Financial Statements
June 30, 2013 and 2012

Workforce Safety & Insurance

WORKFORCE SAFETY & INSURANCE

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the business-type activities of the Workforce Safety & Insurance, a department of the State of North Dakota, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Workforce Safety & Insurance's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

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, 2013, and the respective change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 1 to the financial statements, Workforce Safety & Insurance adopted the provisions of GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The opinion is not modified with the implementation of this GASB Statement.

As discussed in Note I, the financial statements of ND Workforce Safety and Insurance, an agency of the State of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of ND Workforce Safety and Insurance. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2013, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of Workforce Safety & Insurance as of June 30, 2012, were audited by other auditors, whose report dated November 9, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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 American, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of Workforce Safety & Insurance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Workforce Safety & Insurance's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
October 11, 2013

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, 2013, 2012, and 2011. We encourage readers to consider the information presented here in conjunction with the entire financial statement package and the notes to those statements, which follow this section.

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

Overview of Financial Statements

WSI's basic financial statements include the 1) balance sheet, 2) statement of revenues, expenses and changes in fund net position, 3) statement of cash flows, and 4) statement of appropriations. The balance sheet provides readers the assets and liabilities of the fund, with the difference between the two considered net position. 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 position shows the operating performance of WSI for the fiscal year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The statement of cash flows answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year. The statement of appropriations shows WSI's expenditures in relationship to the biennial appropriation approved by the 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 15-35 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 36 and 37.

Financial Highlights

North Dakota has experienced significant growth over the past several years. In fiscal year 2013, WSI added just under 1,000 policyholders with an estimated total of 24,793 compared to 23,812 in fiscal year 2012. Over 2,400 policyholder accounts were added in fiscal year 2012, surpassing the fiscal year 2011 total of 2,155.

At June 30, 2013, June 30, 2012, and June 30, 2011 coverage extended to the following employers:

	2013	2012	2011
Annual premium $250 - $5,000	18,465	17,370	16,105
Annual premium $5,001 - $50,000	5,400	5,575	4,574
Annual premium $50,001 - $100,000	478	464	380
Annual premium over $100,000	450	403	316
Total policyholders	24,793	23,812	21,375

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Written premium for fiscal year 2013 totaled $350.9 million, a 19% increase over fiscal year 2012 written premium amount of $294 million. Fiscal year 2012's written premium amount increased 37% over the fiscal year 2011 total of $214 million.

Condensed Statement of Revenue & Expense

	2013	2012	2011
REVENUE			
OPERATING REVENUE			
Premium-net of discount and reinsurance premium	**$ 309,897,502**	**$ 250,544,641**	**$ 188,749,796**
Subrogation, penalties and finance charges	**9,586,147**	**2,369,463**	**3,396,746**
Building rental revenue	**742,222**	**742,222**	**710,286**
Other revenue	**11,923**	**21,194**	**293,308**
	320,237,794	**253,677,520**	**193,150,136**
NONOPERATING REVENUE			
Earnings (losses) on investments	**123,246,187**	**87,052,301**	**164,377,857**
Total revenues	**443,483,981**	**340,729,821**	**357,527,993**
EXPENSES			
OPERATING EXPENSE			
Incurred losses and loss adjustment expense	**272,288,784**	**188,823,610**	**168,548,565**
Payroll and employee benefits	**19,131,897**	**18,097,199**	**16,668,282**
Other administrative expense	**572,017**	**2,015,070**	**1,580,222**
Bad debt expense	**3,177,546**	**321,334**	**445,851**
Depreciation expense	**1,029,313**	**1,050,061**	**256,816**
	296,199,557	**210,307,274**	**187,499,736**
NONOPERATING EXPENSE			
Investment and other expense	**4,816,984**	**4,569,539**	**5,105,379**
Dividend expense	**147,585,337**	**144,376,056**	**108,006,196**
	152,402,321	**148,945,595**	**113,111,575**
SPECIAL ITEM			
Impairment of computer system	**14,728,630**		
Total expenses	**463,330,508**	**359,252,869**	**300,611,311**
Change in net position	**$ (19,846,527)**	**$ (18,523,048)**	**$ 56,916,682**

WSI's financial position continues to remain strong. Business activity increased again in fiscal year 2013. Earned premium net of discounts and reinsurance totaled $310 million, $251 million, and $189 million for fiscal year 2013, 2012, and 2011, respectively. This is a 23% increase over fiscal year 2012 and a 33% increase over fiscal year 2011.

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WSI's investment portfolio yielded a year to date return of 8.32% (net of fees), a gain of $118 million. The year-to-date return for fiscal years 2012 and 2011 was 6.1% and 13.3%, respectively. WSI's average investment return for the five year period ending June 30, 2013 is 5.5% and the average ten year rate of return is 5.8%. WSI's estimated reserve liabilities are currently discounted at 5.0%.

In fiscal year 2013, the WSI Board of Directors recommended issuing a 50% dividend credit in accordance with North Dakota Century Code (NDCC) 65-04-02. The Governor of North Dakota approved this recommendation. This dividend credit is estimated to be $155 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 2012 and fiscal year 2011, which were estimated at $143 million and $102 million, respectively. WSI issued dividend credits in eight of the past nine years, for approximately $745 million.

This increase in the dividend credit is directly related to the increase of 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 $272 million in fiscal year 2013, an increase of $83 million or 44% over fiscal year 2012 total of $189 million. Fiscal year 2012 was $20 million or 12% more than the $169 million booked in fiscal year 2011. Consistent with the increased exposure (payroll) growth within the state, WSI is seeing an increase in both the frequency and severity of injuries.

Total claims filed in fiscal year 2013, 2012, and 2011 were 25,835, 24,643 and 21,693, respectively. The number of claims filed in fiscal year 2013 increased 5% over claims filed in fiscal year 2012. A much larger increase was seen in fiscal year 2012, with a 14% increase over claims filed in fiscal year 2011.

The dividend credit declared in June of 2013 is estimated at $155 million dollars. The actual dividend expense for fiscal year 2013 was decreased by $7 million, the estimated residual amount from the fiscal year 2012 dividend credit. The fiscal year 2012 dividend expense of $143 million reflects a revision of $1.9 million made to the prior year's (fiscal year 2011) 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 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 dividend payable amount of $162 million at June 30, 2013 includes an estimate of $7 million in dividend payable that has not yet been applied to fiscal year 2013 premium due to payroll reports and billings still being processed.

