WORKFORCE SAFETY & INSURANCE

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

WORKFORCE SAFETY & INSURANCE

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INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

The Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

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, 2012 and 2011, which collectively comprise Workforce Safety & Insurance's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Workforce Safety & Insurance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only Workforce Safety & Insurance and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Workforce Safety & Insurance, as of June 30, 2012 and 2011, and the results of operations and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, there is a high degree of uncertainty in the estimated liability for unpaid loss and loss adjustment expenses recorded as of June 30, 2012, and 2011. Workforce Safety & Insurance has recorded the expected value of the liability as computed by its actuary; however, the ultimate liability may vary significantly.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, on our consideration of Workforce Safety & Insurance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Workforce Safety & Insurance's financial statements as a whole. The loss development information and schedule of attorney fees and costs are presented for purposes of additional analysis and not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

BRADY, MARTZ & ASSOCIATES, P.C.

November 9, 2012

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, 2012, 2011, and 2010. 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 assets, 3) statement of cash flows, and 4) statement of appropriations. The balance sheet provides readers the assets and liabilities of the fund, with the difference between the two considered net assets. It also provides the basis for determining the financial strength and solvency of the workers compensation fund. The statement of revenues, expenses and changes in fund net assets 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 2011 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 14-32 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning WSI's loss development and supplementary information concerning WSI's legal costs. This supplementary information can be found on pages 33 and 34.

Financial Highlights

While much of the nation is experiencing economic downturn, North Dakota's economy continues to grow. New business continued to be attracted to the state of North Dakota in fiscal year 2012 as evidenced by Workforce Safety and Insurance writing a total of $19.3 million of new business for the year compared to $10.6 million for fiscal year 2011 and $6.9 million for fiscal year 2010. As the Bakken oil continues to flow, those industries necessary to support the infrastructure and delivery of the product have followed. Construction and transportation premium made up $6.0 million and $7.3 million, respectively, of new written premium. In total, this accounts for approximately 70% of all new written premium for fiscal year 2012.

More business in the state means more business for WSI. More policies, more employees and more claims have created a need for additional processing assistance. WSI has hired temporary employees in an effort to maintain a level of service to customers.

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In fiscal year 2012, WSI added over 2,400 policyholders, an increase of 11% over fiscal year 2011. The fiscal year 2011 total of 21,375 was 5% over the fiscal year 2010 total of 20,428. These increases are due to the oil industry activity and North Dakota's overall strong economic standing.

At June 30, 2012, June 30, 2011, and June 30, 2010 coverage extended to the following employers:

	2012	2011	2010
Annual premium $250 - $5,000	17,370	16,105	15,629
Annual premium $5,001 - $50,000	5,575	4,574	4,168
Annual premium $50,001 - $100,000	464	380	345
Annual premium over $100,000	403	316	286
Total policyholders	23,812	21,375	20,428

Written premium for fiscal year 2012 totaled $294 million, an increase of 37% over fiscal year 2011 written premium amount of $215 million. The fiscal year 2011 written premium amount increased 24% over the fiscal year 2010 total of $173 million.

Condensed Statement Of Revenue & Expense

	2012	2011	2010
REVENUE			
OPERATING REVENUE			
Premium-net of discount and reinsurance premium	$ 250,544,641	$ 188,749,796	$ 152,988,182
Subrogation, penalties and finance charges	2,369,463	3,396,746	3,470,640
Building rental revenue	742,222	710,286	710,081
Other revenue	21,194	293,308	541,427
NONOPERATING REVENUE			
Earnings (losses) on investments	87,052,301	164,377,857	131,533,042
Total revenues	340,729,821	357,527,993	289,243,372
EXPENSES			
OPERATING EXPENSE			
Incurred loss	188,823,610	168,548,565	117,606,375
Payroll and employee benefits	18,097,199	16,668,282	16,094,038
Other administrative expense	2,015,070	1,580,222	4,173,202
Bad debt expense	321,334	445,851	382,294
Depreciation expense	1,050,061	256,816	254,599
NONOPERATING EXPENSE			
Investment and other expense	4,569,539	5,105,379	5,206,073
Dividend expense	144,376,056	108,006,196	74,868,560
Total expenses	359,252,869	300,611,311	218,585,141
Change in net assets	$ (18,523,048)	$ 56,916,682	$ 70,658,231

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WSI's financial position continues to remain strong. Fiscal year 2012 brought an increase in business activity that was even larger than that experienced in fiscal year 2011. Earned premium net of discounts and reinsurance totaled $251 million, $189 million, and $153 million for fiscal year 2012, 2011, and 2010 respectively. This is a 33% increase over fiscal year 2011 and a 23% increase over fiscal year 2010.

WSI's investment portfolio yielded a year to date return of 6.1% (net of fees), a gain of $83 million. The year-to-date return for fiscal years 2011 and 2010 was 13.3% and 11.9%, respectively. WSI's average investment return for the five year period ending June 30, 2012 is 4.0% and the average ten year rate of return is 5.9%. WSI's estimated reserve liabilities are currently discounted at 5.0%.

In fiscal year 2012, the WSI Board of Directors recommended issuing a 50% dividend credit in accordance with NDCC 65-04-02. The Governor of North Dakota approved this recommendation. This dividend credit is estimated to be $143 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 2011 and fiscal year 2010, which were estimated at $102 million and $77 million, respectively. WSI issued dividend credits in seven of the past eight years, totaling just under $600 million.

This increase in the dividend credit is directly related to the increase of policyholders and premium created by the influx of economic activity in the state. End of year payroll adjustments affect prior estimated premium and the related dividend credit. These adjustments continue to trend upward.

Incurred losses were $189 million in fiscal year 2012, an increase of $20 million or 12% over the fiscal year 2011 total of $169 million. Fiscal year 2011 was $51 million or 43% more than the $118 million booked in fiscal year 2010. WSI is seeing an increase in both the frequency and severity of injuries.

Total claims filed in fiscal year 2012, 2011, and 2010 were 24,643, 21,693, and 19,384 respectively. The increase in claims filed in fiscal year 2012 increased 14% over claims filed in fiscal year 2011.

