# WORKFORCE SAFETY & INSURANCE

***FINANCIAL STATEMENTS***
***JUNE 30, 2009 AND 2008***

# WORKFORCE SAFETY & INSURANCE

Table of Contents

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
The Legislative Assembly

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

We have audited the accompanying financial statements of the business-type activities of Workforce Safety & Insurance, a department of the State of North Dakota, as of and for the years ended June 30, 2009 and 2008, as shown in the table of contents. These financial statements are the responsibility of Workforce Safety & Insurance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workforce Safety & Insurance as of June 30, 2009 and 2008, and the results of operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, there is a high degree of uncertainty in the estimated liability for unpaid loss and loss adjustment expenses recorded as of June 30, 2009 and 2008. Workforce Safety & Insurance has recorded the expected value of the liability as computed by its actuary; however, the ultimate liability may vary significantly.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2009, on our consideration of Workforce Safety & Insurance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The financial information listed as required supplementary information in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

October 7, 2009

Workforce Safety & Insurance (WSI) was established in 1919 with the purpose of providing workers compensation insurance for all the 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, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the entire financial statement package and the notes to those statements, which follow this section.

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

***Overview of Financial Statements***

WSI's basic financial statements include the 1) balance sheet, 2) statement of revenues, expenses and changes in fund net assets, 3) statement of cash flows, and 4) statement of appropriations. The balance sheet provides readers the assets and liabilities of the fund, with the difference between the two considered net assets. It also provides the basis for determining the financial strength and solvency of the workers compensation fund. The statement of revenues, expenses and changes in fund net assets shows the operating performance of WSI for the fiscal year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities. The statement of cash flows answers questions such as where did the cash come from, what was cash used for, and what was the change in the cash balance during the fiscal year. The statement of appropriations shows WSI's expenditures in relationship to the biennial appropriation approved by the 2007 Legislative Assembly.

WSI's notes to the financial statements provide readers additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes can be found on pages 13-30 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 31 and 32.

*Financial Highlights*

In November 2008, the citizens of North Dakota passed an initiated measure to remove WSI oversight responsibilities from the Board of Directors and return control of the agency to the Governor. WSI employees were placed under the state classification system.

Due to the economic condition of the investment markets, no dividend was declared. WSI's surplus available for dividends was substantially reduced by the FY 2008 dividend and the decrease in WSI's investment portfolio.

In FY 2008, the WSI Board of Directors declared a sixty-two percent dividend to reduce the fund's surplus as required in NDCC 65-04-02. Over $270 million of dividends have been declared and credited against employer accounts during the past four years (fiscal year 2005- fiscal year 2008).

(continued on next page)

**CONDENSED STATEMENT OF REVENUE & EXPENSE**

| | 2009 | 2008 |
|---|---|---|
| REVENUE | | |
| OPERATING REVENUE | | |
| Premium -net of discount | **$ 160,691,829** | **$ 142,985,470** |
| Subrogation, penalties and finance charges | **2,393,898** | **1,794,035** |
| Building rental revenue | **759,180** | **691,087** |
| Other revenue | **12,874** | **17,325** |
| NONOPERATING REVENUE | | |
| Earnings (Losses) on investments | **(115,693,869)** | **20,211,903** |
| Total revenues | **48,163,912** | **165,699,820** |
| EXPENSES | | |
| OPERATING EXPENSE | | |
| Incurred loss | **147,080,241** | **114,139,321** |
| Dividend Expense | **(3,300,000)** | **97,517,672** |
| Payroll and employee benefits | **14,481,049** | **13,779,767** |
| Other administrative expense | **3,360,344** | **8,761,357** |
| Bad debt expense | **399,999** | **359,687** |
| Depreciation expense | **248,627** | **359,148** |
| NONOPERATING EXPENSE | | |
| Investment expense and other | **6,332,254** | **11,626,682** |
| Total expenses | **168,602,513** | **246,543,634** |
| Change in net assets | **$ (120,438,601)** | **$ (80,843,814)** |

WSI's financial position is strong with the net assets remaining within the legislatively mandated levels. The 2009 HB1035 was modified, adding clarifying parameters to use when determining the amount of net assets, or surplus, to be considered available for dividend declaration. These changes were effective August 1, 2009.

Earned premium net of discounts totaled $160.7 million for fiscal year 2009. This is a twelve percent increase above the fiscal year 2008 relative amount of $143 million.