The allocation for premium bad debt expense was increased from $2,000,000 to $4,000,000 in FY 2013. Delinquent premium in active collections of $8.5 million at June 30, 2013, increased 80% over the $4.6 million stated on June 30, 2012. The $4.6 million was 39% higher than the $3.3 million amount from June 30, 2011. As more businesses come into the state, the industry mix is changing. Future collections may prove to be more difficult and costly as many of these new companies are based out of state. Actual premium bad debt expense was $367 thousand for fiscal year 2013 and $308 thousand for fiscal year 2012.

The allocation for other bad debt expense remained at $2,000,000, based on an analysis of the total amount outstanding. Actual other bad debt expense for fiscal year 2013 totaled $811 thousand compared to $821 thousand for fiscal year 2012.

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The net position as of June 30, 2013 equaled $355 million compared to $375 million on June 30, 2012 and $393 million on June 30, 2011. The net position as of June 30, 2013 represents approximately 37% of the actuarial discounted reserve liability of $959 million, compared to the net position as of June 30, 2012, which stood at approximately 43% of the actuarial discounted reserve liability of $866 million and the net position on June 30, 2011, which totaled 48% of the actuarial discounted reserve liability of $814 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 position, or surplus, to be considered available for dividend declaration.

This language allows the net position to be reduced by special project funding which has been legislatively approved, to arrive at available surplus. Following these guidelines, the available surplus as of June 30, 2013 was $329 million or 34% of the actuarial discounted reserve liability of $959 million. As of June 30, 2012 and June 30, 2011, the available surplus was 39% and 45%, respectively.

Condensed Change in Net Position

	2013	2012	2011
Beginning net position	**$ 374,604,802**	**$ 393,127,850**	**$ 336,211,168**
Change in net position	**(19,846,527)**	**(18,523,048)**	**56,916,682**
Ending net position	**$ 354,758,275**	**$ 374,604,802**	**$ 393,127,850**

WSI's total assets as of June 30, 2013 totaled $1.62 billion, an increase of $117 million, or 8% more than total assets on June 30, 2012 of $1.51 billion. Assets as of June 30, 2012 increased $99 million or 7% over the fiscal year 2011 total of $1.41 billion. These variances in total assets year over year are due to investment market fluctuations, increased premiums, and the issuance of premium dividend credits. The difference between assets and liabilities is reported on the balance sheet as net position, which is commonly referred to as fund surplus.

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.

(continued on next page)

Condensed Balance Sheets

	2013	2012	2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,263,369	$ 1,878,452	$ 1,668,707
Investments	1,549,403,051	1,424,782,915	1,343,817,539
Invested securities lending collateral	-	-	12,070
Premium receivables, net	47,882,157	38,789,562	28,154,597
Other accounts receivable, net	3,303,132	3,438,315	1,085,883
Investment interest receivable	8,374,246	9,983,231	7,141,600
Prepaid expenses	458,677	589,488	1,022,974
Total current assets	1,611,684,632	1,479,461,963	1,382,903,370
NON-CURRENT ASSETS			
Premium receivables, non-current	6,492	465,297	730,164
Premises, furniture and equipment	11,645,281	26,430,599	24,155,357
Total assets	$ 1,623,336,405	$ 1,506,357,859	$ 1,407,788,891
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 5,793,332	$ 6,043,454	$ 6,861,415
Unearned premium	141,890,596	117,488,460	91,586,519
Dividend payable	162,000,000	142,387,877	102,000,000
Securities lending collateral	-	-	12,070
Unpaid loss and LAE	115,045,080	103,877,400	101,750,000
Total current liabilities	424,729,008	369,797,191	302,210,004
NONCURRENT LIABILITIES			
Compensated absences, net	185,202	188,266	178,037
Unpaid loss & LAE, discounted at 5%	843,663,920	761,767,600	712,273,000
Total non-current liabilities	843,849,122	761,955,866	712,451,037
Total liabilities	1,268,578,130	1,131,753,057	1,014,661,041
NET POSITION			
Net investment in capital assets	11,645,281	26,430,599	24,155,357
Unrestricted	343,112,994	348,174,203	368,972,493
Total net position	354,758,275	374,604,802	393,127,850
Total liabilities and net position	$ 1,623,336,405	$ 1,506,357,859	$ 1,407,788,891

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

The fiscal year 2013 underwriting income of $13.7 million is $26.5 million less than the fiscal year 2012 total of $40 million. The fiscal year 2012 amount reflected a significant increase in earned premium due to the economic growth occurring in the state. This growth is still evident but is beginning to stabilize. Both fiscal year 2013 and fiscal year 2012 reflect a decrease in net position. This is a result of the increase in the dividend credit expense.

Condensed Underwriting and Investment Analysis

	2013	2012	2011
Net premium earned	$ 309,897,502	$ 250,544,641	$ 188,749,796
Incurred losses	259,587,224	176,749,806	157,355,838
Allocated loss adjustment expenses	3,788,293	3,728,738	4,021,205
Unallocated loss adjustment expenses	8,913,267	8,345,065	7,171,522
General and administrative expenses	23,910,773	21,483,664	18,951,171
Total losses and expenses	296,199,557	210,307,274	187,499,736
Underwriting income	13,697,945	40,237,368	1,250,060
Investment and other income	128,769,495	85,615,640	163,672,818
Dividend expenses	(147,585,337)	(144,376,054)	(108,006,196)
Special Item --			
Impairment loss	(14,728,630)	-	-
Change in net position	$ (19,846,527)	$ (18,523,048)	$ 56,916,682

Capital Assets

WSI's non-current assets include land, the Century Center office building, furniture, and equipment. The recording of the $14.5 million impairment loss from the new computer system reduced the construction-in-progress account to zero. An additional $261 thousand was written off as the component billing system, Smart Advisor, was removed from the fixed asset account. A statement of changes in capital assets for fiscal year 2013, 2012, and 2011 can be found under Note 5 – Capital Assets.