The fiscal year 2012 dividend credit is estimated at $143 million dollars as previously discussed. The actual dividend expense for fiscal year 2012 was increased by $1.9 million, the residual amount from the fiscal year 2011 dividend credit. The increased dividend expense in fiscal year 2011 reflects a revision made to the prior year's (fiscal year 2010) dividend estimate. WSI's policy billings are estimated annually based upon the prior year's estimated payroll. At the end of each year, payroll reports are submitted and reviewed for accuracy. The prior 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 allocation for premium bad debt expense was increased from $500,000 to $2,000,000. Delinquent premium in active collections has increased over 40%. WSI has managed premium collections well with the bad debt expense to receivable ratio being less than 2% for the past 10 years. However, as more industries are coming into the state, the policyholder mix is changing and showing a more transient nature. Future collections may be both difficult and costly as most of these new companies are based out of state. Actual premium bad debt expense for fiscal year 2012 was $308,000.

The allocation for other bad debt expense was reduced from $4 million to $2 million, based on an analysis of the total amount outstanding. Actual other bad debt expense for fiscal year 2012 totaled $821 thousand.

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Net assets as of June 30, 2012 equal $375 million, compared to $393 million on June 30, 2011 and $336 million on June 30, 2010. Net assets as of June 30, 2012 represent approximately 43% of the actuarial discounted reserve of $866 million, compared to net assets as of June 30, 2011 which stood at approximately 48% of the actuarial discounted reserve liability of $814 million and net assets on June 30, 2010 which totaled 44% of the actuarial discounted reserve liability of $772 million.

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 assets, or surplus, to be considered available for dividend declaration. This language allows net assets to be reduced by project funding which has been both legislatively and Board approved, to arrive at available surplus. Following these guidelines, the available surplus as of June 30, 2012 was $341 million or 39% of the actuarial discounted reserve liability of $866 million. As of June 30, 2011 and June 30, 2010 the available surplus was 45% and 40% respectively.

Condensed Change in Net Assets

	2012	2011	2010
Beginning net assets	$ 393,127,850	$ 336,211,168	$ 265,552,937
Change in net assets	(18,523,048)	56,916,682	70,658,231
Ending net assets	$ 374,604,802	$ 393,127,850	$ 336,211,168

WSI's total assets as of June 30, 2012 totaled $1.5 billion for an increase of $100 million or 7% over total assets on June 30, 2011 of $1.4 billion. Assets as of June 30, 2011 increased 10% or $132 million over the fiscal year 2010 total of $1.3 billion. These variances in total assets year over year are due to investment market fluctuations and the issuance of dividend credits. The difference between assets and liabilities is reported on the balance sheet as net assets, which is commonly referred to as fund surplus.

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.

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Condensed Balance Sheets

	2012	2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 1,878,452	$ 1,668,707	$ 1,364,416
Investments	1,424,782,915	1,343,817,539	1,204,687,355
Invested securities lending collateral	-	12,070	7,257,842
Premium receivables, net	38,789,562	28,154,597	31,890,987
Other accounts receivable, net	3,438,315	1,085,883	1,172,693
Investment interest receivable	9,983,231	7,141,600	7,858,153
Prepaid expenses	589,488	1,022,974	597,060
Total current assets	1,479,461,963	1,382,903,370	1,254,828,506
NON-CURRENT ASSETS			
Premium receivables, non-current	465,297	730,164	1,223,751
Premises, furniture and equipment	26,430,599	24,155,357	19,852,300
Total assets	$ 1,506,357,859	$ 1,407,788,891	$ 1,275,904,557

LIABILITIES	2012	2011	2010
CURRENT LIABILITIES			
Accounts payable	$ 6,043,454	$ 6,861,415	$ 5,359,119
Unearned premium	117,488,460	91,586,519	78,320,109
Dividend payable	142,387,877	102,000,000	76,500,000
Securities lending collateral	-	12,070	7,257,842
Unpaid loss and LAE	103,877,400	101,750,000	96,500,000
Total current liabilities	369,797,191	302,210,004	263,937,070
NONCURRENT LIABILITIES			
Compensated absences, net	188,266	178,037	161,319
Unpaid loss & LAE, discounted at 5%	761,767,600	712,273,000	675,595,000
Total non-current liabilities	761,955,866	712,451,037	675,756,319
Total liabilities	1,131,753,057	1,014,661,041	939,693,389
NET ASSETS			
Invested in capital assets	26,430,599	24,155,357	19,852,300
Unrestricted	348,174,203	368,972,493	316,358,868
Total net assets	374,604,802	393,127,850	336,211,168
Total liabilities and net assets	$ 1,506,357,859	$ 1,407,788,891	$ 1,275,904,557

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Changes in net assets 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.

The fiscal year 2012 underwriting income of $41 million is $39 million higher than the fiscal year 2011 total of $2 million. This is the result of the huge increase in earned premium due to the economic growth occurring in the state. Even so, fiscal year 2012 reflects a negative change in net assets. This is a result of the decrease in investment revenue and the increase in the dividend credit expense. Fiscal year 2012 investment and other income of $86 million is $78 million or 47% less than the $164 million from fiscal year 2011.

Condensed Underwriting and Investment Analysis

	2012	2011	2010
Net premium earned	$ 250,544,641	$ 188,749,796	$ 152,988,182
Incurred losses	176,749,806	157,355,838	106,767,781
Allocated loss adjustment expenses	3,728,738	4,021,205	3,946,309
Unallocated loss adjustment expenses	8,345,065	7,171,522	6,892,285
General and administrative expenses	21,483,664	18,951,171	20,904,133
Total losses and expenses	210,307,274	187,499,736	138,510,508
Underwriting income	40,237,368	1,250,060	14,477,674
Investment and other income	85,615,640	163,672,818	131,049,117
Dividend expenses	(144,376,054)	(108,006,196)	(74,868,560)
Change in net assets	$ (18,523,048)	$ 56,916,682	70,658,231

Capital Assets

WSI's non-current assets include land, the Century Center office building, furniture, equipment, and construction in progress assets that are not yet operational. The backup generator project was completed in fiscal year 2012. The generator cost of $472.9 thousand was transferred from the construction in progress account to the building account. Additionally, two components of the computer replacement project, (FileNet and Smart Advisor), were implemented and transferred out of the construction in progress account and are being capitalized. The FileNet and Smart Advisor costs were $796.4 thousand and $375 thousand, respectively.

