims expense not allocable to individual claims, as well as investment expenses. (3) This line shows the Fund's incurred losses and allocated loss adjustment expenses, both paid and accrued, as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (referred to as policy year). (4) This section of 10 rows shows the cumulative amounts paid at the end of successive years for each policy year. (5) This section of 10 rows shows how each policy years' estimated incurred losses increased or decreased at the end of each successive year. This annual re-estimation is the result of new information received regarding unknown claims, re -evaluation of existing information on known claims, as well as the emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred losses amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than the original. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years. All data is shown in thousands.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Net earned required contribution and investment revenues	$ 165,637	$ 48,033	$ 288,949	$ 357,172	$ 340,730	$ 442,995	$ 502,371	$ 407,949	377,414	395,966
2. Unallocated expenses	40,662	30,944	32,709	29,997	33,321	51,881	40,617	41,275	42,938	46,758
3. Estimated incurred claims and expense, end of policy year	131,380	168,964	160,265	191,795	230,158	299,882	337,537	314,612	228,620	198,315
4. Paid (cumulative) as of										
End of policy year	26,584	32,054	30,861	38,596	44,224	52,886	64,846	60,697	40,871	39,799
One year later	46,708	54,795	52,410	65,249	86,783	99,078	111,166	101,990	74,368	
Two years later	53,511	63,358	59,515	76,420	102,133	117,108	127,873	119,937		
Three years later	57,571	69,606	65,216	84,638	110,896	127,508	139,762			
Four years later	60,452	74,643	69,289	90,072	115,555	135,534				
Five years later	63,168	79,073	73,010	93,588	119,697					
Six years later	65,611	82,500	75,495	96,223						
Seven years later	67,694	84,423	76,844							
Eight years later	69,439	86,662								
Nine years later	70,678									
5. Re-estimated incurred claims and expense										
End of policy year	131,380	168,964	160,265	191,795	230,158	299,882	337,537	314,612	228,620	198,315
One year later	140,328	157,106	151,411	192,257	257,806	293,069	321,494	283,404	203,973	
Two years later	132,931	153,098	147,853	193,114	243,814	287,797	299,221	270,630		
Three years later	128,652	149,683	146,418	187,355	240,505	272,390	290,667			
Four years later	126,087	148,228	142,001	184,329	227,887	265,404				
Five years later	123,301	147,800	138,874	180,677	220,572					
Six years later	120,429	150,100	136,675	174,024						
Seven years later	119,692	146,641	133,938							
Eight years later	119,161	145,223								
Nine years later	117,882									
6. Change in estimated incurred claims and expense from end of policy year	$ (13,498)	$ (23,741)	$ (26,327)	$ (17,771)	$ (9,586)	$ (34,478)	$ (46,870)	$ (43,982)	$ (24,647)	

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Workforce Safety & Insurance (Entity) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Workforce Safety & Insurance's basic financial statements, and have issued our report thereon dated October 12, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2017-A.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Workforce Safety & Insurance’s Response to Findings

The Entity’s response to the findings identified in our audit are described in the accompanying entity’s schedule of findings and responses. The Entity’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
October 12, 2017

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Schedule of Finding and Response

Finding 2017- A

Significant Deficiency in Internal Control over Financial Reporting - Premium Income and Premium Dividend Credit

Criteria: The premium income is based off of estimated payroll for each employer and once a year the actual payroll are submitted and reviewed for accuracy. The billings is then adjusted to reconcile with actual payroll reports. The premium dividend credit is estimated based on prior year premium income recognized and a derivative of net position in conjunction with reserves. There is a risk to income and expense recognition in the proper period and the impact to the dividend credit without timely payroll information or an analysis of market trends to develop estimates.

Condition: Presently, WSI gets updated payroll data once a year from employers.

Context: We observed these issues by reviewing the premium income and premium dividend process and the resulting impact from significant changes in the labor market in addition, to our discussions with management on this matter.

Effect: Utilizing previous year payroll without updated information or estimated trends in the ND labor market provides the opportunity for interim financial reporting to be subject to significant adjustment during year end closing. In addition, the lag in estimated to actual payroll may impact the accrual of the premium dividend credit. Thus, an adjusting entry is made annually that impacts the year end premium income and related premium dividend credit.

Cause: WSI does not have the premium system capabilities to obtain updated payroll more frequently than annually.

Recommendation: Establish one of the following approaches

1) A system enhancement to allow receipt of payroll information more frequently paired with a process to obtain updated payroll information on a more regular basis. Utilize these changes in payroll information as leading indicators to assist in establishing your estimates.
2) Design a comprehensive market analysis based on available data sources that allows trends in employment to impact the estimated payroll more precisely at a financial statement level rather than an employer level.
3) Develop system functionality that integrates with payroll processors or employer human resource databases to provide automated updates to the system that would update revenue recognized and utilized in estimate accruals.
4) Design a process based on management's innovation that mitigates the risk to an acceptable level for financial reporting.