Economic Factors and Next Year's Budget and Rates

WSI is a proprietary enterprise fund and does not receive any general fund dollars. Workers compensation premium and investment returns are the main sources of revenue. To ensure solvency of the fund, premium rates are actuarially established on an annual basis by external actuarial consultants. For policy year 2013, WSI anticipates average statewide premium levels to decrease by approximately 0.7%. This compares to the policy year 2012 increase of 1.1% and policy year 2011 increase of 0.6%.

WORKFORCE SAFETY & INSURANCE
BALANCE SHEETS
YEARS ENDED JUNE 30, 2013 AND 2012

ASSETS	**2013**	**2012**
CURRENT ASSETS		
Cash and cash equivalents	$ 2,263,369	$ 1,878,452
Investments	1,549,403,051	1,424,782,915
Premium receivable, net	47,882,157	38,623,176
Estimated retro policy premium receivable, current	417,126	166,386
Other accounts receivable, net	2,886,007	3,438,315
Investment interest receivable	8,374,245	9,983,231
Prepaid expenses	458,677	589,488
Total current assets	1,611,684,632	1,479,461,963
NONCURRENT ASSETS		
Estimated retro policy premium receivable, non-current	6,492	465,297
Land	901,974	901,974
Capital assets, net	10,743,307	11,857,600
Construction in progress	-	13,671,025
Total non-current assets	11,651,773	26,895,896
Total assets	$ 1,623,336,405	$ 1,506,357,859
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 3,425,300	$ 4,733,543
Due to other funds	177,811	243,067
Unearned premium	141,890,596	117,488,460
Dividend payable	162,000,000	142,387,877
Compensated absences payable	1,137,670	1,066,844
Investment accounts payable	1,052,551	-
Unpaid loss and LAE	115,045,080	103,877,400
Total current liabilities	424,729,008	369,797,191
NONCURRENT LIABILITIES		
Compensated absences payable, net of current	185,202	188,266
Unpaid loss and LAE, discounted at 5%	843,663,920	761,767,600
Total non-current liabilities	843,849,122	761,955,866
Total liabilities	1,268,578,130	1,131,753,057
NET POSITION		
Net investment in capital assets	11,645,281	26,430,599
Unrestricted	343,112,994	348,174,203
Total net position	354,758,275	374,604,802
Total liabilities and net position	$ 1,623,336,405	$ 1,506,357,859

See Notes to Financial Statements

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Net premiums earned	$ 309,897,502	$ 250,544,641
Penalties and finance charges	2,945,812	1,610,055
Third party subrogation recoveries	6,640,335	759,408
Rental operations	742,222	742,222
Miscellaneous	11,923	21,194
Total operating revenues	320,237,794	253,677,520
OPERATING EXPENSES		
Incurred losses and loss adjustment expenses	272,288,784	188,823,610
Payroll and benefits	19,131,897	18,097,199
Other administrative expenses	572,017	2,015,070
Bad debt expense	3,177,546	321,334
Depreciation expense	1,029,313	1,050,061
Total operating expenses	296,199,557	210,307,274
OPERATING INCOME	24,038,237	43,370,246
NONOPERATING REVENUES (EXPENSES)		
Interest and investment revenue	75,819,696	58,620,119
Investment expenses	(4,816,984)	(4,571,288)
Securities lending investment revenue	-	5,619
Securities lending expenses	-	1,749
Net increase in fair value of investments	47,426,491	28,426,563
Dividend credit expense	(147,585,337)	(144,376,056)
Net non-operating revenues (expenses)	(29,156,134)	(61,893,294)
SPECIAL ITEM		
Impairment of computer replacement system	(14,728,630)	-
CHANGE IN NET POSITION	(19,846,527)	(18,523,048)
TOTAL NET POSITION, BEGINNING OF YEAR	374,604,802	393,127,850
TOTAL NET POSITION, END OF YEAR	$ 354,758,275	$ 374,604,802

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from employers	$ 212,331,469	$ 172,432,112
Receipts from other funds	2,864,455	2,664,594
Receipts from others	6,891,866	2,995,579
Payments to medical providers	(109,673,996)	(80,263,679)
Payments to injured workers	(65,666,952)	(55,128,639)
Payments to employers	(5,941,335)	(4,653,652)
Payments to employees	(14,040,581)	(13,244,279)
Payments to other funds	(2,229,662)	(1,915,289)
Payments to others	(18,681,323)	(17,856,315)
Net cash provided by operating activities	5,853,941	5,030,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(972,625)	(4,776,240)
Write off of AIM Policy program component	-	1,450,936
Net cash (used) in financing activities	(972,625)	(3,325,304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Contributions to pooled investments	(21,996,399)	(19,495,383)
Withdrawals from pooled investments	17,500,000	18,000,000
Net cash (used) in investing activities	(4,496,399)	(1,495,383)
NET INCREASE IN CASH AND CASH EQUIVALENTS	384,917	209,745
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,878,452	1,668,707
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,263,369	$ 1,878,452
SCHEDULE OF OTHER NONCASH ACTIVITIES		
Net increase in fair value of investments	$ 47,426,491	$ 28,426,564
Change in securities lending collateral	-	(12,070)
Investment revenue	77,375,641	57,073,584
Dividends credited to premium billings	134,973,215	103,988,177
Account receivable premium reductions	(134,973,215)	(103,988,177)

STATEMENTS OF CASH FLOWS (continued)

		2013		2012
RECONCILIATION OF OPERATING REVENUE TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	$	**24,038,237**	$	**43,370,246**
Adjustments to reconcile operating revenue to net cash provided (used) by operating activities				
Depreciation expense		**1,029,313**		**1,050,061**
Dividend credits applied to receivables		**(147,585,337)**		**(144,376,056)**
Change in assets and liabilities				
Decrease (increase) in premium receivable		**(9,258,981)**		**(10,840,759)**
Decrease (increase) in retrospective premium receivable		**208,066**		**470,661**
Decrease (increase) in other accounts receivable		**552,308**		**(2,352,432)**
Increase (decrease) in prepaid expenses		**130,812**		**433,486**
Increase (decrease) in accounts payable		**(341,241)**		**(746,265)**
Increase (decrease) in due to other state agencies		**(65,257)**		**41,473**
Increase in dividend payable		**19,612,122**		**40,387,878**
Increase in unearned premium		**24,402,136**		**25,901,941**
Increase in compensated absences payable		**67,763**		**68,198**
Increase in unpaid loss and LAE		**93,064,000**		**51,622,000**
Net cash provided by operating activities	**$**	**5,853,941**	**$**	**5,030,432**