Approximately $1.45 million was expended for the policy component of the computer replacement system. This full amount was transferred out of construction in progress and has been expensed as this component is not expected to become operational under the current project. Work continues on the software system replacement project. After the adjustments discussed above, WSI's construction in progress account totaled $13.7 million on June 30, 2012. This compares to $13.9 million and $9.4 million on June 30, 2011 and June 30, 2010 respectively. Expenditures for fiscal year 2012, 2011, and 2010 were $2.4, $4.5 and $ 2.4 million respectively. A statement of changes in capital assets for fiscal year 2012, 2011, and 2010 can be found under Note 5 – Capital Assets.

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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 2012, WSI anticipates average statewide premium levels to increase by approximately 1.1%. This compares to the policy year 2011 increase of 0.6% and policy year 2010 increase of 3.3%.

WORKFORCE SAFETY & INSURANCE
BALANCE SHEETS
YEARS END JUNE 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 1,878,452	$ 1,668,707
Investments	1,424,782,915	1,343,817,539
Invested securities lending collateral	-	12,070
Premium receivable, net	38,623,176	27,782,417
Est. retro policy premium receivable, current	166,386	372,180
Other accounts receivable, net	3,438,315	1,085,883
Investment interest receivable	9,983,231	7,141,600
Prepaid expenses	589,488	1,022,974
Total current assets	1,479,461,963	1,382,903,370
NONCURRENT ASSETS		
Est. retro policy premium receivable, non-current	465,297	730,164
Land	901,974	901,974
Capital assets, net	11,857,600	9,326,667
Construction in progress	13,671,025	13,926,716
Total assets	$ 1,506,357,859	$ 1,407,788,891
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 4,733,543	$ 5,650,946
Due to other funds	243,067	201,594
Unearned premium	117,488,460	91,586,519
Dividend payable	142,387,877	102,000,000
Compensated absences payable	1,066,844	1,008,875
Securities lending collateral	-	12,070
Unpaid loss and LAE	103,877,400	101,750,000
Total current liabilities	369,797,191	302,210,004
NONCURRENT LIABILITIES		
Compensated absences payable, net of current	188,266	178,037
Unpaid loss and LAE, discounted at 5%	761,767,600	712,273,000
Total non-current liabilities	761,955,866	712,451,037
Total liabilities	1,131,753,057	1,014,661,041
NET ASSETS		
Invested in capital assets, net of related debt	26,430,599	24,155,357
Unrestricted	348,174,203	368,972,493
Total net assets	374,604,802	393,127,850
Total liabilities and net assets	$ 1,506,357,859	$ 1,407,788,891

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Net premiums earned	$ 250,544,641	$ 188,749,796
Penalties and finance charges	1,610,055	1,681,049
Third party subrogation recoveries	759,408	1,715,697
Rental operations	742,222	710,286
Miscellaneous	21,194	293,308
Total operating revenues	253,677,520	193,150,136
OPERATING EXPENSES		
Incurred losses	188,823,610	168,548,565
Payroll and benefits	18,097,199	16,668,282
Other administrative expenses	2,015,070	1,580,222
Bad debt expense	321,334	445,851
Depreciation expense	1,050,061	256,816
Total operating expenses	210,307,274	187,499,736
OPERATING REVENUE	43,370,246	5,650,400
NONOPERATING REVENUES (EXPENSES)		
Interest and investment revenue	58,620,119	67,592,645
Investment expenses	(4,571,288)	(5,128,821)
Securities lending investment revenue	5,619	96,712
Securities lending expenses	1,749	23,442
Net increase in fair value of investments	28,426,563	96,688,500
Dividend credit expense	(144,376,056)	(108,006,196)
Net non-operating revenues (expenses)	(61,893,294)	51,266,282
CHANGE IN NET ASSETS	(18,523,048)	56,916,682
TOTAL NET ASSETS, BEGINNING OF YEAR	393,127,850	336,211,168
TOTAL NET ASSETS, END OF YEAR	$ 374,604,802	$ 393,127,850

See Notes to Financial Statements

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from employers	$ 172,432,112	$ 135,091,860
Receipts from other funds	2,664,594	2,643,228
Receipts from others	2,995,579	3,871,927
Payments to medical providers	(80,263,679)	(77,279,823)
Payments to injured workers	(55,128,639)	(47,953,349)
Payments to employers	(4,653,652)	(4,173,003)
Payments to employees	(13,244,279)	(12,283,255)
Payments to other funds	(1,915,289)	(1,870,640)
Payments to others	(17,856,315)	(13,415,845)
Net cash provided (used) by operating activities	5,030,432	(15,642,984)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(4,776,240)	(4,559,873)
Write off of AIM Policy program component	1,450,936	-
Net cash (used) by financing activities	(3,325,304)	(4,559,873)
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to pooled investments	(19,495,383)	(7,992,851)
Withdrawals from pooled investments	18,000,000	28,500,000
Net cash provided (used) in investing activities	(1,495,383)	20,507,149
NET INCREASE IN CASH AND CASH EQUIVALENTS	209,745	304,291
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,668,707	1,364,416
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,878,452	$ 1,668,707

SCHEDULE OF OTHER NONCASH ACTIVITIES		
Net increase in fair value of investments	$ 28,426,564	$ 96,688,500
Change in securities lending collateral	(12,070)	(20,828,822)
Investment revenue	57,073,584	62,226,272
Dividends credited to premium billings	103,988,177	82,506,196
Account receivable premium reductions	(103,988,177)	(82,506,196)