View of Responsible Officials and Planned Corrective Actions: WSI management concurs and will review the approaches outlined above to determine if there are possible methods that would assist in mitigating the risk related to income and expense recognition with the goal of minimizing any significant adjustments at year end closing.

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Workforce Safety & Insurance
Independent Auditor's Specific Comments Requested by the
North Dakota Legislative Audit and Fiscal Review Committee
Year Ended June 30, 2017

To the Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2017 audit of the Authority are as follows:

Audit Report Communications:

1. **What type of opinion was issued on the financial statements?**

   Unmodified.

2. **Was there compliance with statutes, laws, rules and regulations under which the Authority was created and is functioning?**

   Yes.

3. **Was internal control adequate and functioning effectively?**

   In planning and performing our audit of the financial statements, we considered Workforce Safety & Insurance's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Workforce Safety & Insurance's internal control. With that in mind, we documented one significant deficiency in the internal control over financial reporting in the current year. -

4. **Were there any indications of lack of efficiency in financial operations and management of the Authority?**

   No.

5. **Was action taken on prior audit findings and recommendations?**

   NA – There was no prior audit findings.

6. **Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.**

    A report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards was issued in the current year that included a significant deficiency related to premium income recognition and the related premium dividend estimate accrual. Eide Bailly recommends adopting a strategy to enable management to have more timely insight into the activity. WSI management concurs and will review the approaches outlined to determine if there are possible methods that would assist in mitigating the risk related to income and expense recognition with the goal of minimizing any significant adjustments at year end closing.

Audit Committee Communications:

1. **Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

    Nothing noted in the current year.

2. **Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.**

    One of the most sensitive estimates is the liability for unpaid losses and loss adjustment expenses (LAE). The liability for unpaid losses and LAE is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computation also includes a 5% discount to report this liability as its estimated present value. We, as auditors of WSI, have a third party actuary review the estimate as provided by WSI's actuary to ensure the estimate is reasonable.

    Another significant estimate to the financial statements is the dividend expense and related liability. The dividend expense and liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll, and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. We have reviewed the assumptions and calculation used in determining the estimate to ensure the estimate is reasonable.

    Management's estimate of the net pension liability is based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

3. **Identify any significant audit adjustments.**

   None.

4. **Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

   None.

5. **Identify any serious difficulties encountered in performing the audit.**

   None.

6. **Identify any major issues discussed with management prior to retention.**

   None.

7. **Identify any management consultations with other accountants about auditing and accounting matters.**

   None.

8. **Identify any high-risk technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six report questions to be addressed by auditors are directly related to the operations of an information technology system.**

   The Claims Management System (CMS) and Policy Holder Services (PICS) have been identified as the most high-risk systems at Workforce Safety Insurance. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the Board of Directors, Legislative Audit and Fiscal Review Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties

Eide Bailly LLP

Fargo, North Dakota
October 12, 2017

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To the Board of Directors
Worforce Safety & Insurance
Bismarck, North Dakota

We have audited the financial statements of Workforce Safety & Insurance (the Entity) as of and for the year ended June 30, 2017, and have issued our report thereon dated October 12, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our engagement letter dated April 7, 2016, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of [Entity Name] solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding a significant control deficiency during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated October 12, 2017.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Entity is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2017. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are;

> One of the most sensitive estimates is the liability for unpaid losses and loss adjustment expenses (LAE). The liability for unpaid losses and LAE is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computation also includes a 5% discount to report this liability at its estimated present value. We evaluated the key factors and actuarial assumptions used to develop these reserves and projections in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Another significant estimate to the financial statements is the dividend expense and related liability. The dividend expense and liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll, and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. We have reviewed the assumptions and calculation used in determining the estimate to ensure the estimate is reasonable.
>
> Also management's estimate of the net pension liability is based on an actuary's calculation in accordance with the employment contracts. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Entity's financial statements relate to:

> The disclosure of investments, unpaid losses and loss adjustment expenses reserve, net pension liability information, fair value measurement and contingency in Notes 3, 7, 11, 22 and 23 respectively, to the financial statements. Investment disclosures consisted of fair market value, concentration of credit and custodial risk, interest rate risk and foreign currency risk. Unpaid losses and loss adjustment expenses reserves and net pension liability consist of actuarial estimates of future obligations and the development of prior estimates and the effect on the current financial information. Contingency consists of possible lawsuits that the Entity was named in.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. No corrected or uncorrected financial statement adjustments were noted during the course of the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated October 12, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Entity, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Entity's auditors.

This report is intended solely for the information and use of the board of directors, audit committee, and management of the Entity and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
October 12, 2017