WORKFORCE SAFETY & INSURANCE
STATEMENTS OF APPROPRIATIONS
YEARS ENDED JUNE 30, 2013 AND 2012

	Approved 2011-13 Biennial Appropriation	Expenditures 2012	Expenditures 2013	Unexpended Appropriation
APPROPRIATED EXPENDITURES	$ 58,413,293	$ 24,979,975	$ 25,006,196	$ 8,427,122
CONTINUING APPROPRIATIONS				
Building operations	-	698,877	746,741	-
Reinsurance	-	4,574,324	7,152,742	-
Other states coverage	-	750,000	450,000	-
Litigation fees & costs	-	111,025	112,605	-
Safety programs	-	5,154,258	2,582,714	-
Employer fraud	-	32,398	26,921	-
Provider fraud	-	105,000	109,956	-
Total*	$ 58,413,293	$ 36,405,857	$ 36,187,875	$ 8,427,122

*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.

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 Position - Budget and Actual cannot be prepared as required by accounting principles generally accepted in the United States of America. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis.

Cash and Investments

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. 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 $4,000,000 at June 30, 2013 and $2,000,000 at June 30, 2012. 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, 2013 and June 30, 2012.

Prepaid Expenses

Payments made to vendors which exceed $12,000 per year, for services that will benefit periods beyond June 30, 2013 and 2012 are recorded as prepaid expenses.

Capital Assets and Depreciation

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

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

Special Item – Impairment

In Fiscal Year 2007, WSI had entered into contracts with multiple companies for a software system replacement project for both claims and policy, estimated to cost approximately $17.8 million. A portion of this cost, approximately $800,000, was expended to upgrade the FileNet system, which is in place and functioning well. This amount was capitalized in the financial statements in fiscal year 2012.

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Remaining and new expense was placed into Construction in Progress year-over-year as the project continued. The portion of the cost expended to replace WSI's policy system, approximately $1.5 million, was removed from Construction in Progress and expensed in fiscal year 2012, when it was determined that the policy system was unable to be implemented.

In fiscal year 2013, WSI determined the project would not be usable and decided not to extend the vendor's contract. GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* requires capital assets which are impaired from construction stoppage to be reported at the lower of carrying value or fair value. WSI determined the project was not salvageable and expensed the amount being held in Construction in Progress account. This total of approximately $14.7 million was in fiscal year 2013.

This expense was considered to be a significant transaction, infrequent in occurrence and within the control of management. Therefore, it was reported as a "special item" in the financial statements.

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.

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, 2013 and 2012 were $6.8 million and $6.3 million respectively. The amounts recoverable on pending losses at June 30, 2013 and 2012 were $32.6 million and $31.7 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.

The 2013 coverage was identical to that purchased in 2012.

WSI's reinsurance brokerage services contract with Guy Carpenter expired in June 2013, at which time the service was let for an RFP. Guy Carpenter successfully completed that process and was again selected for reinsurance intermediary services.

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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 position in the period for which the liability applies.

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% 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.

New Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources as defined by GASB's Concepts Statement No. 4. It also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows and deferred inflows of resources into the definition of net assets and by renaming it as net position, rather than net assets. The requirements of this Statement have improved financial reporting by standardizing the presentation of their effects on a government's net position.

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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 position.

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, 2013 and 2012 are presented below:

	2013	2012
Administrative expenses on an appropriations basis	**$ 36,187,875**	**$ 36,405,857**
Reconciling adjustments		
Fixed asset additions	**(972,626)**	**(3,325,304)**
Payroll and benefits	**(19,131,897)**	**(18,097,199)**
Unallocated loss adjustment expense	**(8,913,267)**	**(8,345,065)**
Increase in compensated absences payable	**67,762**	**68,198**
Increase in administrative payable	**(576,914)**	**(93,793)**
Decrease in prepaid expenses	**130,812**	**433,486**
Refund of prior biennium expenses	**(3,135)**	**(4,455)**
Credit card and student loan admin fees	**375,110**	**302,154**
Ceded reinsurance premium	**(6,591,703)**	**(5,328,808)**
Administrative expenses on a GAAP basis	**$ 572,017**	**$ 2,015,071**

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 $2,263,369 on June 30, 2013, and $1,878,452 on June 30, 2012. Bank balances for June 30, 2013 and June 30, 2012 were $5,602,849 and $5,902,920, 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.

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Investments

The fair value of WSI's investments for June 30, 2013 and 2012 is as follows:

	2013	2012
Fair value of investments		
Domestic equity securities	**$ 220,641,766**	**$ 193,615,880**
International equity securities	**108,482,782**	**81,672,559**
Fixed income	**1,096,297,039**	**1,039,343,979**
Real estate	**109,390,403**	**95,897,221**
Cash pool	**14,591,061**	**14,253,276**
Total	**$ 1,549,403,051**	**$ 1,424,782,915**

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.

The WSI Board met with three investment firms at their August 2013 Board meeting to choose a firm to perform a new asset liability study. The WSI Board chose Callan to conduct this study.

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

C*redit Risk*

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

Concentration of Credit Risk and Custodial Credit Risk

Investments in external investment pools are excluded from this disclosure requirement.

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The following investments represent 5% or more of total investments as of June 30, 2013 and 2012:

INVESTMENT	FAIR VALUE JUNE 2013	%	FAIR VALUE JUNE 2012	%
Domestic Fixed Income				
Western Asset	**$ 194,464,841**	**12.5%**	**$ 197,814,080**	**13.8%**
Wells Capital	**255,239,377**	**16.4%**	**266,993,121**	**18.6%**
PIMCO	**86,939,636**	**5.6%**	**-**	**-**
Bank of North Dakota	**-**	**-**	**105,460,453**	**7.4%**
Inflation Protected Assets				
Western Asset	**190,855,152**	**12.3%**	**167,963,320**	**11.7%**
State Street	**115,334,747**	**7.4%**	**-**	**-**
Real Estate				
JP Morgan	**-**	**-**	**96,837,622**	**6.7%**

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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.