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	2012	2011
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	**$ 43,370,246**	**$ 5,650,400**
Adjustments to reconcile operating revenue to net cash provided (used) by operating activities		
Depreciation expense	**1,050,061**	**256,816**
Dividend credits applied to receivables	**(144,376,056)**	**(108,006,196)**
Change in assets and liabilities		
Decrease (increase) in premium receivable	**(10,840,759)**	**3,678,825**
Decrease (increase) in retrospective premium receivable	**470,661**	**549,297**
Decrease (increase) in other accounts receivable	**(2,352,432)**	**78,058**
Decrease (increase) in due from other state agencies	**-**	**10,606**
Increase (decrease) in prepaid expenses	**433,486**	**(425,914)**
Increase (decrease) in accounts payable	**(746,265)**	**1,636,541**
Increase (decrease) in due to other state agencies	**41,473**	**122,720**
Increase in dividend payable	**40,387,878**	**25,500,000**
Increase in unearned premium	**25,901,941**	**13,266,410**
Increase in compensated absences payable	**68,198**	**111,453**
Increase in unpaid loss and LAE	**51,622,000**	**41,928,000**
Net cash provided (used) by operating activities	**$ 5,030,432**	**$ (15,642,984)**

WORKFORCE SAFETY & INSURANCE
STATEMENT OF APPROPRIATIONS
YEARS ENDED JUNE 30, 2012 AND 2011

	Approved 2011-13 Biennial Appropriation	Expenditures 2012	Expenditures 2013	Unexpended Appropriation
APPROPRIATED EXPENDITURES	$ 58,413,293	$ 24,979,975	$ -	$ 33,433,318
CONTINUING APPROPRIATIONS				
Building operations	-	698,877	-	-
Reinsurance	-	4,574,324	-	-
Other states coverage	-	750,000	-	-
Litigation collection costs	-	111,025	-	-
Safety programs	-	5,154,258	-	-
Employer fraud	-	32,398	-	-
Provider fraud	-	105,000	-	-
Total*	$ 58,413,293	$ 36,405,857	$ -	$ 33,433,318

*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.

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.

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. In accordance with Governmental Accounting Standards Board Statement No. 20, WSI follows all applicable GASB pronouncements as well as following Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

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

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.

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 the enterprise fund are premiums earned. 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.

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 Assets - 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. Fair value is, *"the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale."* 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.

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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.

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 $2,000,000 at June 30, 2012 and $500,000 at June 30, 2011. Premium receivables also include an estimate of premiums that have yet to be billed at year-end, but will be billed in subsequent periods.

Retrospective Premium Receivables are adjusted each year in accordance with the policy.

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 $2,000,000 at June 30, 2012 and $4,000,000 at June 30, 2011.

Prepaid Expenses

Payments made to vendors which exceed $12,000 per year, for services that will benefit periods beyond June 30, 2012 and 2011 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 North Dakota Century Code.

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

Due to Other Funds

During the course of operations, numerous transactions occur between other state agencies for goods provided or services rendered. These payables are classified "Due to other funds" on the statement of net assets in the period for which the 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 North Dakota Century Code. 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 North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the State is liable for 10 percent 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.

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 year-end.

Unpaid Loss and Loss Adjustment Expenses (LAE)

The liability for unpaid loss and loss adjustment expenses (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 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.

Reclassifications

Certain accounts in the prior year have been reclassified for comparative purposes to conform to the presentation in the current year. The amounts involved are immaterial and the change in presentation has no effect on net assets.

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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, 2012 and 2011 are presented below:

	2012	2011
Administrative expenses on an appropriations basis	**$ 36,405,857**	**$ 32,457,954**
Reconciling adjustments		
Fixed asset additions	**(3,325,304)**	**(4,559,873)**
Payroll and benefits	**(18,097,199)**	**(16,668,282)**
Unallocated loss adjustment expense	**(8,345,065)**	**(7,171,522)**
Increase in compensated absences payable	**68,198**	**111,453**
Sublease revenue	**-**	**(2,296)**
Increase in administrative payable	**(93,793)**	**618,823**
Decrease in prepaid expenses	**433,486**	**(425,914)**
Refund of prior biennium expenses	**(4,455)**	**-**
Credit card and student loan admin fees	**302,154**	**274,084**
Ceded reinsurance premium	**(5,328,808)**	**(3,054,205)**
Administrative expenses on a GAAP basis	**$ 2,015,071**	**$ 1,580,222**

NOTE 3 – CASH DEPOSITS AND INVESTMENT SECURITIES

Deposits

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

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 $1,878,452 on June 30, 2012 and $1,668,707 on June 30, 2011. Bank balances for June 30, 2012 and June 30, 2011 were $5,902,920 and $4,627,589, 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.

Investments

The fair value of WSI's investments for June 30, 2012 and 2011 is as follows:

	2012	2011
Fair value of investments		
Domestic equity securities	**$ 193,615,880**	**$ 180,521,510**
International equity securities	**81,672,559**	**96,093,407**
Fixed income	**1,039,343,979**	**959,797,550**
Real estate	**95,897,221**	**82,953,635**
Cash pool	**14,253,276**	**24,451,437**
Securities lending collateral	**-**	**12,070**
Total	**$ 1,424,782,915**	**$ 1,343,829,609**

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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.

The SIB administers the portfolio according to WSI's investment allocation policy. The SIB selects money managers and monitors performance on a continual basis. WSI updated its investment allocation in fiscal year 2010 to a mix with 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 SIB. The pool is not rated.

The following investments represent 5 percent or more of total investments as of June 30, 2012 and 2011:

INVESTMENT	FAIR VALUE JUNE 2012	%	FAIR VALUE JUNE 2011	%
Domestic Fixed Income				
Western Asset	$ 197,814,080	13.8%	$ 243,120,636	18.0%
Bank of ND	105,460,453	7.4%	97,073,145	7.2%
Wells Capital	266,993,121	18.6%	241,712,279	17.9%
Inflation Protected Assets				
Western Asset	167,963,320	11.7%	177,173,275	13.1%
Real Estate				
JP Morgan	96,837,622	6.7%	82,953,667	6.1%

Interest Rate Risk

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

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Segmented Time Distribution Duration (in thousands)	Fair Value	Less Than 1 year	1-6 Years	6-10 Years	Over 10 years	Not Determined
Asset backed securities	$ 21,814	$ -	$ 2,807	$ 2,765	$ 16,242	$ -
Bank loans	1,836	-	1,502	333	-	-
Collateralized Bonds	444	-	-	444	-	-
Commercial mortgage-backed	23,398	199	205	-	22,993	-
Corporate bonds	356,536	9,200	120,975	111,836	114,483	42
Corporate convertible bonds	2,353	2,353	-	-	-	-
Government agencies	35,143	2,239	16,385	6,048	10,471	-
Government bonds	95,514	2,456	36,928	23,696	32,434	-
Government mortgage & commercial backed	53,985	-	996	3,216	49,772	-
Guaranteed fixed income	3,089	3,089	-	-	-	-
Index linked government bonds	1,469	-	-	-	1,469	-
Municipal/provincial bonds	9,600	-	2,305	233	7 063	-
Nongovernmental backed CMO's	11 127	-	104	1,083	9 940	-
Other fixed income	2,795	227	2,568	-	-	-
Short term bills and notes	190	190	-	-	-	-
Pooled investments	311,121	-	142,355	803	167,963	-
Total debt securities	$930,414	$19,953	$ 327,130	$ 150,457	$ 432,830	$ 42

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Foreign Currency Risk

WSI is invested in an external investment pool managed by the SIB. A table detailing WSI's portion of the investment pool is reported below.

Foreign Currencies (in thousands)	Short Term	Debt	Equity	Total
Australian dollar	$ 459	$ (6)	$ 3,389	$ 3,842
Brazilian real	-	-	57	57
British pound sterling	221	1	13,193	13,415
Canadian dollar	288	5	1,250	1,543
Czech koruna	129	-	-	129
Israeli shekel	3	-	506	509
Danish krone	14	-	521	535
Euro	(761)	728	16,609	16,576
Hong Kong dollar	7	-	2,300	2,307
Hungarian forint	187	3	-	190
Japanese yen	(352)	-	13,728	13,376
Mexican peso	190	42	-	232
New Zealand dollar	392	26	-	418
Norwegian krone	285	6	754	1,045
Polish zloty	286	9	-	295
Singapore dollar	352	1	862	1,215
South African rand	53	142	-	195
South Korean won	-	-	525	525
Swedish krona	324	1	1,980	2,305
Swiss franc	-	-	5,515	5,515
Turkish lira	(292)	520	-	228
International commingled funds (various currencies)	-	-	16,859	16,859
Total securities subject to foreign currency risk	$ 1,785	$ 1,478	$78,048	$81,311

Securities Lending

GASB Statement No. 28, *"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.

The investment pool managed by the North Dakota Retirement and Investment Office, which manages WSI's investments, enters into security lending transactions. 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 fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. Currently, WSI is not participating in any security lending transactions.

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The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. This relationship was terminated by the SIB at its May 20, 2011, meeting. The Agent was requested to call back all securities on loan and liquidate the collateral in a timely yet orderly fashion. All but one loan was recalled and collateral liquidated as of June 30, 2011.

The State Investment Board (SIB) did not have a securities lending program in place during the fiscal year ended June 30, 2012. Income and expenses from securities lending activity appearing on the financial statements represent final activity from June, 2011, not recorded until July, 2011. Therefore, the fair value of the securities on loan were zero, compared to the June 30, 2011 total of approximately $12,070.

NOTE 4 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

WSI extends short-term credit to its customers, of whom most are located within the state of North Dakota.

NOTE 5 – CAPITAL ASSETS

A statement of changes in capital assets for the year ended June 30, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in progress	13,926,716	2,839,450	(3,095,142)	13,671,024
Total capital assets, not being depreciated	14,828,690	2,839,450	(3,095,142)	14,572,998
Capital assets, being depreciated				
Building	11,001,350	472,818	-	11,474,168
Furniture and equipment	1,697,354	6,409	(887,138)	816,625
Intangibles				
Software	-	3,101,767	-	3,101,767
Less accumulated depreciation for				
Building	(1,757,768)	(222,390)	-	(1,980,158)
Furniture and equipment	(1,614,269)	(429,175)	887,138	(1,156,306)
Intangibles				
Software	-	(398,495)	-	(398,495)
Total capital assets, being depreciated, net	9,326,667	2,530,934	-	11,857,601
Total capital assets, net	$ 24,155,357	$ 5,370,384	$ (3,095,142)	$ 26,430,599

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A statement of changes in capital assets for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in progress	9,425,985	4,500,731	-	13,926,716
Total capital assets, not being depreciated	10,327,959	4,500,731	-	14,828,690
Capital assets, being depreciated				
Building	11,001,350	-	-	11,001,350
Furniture and equipment	1,659,882	59,142	(21,670)	1,697,354
Less accumulated depreciation for				
Building	(1,537,741)	(220,027)	-	(1,757,768)
Furniture and equipment	(1,599,150)	(36,789)	21,670	(1,614,269)
Total capital assets, being depreciated, net	$ 9,524,341	$ (197,674)	$ -	$ 9,326,667
Total capital assets, net	$ 19,852,300	$ 4,303,057	$ -	$ 24,155,357

NOTE 6 – DUE FROM (TO) OTHER STATE AGENCIES

There were no amounts due from other State of North Dakota agencies at June 30, 2012 and 2011.

The following is a detail of amounts due to other State of North Dakota agencies at June 30, 2012 and 2011:

DUE TO	2012	2011
Central Services	$ 2,907	$ -
Dept. of Transportation	14,009	-
Information Technology	75,135	94,333
Office of Administrative Hearing	15,275	12,727
Office of the Attorney General	267	325
Office of Management & Budget	135,474	94,149
PERS	-	60
Total	$ 243,067	$ 201,594

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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, 2012 and 2011. 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, 2012 and 2011, the actuary 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 2012	**Low**	**Expected Value**	**High**
Full value basis, undiscounted	$ 1,352,534	$ 1,465,304	$ 1,584,715
Present value basis, discounted at 5%	797,918	865,645	939,281

WSI recorded the actuary's estimate for unpaid loss and LAE of $865,645,000.