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	$ 20,568	$ -	$ 2,133	$ 923	$ 17,512	$ -
Bank loans	2,771	-	2,315	455	-	-
Collateralized Bonds	308	-	-	308	-	-
Commercial mortgage-backed	19,687	-	194	121	19,372	-
Corporate bonds	321,092	13,083	114,412	91,659	101,938	-
Corporate convertible bonds	-	-	-	-	-	-
Government agencies	20,863	362	6,658	4,918	8,926	-
Government bonds	28,563	-	6,809	7,096	14,658	-
Government mortgage & commercial backed	67,032	-	1,064	3,469	62,500	-
Guaranteed fixed income	-	-	-	-	-	-
Index linked government bonds	3,875	1,364	-	-	2,510	-
Municipal/provincial bonds	7,904	-	1,607	-	6,297	-
Nongovernmental backed CMO's	11,393	-	127	283	10,983	-
Other fixed income	5,580	212	5,367	-	-	-
Short term bills and notes	3,763	3,763	-	-	-	-
Pooled investments	476,776	5,138	280,086	697	190,855	-
Total debt securities	$990,175	$23,922	$ 420,772	$ 109,929	$ 435,551	$ -

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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	$ 68	$ (4)	$ 3,420	$ 3,485
Brazilian real	161	(194)	96	62
British pound sterling	134	142	15,825	16,102
Canadian dollar	96	-	917	1,013
Chilean peso	162	(2)	-	160
Chinese yuan renminbi	130	(2)	-	128
Columbian peso	95	13	-	108
Czech koruna	(2)	2	-	-
Israeli shekel	11	-	606	617
Danish krone	-	-	524	524
Euro	(2,619)	2,793	24,769	24,943
Hong Kong dollar	96	-	4,352	4,449
Hungarian forint	(34)	10	-	(24)
Iceland krona	-	-	-	-
Indian rupee	10	8	-	18
Indonesian Rupiah	-	-	52	52
Japanese yen	(12)	68	17,917	17,973
Malaysian Ringgit	64	-	-	64
Mexican peso	300	3	-	303
New Zealand dollar	243	9	-	252
Norwegian krone	383	9	1,067	1,459
Peruvian Nuevo sol	(58)	-	-	(58)
Philippine peso	-	-	-	-
Polish zloty	62	5	-	67
Russian ruble	14	(9)	-	6
Singapore dollar	358	(1)	1,490	1,847
South African rand	-	4	-	4
South Korean won	64	-	654	718
Swedish krona	532	-	2,211	2,742
Swiss franc	-	-	8,886	8,886
Thai baht	-	1	-	1
Turkish lira	(374)	505	-	132
International commingled funds (various currencies)	-	-	20,835	20,835
Total securities subject to foreign currency risk	$(116)	$3,360	$103,621	$106,868

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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, may enter 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 a percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are also loaned versus collateral valued at a percent of the fair value of the securities plus any accrued interest. Currently, WSI is not participating in any security lending transactions.

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, 2013 is as follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated				
Land	$ 901,974	$ -	$ -	$ 901,974
Construction in progress	13,671,025	795,700	(14,466,725)	-
Total capital assets, not being depreciated	14,572,999	795,700	(14,466,725)	901,974
Capital assets, being depreciated				
Building	11,474,168	-	-	11,474,168
Furniture and equipment	816,624	73,338	(5,999)	883,963
Intangibles				
Software	3,101,767	109,587	(375,000)	2,836,354
Less accumulated depreciation for				
Building	(1,980,158)	(229,483)	-	(2,209,641)
Furniture and equipment	(1,156,306)	(300,907)	-	(1,457,213)
Intangibles				
Software	(398,495)	(498,924)	113,095	(784,324)
Total capital assets, being depreciated, net	11,857,600	(846,389)	(267,904)	10,743,307
Total capital assets, net	$ 26,430,599	$ (50,689)	$ (14,734,629)	$ 11,645,281

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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)	13,671,025
Total capital assets, not being depreciated	14,828,690	2,839,450	(3,095,142)	14,572,999
Capital assets, being depreciated				
Building	11,001,350	472,818	-	11,474,168
Furniture and equipment	1,697,354	6,408	(887,138)	816,624
Intangibles				
Software	-	3,101,768	-	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	-	11,857,600
Total capital assets, net	$ 24,155,357	$ 5,370,384	$ (3,095,142)	$ 26,430,599

NOTE 6 – DUE FROM (TO) OTHER STATE AGENCIES

There were no amounts due from other State of North Dakota agencies at June 30, 2013 and 2012.

The following is a detail of amounts due to other State of North Dakota agencies at June 30, 2013 and 2012:

DUE TO	2013	2012
Central Services	$ 12,076	$ 2,907
Dept. of Transportation	13,342	14,009
Information Technology	130,264	75,135
Office of Administrative Hearing	21,396	15,275
Office of the Attorney General	160	267
Office of Management & Budget	153	135,474
PERS	420	-
Total	$ 177,811	$ 243,067

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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, 2013 and 2012. 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, 2013 and 2012, 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 2013	**Low**	**Expected Value**	**High**
Full value basis, undiscounted	**$ 1,421,870**	**$ 1,603,535**	**$ 1,757,873**
Present value basis, discounted at 5%	**853,350**	**958,709**	**1,052,735**

WSI recorded the actuary's estimate for unpaid loss and LAE of $958,709,000.

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.

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)	
	2013	**2012**
Beginning balance	**$ 865,645**	**$ 814,023**
Incurred losses and loss adjustment expenses (LAE)		
Provision for current fiscal year	**299,882**	**157,587**
Change in provision for prior fiscal years	**7,381**	**80,357**
Total incurred losses and loss adjustment expenses	**307,263**	**237,944**
Payments attributable to		
Current fiscal year	**(52,886)**	**(44,224)**
Prior fiscal years	**(116,146)**	**(89,035)**
Total paid	**(169,032)**	**(133,259)**
Change in provision for liability discount	**(45,167)**	**(53,063)**
Ending balance	**$ 958,709**	**$ 865,645**

(continued on next page)

NOTE 8 – ALL STATES COVERAGE

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

NOTE 9 – OPERATING LEASES

WSI has entered into various operating leases for office space and equipment. Leases contain a clause allowing for termination with a 90-120 day notice and a clause stating that renewal is dependent on appropriation funding by the State Legislature. Expenditures for operating leases were $192,226 for fiscal year 2013 and $176,264 for fiscal year 2012.