FY 2011	**Low**	**Expected Value**	**High**
Full value basis, undiscounted	$ 1,299,767	$ 1,360,619	$ 1,493,369
Present value basis, discounted at 5%	776,081	814,023	892,190

WSI recorded the actuary's estimate for unpaid loss and LAE of $814,023,000.

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)	
	2012	**2011**
Beginning balance	**$ 814,023**	**$ 772,095**
Incurred losses and loss adjustment expenses (LAE)		
Provision for current fiscal year	**157,587**	**134,838**
Change in provision for prior fiscal years	**80,357**	**34,978**
Payments attributable to		
Current fiscal year	**(44,224)**	**(38,596)**
Prior fiscal years	**(89,035)**	**(84,247)**
Change in provision for liability discount	**(53,063)**	**(5,045)**
Ending balance	**$ 865,645**	**$ 814,023**

NOTE 8 – 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.

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WSI's annual reinsurance premium for the three year coverage period beginning December 1, 1999 and ending November 30, 2002 was $1.1 million, $1.1 million, and $2.5 million respectively. WSI’s retention for losses incurred between December 1, 1999 and November 30, 2001 is $500,000. For losses incurred from December 1, 2001 through November 30, 2002, WSI’s retention is $1,000,000. The cumulative amounts recovered on paid losses at June 30, 2012 and 2011 were $6.3 million and $5.6 million respectively. The amounts recoverable on pending losses at June 30, 2012 and 2011 were $31.7 million and $30.4 million respectively.

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 until recently. In 2009, WSI issued a RFP to determine if reinsurance was again practical. Working with an intermediary, Guy Carpenter, WSI re-entered the reinsurance market with catastrophic coverage effective January 1, 2010, offering protection for losses occurring during the 2010 calendar year that exceed the first layer of reinsurance at $5 million as well as the second $10 million dollar layer.

In 2011, WSI renewed its contract with the reinsurance intermediary, Guy Carpenter, and purchased three layers of catastrophic coverage for losses occurring during calendar year 2011. The first layer protects against claims that exceed $3 million dollars; the second layer for claims that exceed $5 million and the third layer for claims which exceed the $10 million.

In 2012, WSI continued its reinsurance coverage adding one additional layer to protect against claims that exceed $20 million. WSI deems this protection essential due to the types of industries which continue to enter and expand within the state. Terms, limits, and pricing are re-evaluated annually.

NOTE 9 – 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 10 – 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 $176,264 for fiscal year 2012 and $163,886 for fiscal year 2011.

The following is a schedule of future minimum lease payments required under the operating leases.

Year Ending June 30,	
2013	$ 185,256
2014	92,871
2015	59,884
2016	37,050
	$ 375,061

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NOTE 11 – 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 $1,255,110 and $1,186,912 on June 30, 2012, and June 30, 2011 respectively. This balance includes the employer's share of FICA taxes.

	FY 2012 Beginning Balance	Additions	Reductions	FY 2012 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	$ 1,186,912	$ 1,021,564	$ 953,366	$ 1,255,110	$ 1,066,844

	FY 2011 Beginning Balance	Additions	Reductions	FY 2011 Ending Balance	Amount Due Within One Year
Other long-term liabilities					
Compensated absences	$ 1,075,459	$ 963,553	$ 852,100	$1,186,912	$ 1,008,875

WSI's employee turnover rate for fiscal year 2012 and 2011 were 6.8% and 4.6% respectively.

NOTE 12 – PENSION PLANS

WSI participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan

PERS is a cost-sharing multiple-employer defined benefit pension plan covering most classified employees of the WSI. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credit service, a death benefit equal to the value of the employees' accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee'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 employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

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Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credit service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a *"salary reduction"* agreement. WSI has implemented a salary reduction agreement and is currently contributing the employees' shares. WSI is required to contribute 4.12% of each participant's salary as the employer's share. 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. WSI's required and actual contributions to PERS defined benefit pension plan for the fiscal years ended June 30, 2012, 2011 and 2010 were $628,146, $504,099,and $528,019 respectively.

PERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. 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.

Defined Contribution Retirement Plan

The North Dakota Defined Contribution Retirement Plan (Plan) is a defined contribution plan 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 North Dakota Century Code. The Plan covers state employees who are in positions not classified by the State of North Dakota Human Resource Management Division. 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 state statute. In January 2012, member contributions were established at 5% and employer contribution were established at 5.12%. Employees are contributing 1% and WSI is paying the remaining portion of the member contribution. In January 2013, member and employer contributions will each be increased by 1% to 6% and 6.12% respectively. At this time, employees will contribute two percent with WSI paying the remainder of the member contribution. In fiscal year 2011, member contributions were established at 4% and employer contributions were established at 4.12% of regular compensation with WSI paying the full portion of the member contribution.

Contributions made to the Plan, by the members and WSI, for the years ending June 30, 2012, 2011 and 2010 totaled $558,133, $506,356 and $546,396 respectively.

NOTE 13 – POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan for Employees of WSI 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 ending June 30, 2012, 2011 and 2010 were $148,334, $138,602, and $116,028, respectively. The 61st Legislative Assembly increased the contribution percentage from 1.00% to 1.14%, effective August 1, 2009.

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NOTE 14 – 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 assets.

NOTE 15 – 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% of the replacement cost on 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 16 – SIGNIFICANT LEGISLATIVE CHANGES

Fiscal year 2012 was a non-legislative year so no new legislation was enacted. The following list indicates significant legislative changes for WSI that were enacted by the 2011 Legislative Assembly.

- 2011 HB 1050 established a vocational rehabilitation grant program.
- 2011 HB 1051 provided up to two years of benefits for workers injured within two years of their presumed retirement date.
- 2011 HB 1055 provided that the organization move from the 5th to 6th edition of the AMA Guides for evaluating impairment awards; reduced the threshold for percentage of whole body impairment to qualify for a PPI award; increased permanent partial impairment awards (multipliers) for the lower impairment levels; and increased the PPI benefit rate.
- 2011 HB 1056 required the independent performance evaluation conducted by workers' compensation industry experts to be conducted every four years rather than every two years.
- 2011 HB 1453 increased the real estate remodeling allowance from $50,000 to $75,000.
- 2011 SB 2021 provided WSI's appropriation for the 2011-13 biennium.
- 2011 SB 2114 expanded eligibility for the scholarship program; increased the annual cap that the organization can award in scholarships from $300,000 to $500,000; increased the maximum scholarship amount payable per applicant from $4,000 per year to $10,000 per year; streamlined the personal reimbursement process for injured workers; and expanded eligibility for the educational revolving loan fund.

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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 office space to 6 tenants in their main office building at 1600 East Century Avenue, Bismarck, ND. These six 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 and again on July 1, 2011. All tenants have renewed their leases with a term of July 1, 2011 through June 30, 2013 as provided below:

	Monthly Rent	Annual Rent
ND Council on the Arts	$ 1,607	$ 19,280
ND Department of Commerce	19,162	229,941
ND Human Services Child Support	9,433	113,194
ND Human Services Provider Audit	1,909	22,910
ND OMB Risk Management	1,869	22,425
ND Parks & Recreation	6,873	82,472
Total	$ 40,853	$ 490,222

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 prior years premium.

The 2009 Legislative Assembly modified this statute via 2009 HB1035. The legislation defined "available surplus" as net assets 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 $340,649,204 plus discounted reserve liabilities on June 30, 2012 equals 139% of the actuarial discounted reserve of $865,645,000. This compares to available surplus of $366,653,388 plus discounted reserve liabilities on June 30, 2011 which equal 145% of the actuarial discounted reserve of $814,023,000. WSI did grant the maximum dividend credit of 50% to be applied to the 2012-13 policy year.

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	Actual June 2010	Actual June 2011	Actual June 2012
NET ASSETS or "SURPLUS"	**$ 336,211,167**	**$ 393,127,850**	**$ 374,604,802**
Estimated Discounted Financial Reserves	**772,095,000**	**814,023,000**	**865,645,000**
Net Assets (Surplus)	**$ 336,211,167**	**$ 393,127,850**	**$ 374,604,802**
2009 HB 1035 Allowable Deductions from Net Assets (Surplus)			
Safety & Education Grants	10,638,262	8,561,019	18,406,760
Revolving School Loan Fund	14,954,324	14,877,759	14,842,186
ITTP/AIM Update	4,581,674	3,035,684	706,652
Total Exclusions from Net Assets (Surplus)	**30,174,260**	**26,474,462**	**33,955,598**
Available Fund Surplus	**$ 306,036,907**	**$ 366,653,388**	**$ 340,649,204**
	39.6%	**45.0%**	**39.4%**

NOTE 20 – 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.

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.

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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 expenses are charged directly to the claim as allocated loss adjustment expenses. 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 - The 2005 Legislative Assembly authorized 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; thus the expenditures include only those items that are a direct benefit to WSI's customers and North Dakota's workforce.

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.

NDCC 65-02-13.1 Reinsurance - This statue 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.

NOTE 21 – COMMITMENT

WSI has entered into contracts with multiple companies for a software system replacement project. The estimated total cost for these contracts is $17.8 million, of which $16.3 million has been expended as of June 30, 2012.

NOTE 22 – CONTINGENCY

In February 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds.

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Investors were offered two options: invest directly in WG Trading Company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulations, capital requirements, and reporting and oversight; whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets *pro rata* to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The court agreed with the receiver's distribution plan and in April, 2011, the recovered assets were distributed to all investors in a *pro rata* distribution based on net investment balances. The SIB received a total distribution of $63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. WSI's remaining investment was approximately $12.5 million and WSI's share of this distribution was $10.6 million. WSI's realized loss of $1.9 million is included in the June 30, 2011 financial statements.

The SIB does not agree with the method used to distribute the assets, and along with the other WGTC limited partners is appealing the District Court's ruling. It is the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2012 or 2011.

Tribune

Along this same line, the SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296.

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid $34 a share. The Official Committee of Unsecured Creditors (the "Committee") contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB's records indicate that it received, in the aggregate, $1,003,000 in Tribune leveraged buyout payments, comprised of two separate payments.

WSI is connected to this litigation as WSI owned a percentage of the manager account that held the Tribune security. WSI's associated risk is less than $140,000.

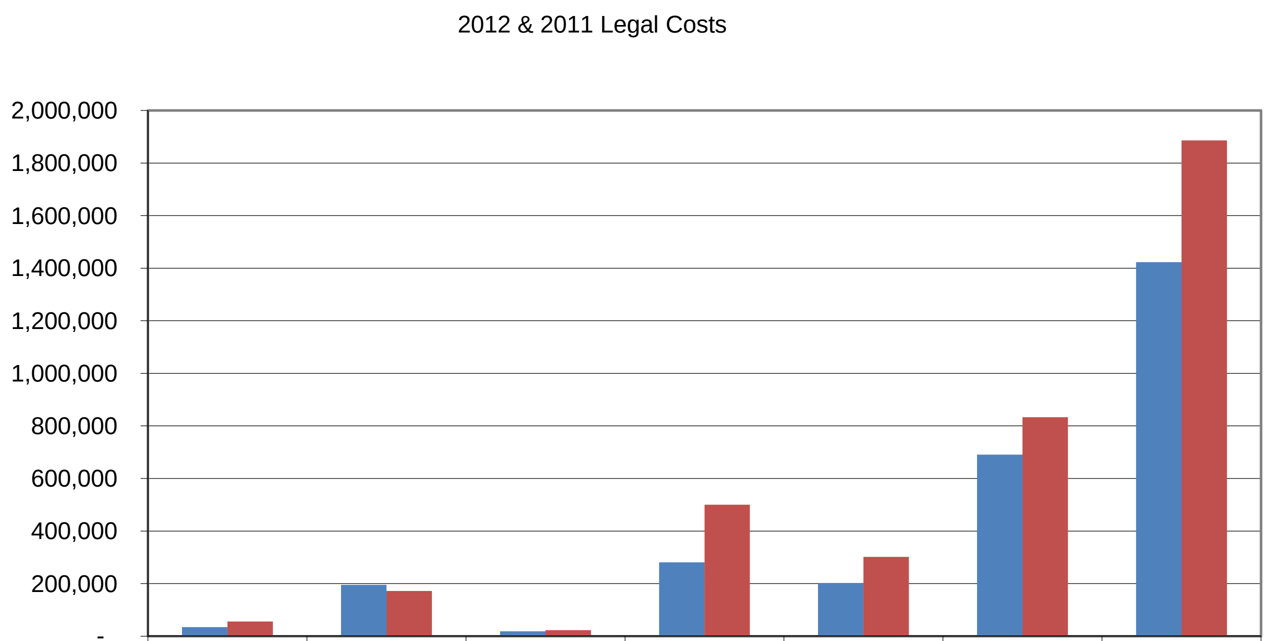
WORKFORCE SAFETY & INSURANCE
REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION
JUNE 30, 2012