The following is a schedule of future minimum lease payments required under the operating leases. Any future renewal options that are available are not included in the totals below.

Year Ending June 30,	
2014	$ 244,840
2015	232,786
2016	64,929
2017	20,909
	$ 563,464

NOTE 10 – LONG-TERM LIABILITIES

Compensated Absences Payable

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

The reported liabilities for compensated absences were $1,322,872 and $1,255,110 on June 30, 2013, and June 30, 2012 respectively. This balance includes the employer's share of FICA taxes.

	FY 2013 Beginning Balance	**Additions**	**Reductions**	**FY 2013 Ending Balance**	**Amount Due Within One Year**
Other long-term liabilities					
Compensated absences	**$ 1,255,110**	**$ 1,084,553**	**$ 1,016,790**	**$1,322,872**	**$ 1,137,670**

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	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**

WSI's employee turnover rate for fiscal year 2013 and 2012 were 8.2% and 6.8%, respectively.

NOTE 11 – 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 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.

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 NDCC. This state statute requires contributions be made to the plan by either the employee or the employer under a *"salary reduction"* agreement. WSI has implemented a salary reduction agreement and is currently contributing the employees' shares. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. WSI's required and actual contributions to PERS defined benefit pension plan for the fiscal years ended June 30, 2013, 2012 and 2011 were $806,753, $628,146, and $504,099, 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.

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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 NDCC. 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 statute. In January 2013, member contributions were established at 6% and employer contribution were established at 6.12%. Employees are contributing 2% and WSI is paying the remaining portion of the member contribution. In January 2014, both the member and employer contributions will increase by 1% to 7% and 7.12% respectively. At this time, employees will contribute 3% with WSI paying the remainder of the member contribution.

Contributions made to the Plan, by the members and WSI, for the years ending June 30, 2013, 2012 and 2011 totaled $683,987, $558,133, and $506,356, respectively.

NOTE 12 – POSTRETIREMENT BENEFITS

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

Total contributions for the fiscal years ending June 30, 2013, 2012 and 2011 were $152,762, $148,334, and $138,602, respectively. The 61st Legislative Assembly increased the contribution percentage from 1.00% to 1.14%, effective August 1, 2009.

NOTE 13 – EMPLOYEE DEFERRED COMPENSATION PLAN

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

NOTE 14 – RISK MANAGEMENT

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

WSI is insured by the State Fire & Tornado Fund as well as the State Bonding Fund. WSI pays an annual premium to the Fire & Tornado Fund for 90% 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.

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

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

NOTE 15 – SIGNIFICANT LEGISLATIVE CHANGES

Fiscal year 2013 was a legislative year and new legislation was enacted. The following list indicates significant legislative changes for WSI that were enacted by the 2013 Legislative Assembly.

- HB 1051 provides for a study of the Preferred Provider Program.
- HB 1052 strengthens the notification requirements for employers participating in the Preferred Provider Program.
- HB 1080 increases benefits for National Guard members who are injured while serving on active duty.
- SB 2080 increases penalties for non-complying employers.
- SB 2134 expands the definition of law enforcement officer to include peace officers with the North Dakota Parks & Recreation Department.
- SB 2178 increases the vehicle and vehicle adaptation allowance from $100,000 to $150,000.
- SB 2298 clarifies criteria for resolving conflicting medical opinions.

NOTE 16 – 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 17 – TENANT LEASES

WSI leases six suites to five tenants in their main office building at 1600 East Century Avenue, Bismarck, ND. The Department of Human Services has two suites, one for Child Support and one for Provider Audit. These tenants, identified below, began leasing space at WSI’s Century Center on July 1, 2003. All tenants had an increase in their lease rates on July 1, 2007 and again on July 1, 2011. All tenants have renewed their leases with a term of July 1, 2013 through June 30, 2015 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**

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NOTE 18 – 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 position excluding funds designated or obligated to specific programs or projects pursuant to a directive or specific approval by the legislative assembly. This legislation also set parameters on when a dividend declaration should and should not be considered.

WSI's available surplus of $329,113,043 plus discounted reserve liabilities on June 30, 2013 equals 134.3% of the actuarial discounted reserve of $958,709,000. This compares to available surplus of $340,649,204 plus discounted reserve liabilities on June 30, 2012 which equaled 139% of the actuarial discounted reserve of $865,645,000. WSI did grant the maximum dividend credit of 50% to be applied to both the 2012-13 and 2011-12 policy years.

	Actual June 2011	Actual June 2012	Actual June 2013
NET POSITION or "SURPLUS"	**$ 393,127,850**	**$ 374,604,802**	**$ 354,758,275**
Estimated Discounted Financial Reserves	**814,023,000**	**865,645,000**	**958,709,000**
Net Position (Surplus)	**$ 393,127,850**	**$ 374,604,802**	**$ 354,758,275**
2009 HB 1035 Allowable Deductions from Net Position (Surplus)			
Safety & Education Grants	8,561,019	18,406,760	10,824,046
Revolving School Loan Fund	14,877,759	14,842,186	14,821,186
ITTP/AIM Update	3,035,684	706,652	-
Total Exclusions from Net Position (Surplus)	**26,474,462**	**33,955,598**	**25,645,232**
Available Fund Surplus	**$ 366,653,388**	**$ 340,649,204**	**$ 329,113,043**
	45.0%	**39.4%**	**34.3%**

NOTE 19 – 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.

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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.

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

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NOTE 20 – CONTINGENCY

WG Trading

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. Investors had been 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 regulation, capital requirements, 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 SIB joined with other WGTC investors and objected to a *pro rata* distribution to all investors. The receiver and the WGTI investors opposed. The court agreed with the receiver 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 was included in the June 30, 2011 financial statements.

The SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners were entitled to a greater share of the recovered assets than the unaudited note holders. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional pro rata distribution of $3.1 million, bringing the total distributions received to $67.1 million. WSI's share of this distribution was approximately $521 thousand.

It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the Westridge investors, including the SIB. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the prior distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of $8.2 million. WSI's total net realized loss was approximately $1.4 million.

Tribune

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. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the "State Court Actions") to assert fraudulent transfer claims against certain recipients of the offering described below.

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The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL Proceeding (the State Court Actions together with the Adversary Proceeding, the “Tribune LBO Litigation”).

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, $1,003,000.00 in Tribune leveraged buyout payments, comprised of two separate payments.

The Committee purportedly served the SIB with a copy of the summons and complaint in the Adversary Proceeding on or about February 13, 2012. On July 26, 2013, the Court granted the Litigation Trustee leave to file a Fifth Amended Complaint. A response to the Litigation Trustee’s Fifth Amended Complaint will not yet be required, and the Court has stayed all discovery pending its disposition of a Motion to Dismiss in the State Court Actions. The Court held a hearing on the Motion on May 23, 2013, and took the matter under advisement. In large part, however, the Adversary Proceeding has been stayed from its inception, and continues to be stayed. No substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. Under the circumstances, we are not able to assess the likelihood of a loss to the State or predict the probability of a favorable or unfavorable outcome or the amount of potential loss, in the event of an unfavorable outcome.

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.

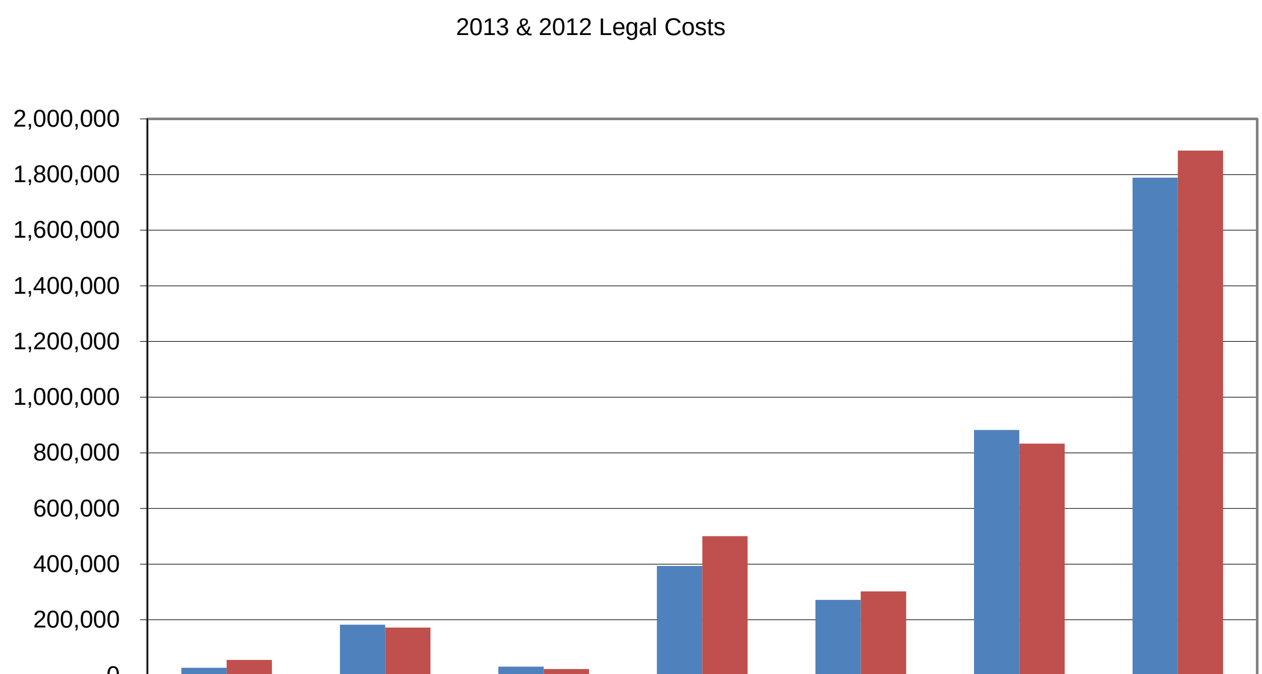
WORKFORCE SAFETY & INSURANCE
REQUIRED SUPPLEMENTARY INFORMATION
LOSS DEVELOPMENT INFORMATION
JUNE 30, 2013

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.

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.	Net earned required contribution and investment revenues	$ 194,499	$ 193,237	$ 148,161	$ 220,949	$ 165,637	$ 48,033	$ 288,949	$ 357,528	$ 340,730	$ 442,995
2.	Unallocated expenses	20,612	25,351	33,023	40,011	40,662	30,944	32,709	29,997	33,321	51,881
3.	Estimated incurred claims and expenses, end of policy year	102,960	110,710	105,264	120,109	131,380	168,964	160,265	191,795	230,158	299,882
4.	Paid cumulative as of										
	End of Policy Year	20,379	22,156	20,511	20,982	26,584	32,054	30,861	38,596	44,224	52,886
	One year later	36,106	34,447	34,796	37,151	46,708	54,795	52,410	65,249	86,783	
	Two years later	41,503	39,012	41,392	43,292	53,511	63,358	59,515	76,420		
	Three years later	45,710	42,288	45,829	47,083	57,571	69,606	65,216			
	Four years later	48,890	45,200	49,386	50,343	60,452	74,643				
	Five years later	52,015	47,689	52,689	52,435	63,168					
	Six years later	54,230	49,784	55,187	54,678						
	Seven years later	56,138	51,279	57,584							
	Eight years later	57,929	52,925								
	Nine years later	59,632									
5.	Re-estimated incurred claims and expense										
	End of Policy Year	102,960	110,710	105,264	120,109	131,380	168,964	160,265	191,795	230,158	299,882
	One year later	103,130	104,186	112,278	119,100	140,328	157,106	151,411	192,257	257,806	
	Two years later	98,620	99,532	113,408	120,358	132,931	153,098	147,853	193,114		
	Three years later	100,363	100,733	116,475	110,135	128,652	149,683	146,418			
	Four years later	105,675	100,789	109,622	107,711	126,087	148,228				
	Five years later	104,774	101,405	110,026	105,446	123,301					
	Six years later	104,216	98,409	108,713	103,787						
	Seven years later	103,287	97,333	108,239							
	Eight years later	102,836	97,683								
	Nine years later	101,179									
6.	Change in estimated incurred claims and expenses from end of policy year	$ (1,781)	$ (13,027)	$ 2,975	$ (16,322)	$ (8,079)	$ (20,736)	$ (13,847)	$ 1,319	$ 27,648	$ -

WORKFORCE SAFETY & INSURANCE
SCHEDULE OF ATTORNEY FEES AND COSTS
JUNE 30, 2013 AND 2012

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 2013 and 2012 were $1,788,746 and $1,885,985, respectively. These costs are included as a portion of incurred losses within the "Statements of Revenues, Expenses and Changes in Fund Net Position" of this report.