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.

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1.	Net earned required contribution and investment revenues	$ 175,459	$ 194,499	$ 193,237	$ 148,161	$ 220,949	$ 165,637	$ 48,033	$ 288,949	$ 357,528	$340,730
2.	Unallocated expenses	22,301	20,612	25,351	33,023	40,011	40,662	30,944	32,709	29,997	33,321
3.	Estimated incurred claims and expense, end of policy year	92,605	102,960	110,710	105,264	120,109	131,380	168,964	160,265	191,795	230,158
4.	Paid (cumulative) as of										
	End of policy year	18,586	20,379	22,156	20,511	20,985	26,584	32,054	30,861	38,596	44,224
	One year later	32,776	36,106	34,447	35,796	37,151	46,708	54,795	52,410	65,249	
	Two years later	37,938	41,503	39,012	41,392	43,292	53,511	63,358	59,515		
	Three years later	40,884	45,710	42,288	45,829	47,083	57,571	69,606			
	Four years later	43,501	48,890	45,200	49,386	50,343	60,452				
	Five years later	45,956	52,015	47,689	52,689	52,435					
	Six years later	48,329	54,230	49,784	55,187						
	Seven years later	50,352	56,138	51,279							
	Eight years later	52,077	53,746								
	Nine years later	56,328									
5.	Re-estimated incurred claims and expense										
	End of policy year	92,605	102,960	110,710	105,264	120,109	131,380	168,964	160,265	191,795	230,158
	One year later	93,920	103,130	104,186	112,278	119,100	140,328	157,106	151,411	192,257	
	Two years later	92,680	98,620	99,532	113,408	120,358	132,931	153,098	147,853		
	Three years later	88,587	100,363	100,733	116,475	110,135	128,652	149,683			
	Four years later	90,270	105,675	100,789	109,622	107,711	126,087				
	Five years later	91,030	104,774	101,405	110,026	105,446					
	Six years later	91,937	104,216	98,409	108,713						
	Seven years later	93,926	103,287	97,333							
	Eight years later	93,086	102,836								
	Nine years later	93,922									
6.	Change in estimated incurred claims and expense from end of policy year	$ 1,317	$ (124)	$ (13,377)	$ 3,449	$ (14,663)	$ (5,293)	$ (19,281)	$ (12,412)	$462	-

WORKFORCE SAFETY & INSURANCE
SCHEDULE OF ATTORNEY FEES AND COSTS
JUNE 30, 2012 AND 2011

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 2012 and 2011 were $1,885,985 and $1,422,683 respectively. These costs are included as a portion of incurred losses within the "Statements of Revenues, Expenses and Changes in Fund Net Assets" 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 2011	34,373	195,120	18,647	281,101	202,493	690,949	1,422,683
Fiscal Year 2012	56,043	171,918	22,744	500,369	301,926	832,985	1,885,985

INDENDENT 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*

Governor of North Dakota
The Legislative Assembly

The Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of Workforce Safety & Insurance, as of and for the year ended June 30, 2012, which collectively comprise Workforce Safety & Insurance's basic financial statements and have issued our report thereon dated November 9, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Workforce Safety & Insurance is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Workforce Safety & Insurance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Workforce Safety & Insurance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Workforce Safety & Insurance's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Workforce Safety & Insurance's financial statements are free of 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*.

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

BRADY, MARTZ & ASSOCIATES, P.C.

November 9, 2012

INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE YEAR ENDED JUNE 30, 2012

Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

Audit Report Communications:

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

   An unqualified opinion was issued on the 2012 *financial statements.*

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

   Yes

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

   Yes

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

   No

5. **Has action been taken on findings and recommendations included in prior year audit reports?**

   No prior year findings.

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

   No

Audit Committee Communications:

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

   None.

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 significant estimates to the financial statements is the liability for unpaid loss and loss adjustment expenses (LAE). The LAE amount 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 computations also include a 5% discount to report this liability at its estimated present value. We, as auditors of WSI, have a third party actuary review the estimate 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 calculations used in determining the estimate to ensure the estimate is reasonable.

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), Policy Holder Services (PICS), and Mitchell Smart Advisor databases 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 North Dakota Industrial Commission, 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.

BRADY, MARTZ & ASSOCIATES, P.C.

November 9, 2012

INDEPENDENT AUDITOR'S COMMUNICATION TO THE AUDIT COMMITTEE OF WORKFORCE SAFETY & INSURANCE

To the Audit Committee
Workforce Safety & Insurance
Bismarck, North Dakota

We have audited the financial statements of the business-type activities of Workforce Safety & Insurance, a department of the State of North Dakota for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you on June 19, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Workforce Safety & Insurance are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimates affecting the financial statements were:

> One of the most sensitive estimates is the liability for unpaid loss and loss adjustment expenses (LAE). The LAE amount 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 computations also include a 5% discount to report this liability at 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 calculations used in determining the estimate to ensure the estimate is reasonable.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 9, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This letter is intended solely for the information and use of the audit committee, Legislative Audit and Fiscal Review Committee, management and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

November 9, 2012