	Court Reporter Fees	Miscellaneous Fees and Costs	Third Party Attorney Fees and Costs	Office of Administrative Hearings	Claimant Attorney Fees and Costs	WSI Attorney Fees and Costs	Total Legal Costs Paid
Fiscal Year 2013	27,657	182,546	31,609	393,417	271,295	882,222	1,788,746
Fiscal Year 2012	56,043	171,918	22,744	500,369	301,926	832,985	1,885,985

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CPAs & BUSINESS ADVISORS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities, of Workforce Safety & Insurance as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Workforce Safety & Insurance's basic financial statements, and have issued our report thereon dated October 11, 2013.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

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Compliance and Other Matter that is Required

As part of obtaining reasonable assurance about whether Workforce Safety & Insurance's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-A.

Workforce Safety & Insurance’s Response to Findings

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

Purpose of this Report

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

Eide Bailly LLP

Fargo, North Dakota
October 11, 2013

Noncompliance with North Dakota Century Code Finding

2013-A Legal Department

Condition – North Dakota Century Code 65-02-35 states Workforce Safety & Insurance is allowed to pay up to $500 for attorney fees plus costs of up to $150 per administrative order for an attorney to review the injured workers claim file after the issuance of the Certificate of Completion from the Decision Review Office. When this fee schedule comes in from the attorney it must include a signature by the attorney; the name of the injured employee, claim number, date of billing statement, summary of legal issue, date of service or charge being billed, itemization and reasonable description of the services, the time and amount billed for each item, and total time and amounts billed before it is paid. Workforce Safety & Insurance did not meet this requirement as there were attorney fee statements that were processed that did not have all of the criteria met.

Criteria –Workforce Safety & Insurance is required to be in compliance with North Dakota Century Code 65-02-35.

Cause – Workforce Safety & Insurance had attorney fee schedules that were processed that did not have all the criteria on them that is required.

Effect – Workforce Safety & Insurance was not in compliance with North Dakota Century Code.

Recommendation – Workforce Safety & Insurance needs to validate these items are on each attorney fee schedule prior to it being processed.

Management's Response – WSI's Internal Audit department conducts reviews of select departments on a routine basis. Internal Audit conducted a review of the Legal Department and noted that some of the attorney bills received for post –DRO review did not meet all of the detailed requirements within NDCC 65-02-35.3. The Legal department indicated they were ensuring the injured worker had completed the DRO process and had requested a hearing in a timely manner. Their focus was on getting the invoices paid to the injured worker's counsel.

In late 2012, WSI's Internal Audit issued a recommendation for WSI to follow the requirements for all applicable bills. WSI management and the Legal Department agreed. In June of 2013, the Legal Department sent correspondence to all law firms who had issued billings for claimants. This correspondence provided a detailed outline of the billing requirements. Additionally, in July of 2013, the Legal Department reviewed incoming invoices and contacted those firms that required additional guidance.

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Workforce Safety & Insurance Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee Year Ended June 30, 2013

Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2013 audit of the Authority are as follows:

Audit Report Communications:

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

   Unmodified.

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

   Yes, however we did have a finding related to NDCC 65-02-35, see summary of audit findings.

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 Authority?**

   No.

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

   There were no prior year findings or recommendations.

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

   Yes, a separate management letter has been issued and there were no specific recommendations.

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Audit Committee Communications:

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

   There was a significant unusual transaction that took place throughout the year. This transaction was for the write-off of software development costs.

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

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

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

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

   None.

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

   None.

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

   None.

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

   None.

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

   None.

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

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

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

Eide Bailly LLP

Fargo, North Dakota
October 11, 2013

CPAs & BUSINESS ADVISORS

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, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards,* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 6, 2013. 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 2013. 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 losses and loss adjustment expenses (LAE). The liability for unpaid losses and LAE is estimated by WSI's actuary, taking into consideration past experience of WSI in paying claims and the general conditions of the environment in which WSI operates. This liability is based on the estimated ultimate costs to settle both reported and incurred but not reported (IBNR) losses and LAE, and includes the effects of inflation and other societal and economic factors. The actuarial computation also includes a 5% discount to report this liability at its estimated present value. We, as auditors of WSI, have a third party actuary review the estimate as provided by WSI's actuary to ensure the estimate is reasonable.
>
> Another significant estimate to the financial statements is the dividend expense and related liability. The dividend expense and liability is calculated using the policyholder's prior year premium less any safety discounts awarded. This premium is an estimate based upon the previous year's actual payroll, and is subject to change once the current year's actual payroll is known. As that becomes known, and the premiums are adjusted, so too will the dividend liability and expense be adjusted. We have reviewed the assumptions and calculation used in determining the estimate to ensure the estimate is reasonable.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of investments and unpaid losses and loss adjustment expenses reserve information in Notes 2, and 7 respectively, to the financial statements. Investment disclosures consisted of fair market value, concentration of credit and custodial risk, interest rate risk and foreign currency risk. Unpaid losses and loss adjustment expenses reserves consist of actuarial estimates of future obligations and the development of prior estimates and the effect on the current financial information.

The financial statement disclosures are neutral, consistent, and clear.

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 clearly trivial, and communicate them to the appropriate level of management. No corrected or uncorrected financial statement adjustments were noted during the course of the audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 October 11, 2013.

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 information is intended solely for the 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.

Eide Bailly LLP

Fargo, North Dakota
October 11, 2013