Building rental revenue increased 9.9% from $691 thousand in fiscal year 2008 to $759 thousand in fiscal year 2009. The bulk of this increase stemmed from remodeling and structural changes completed for tenants. WSI had a rent increase of 13.5% in fiscal year 2009. Rent for other building tenants did not increase in fiscal year 2009. WSI expended an additional $28,000 to aid with excessive snow removal expense for Century Center.

Administrative expense decreased over $5.4 million or 61% in fiscal year 2009 compared to fiscal year 2008. This reduction is a direct result of fewer expenditures in the area of safety grants and education. Total safety fund expenditures for fiscal year 2009 and fiscal year 2008 are $4.4 and $9.8 million respectively.

(continued on next page)

Investment earnings decreased significantly in fiscal year 2009 compared to fiscal year 2008. Realized and unrealized losses totaled ($49.3) and ($116) million respectively in fiscal year 2009; compared to $13.2 million and ($51.3) million respectively in fiscal year 2008. WSI's annual return as of June 30, 2009 was a loss of (10.25%). WSI's average investment return for the five year period ending June 30, 2009 is 2.02%.

Incurred losses of $114 million in fiscal year 2008 increased by 29% to $147 million in fiscal year 2009. Several factors contribute to this increase. In January 2008, WSI adopted the Resource Bases Relative Value Scale (RBRVS) as a basis for its medical fee schedule. Coinciding with this revision, WSI also increased the conversion factor escalating medical fee payments by approximately 20%. FY 2009 is the first full year of calculations with the higher fee schedule. Some hospital diagnostic fees increased in January 2009. While medical cost inflation and utilization are other contributing factors, WSI experienced a greater than expected number of cases with medical severity over $100,000.

The 2009 Legislative Assembly passed legislation increasing benefits in several areas. These increases are addressed in detail in Note 16.

The securities lending collateral segment of the portfolio was reduced from $136.8 million on June 30, 2008 to $60.7 million on June 30, 2009. The related investment income for fiscal year 2008 was $7.9 million with $7.1 million in expense; and the fiscal year 2009 income totaled $2.15 million with $1.43 million in expense.

A credit dividend expense of ($3,300,000) reflects a revision made to the prior year's (fiscal year 2008) dividend estimate. WSI's policy billings are estimated annually based upon the prior year's estimated payroll. At the end of each year, payroll reports are submitted and reviewed for accuracy. The prior billing is then adjusted to reconcile with actual prior year payroll reports. As estimates are reconciled to actual amounts and premiums are adjusted, dividend estimates that were derived from estimated premium are also adjusted.

Net assets as of June 30, 2009 total $265.6 million, compared to $386 million on June 30, 2008. Net assets of June 30, 2009 represent approximately 34% of the actuarial discounted reserve, compared to net assets of June 30, 2008 which totaled 52% of the actuarial discounted reserve.

**Condensed Change in Net Assets**

| | **2009** | **2008** |
|---|---|---|
| Beginning net assets | **$ 385,991,538** | **$ 466,835,352** |
| Change in net assets | **(120,438,601)** | **(80,843,814)** |
| Ending net assets | **$ 265,552,937** | **$ 385,991,538** |

WSI's assets as of June 30, 2009 totaled $1.18 billion, a 17% decrease from $1.43 billion on June 30, 2008. The difference between assets and liabilities is reported on the balance sheet as net assets, which are 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**

| | 2009 | 2008 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | **$ 2,030,233** | **$ 1,375,198** |
| Investments | **1,075,741,662** | **1,250,754,546** |
| Invested securities lending collateral | **60,747,094** | **136,798,103** |
| Premium receivables, net | **15,826,326** | **13,707,156** |
| Other accounts receivable, net | **607,226** | **844,469** |
| Investment interest receivable | **8,521,532** | **8,444,843** |
| Prepaid expenses | **62,411** | **99,164** |
| Total current assets | **1,163,536,484** | **1,412,023,479** |
| NON-CURRENT ASSETS | | |
| Premium receivables, non current | **1,307,358** | **1,588,986** |
| Premises, furniture and equipment | **17,680,467** | **14,305,676** |
| Total assets | **$ 1,182,524,309** | **$ 1,427,918,141** |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | **$ 5,527,777** | **$ 4,751,263** |
| Unearned premium | **77,004,241** | **68,073,674** |
| Dividend Payable | **1,644,630** | **91,581,080** |
| Securities lending collateral | **60,747,094** | **136,798,103** |
| Unpaid loss and LAE | **96,250,000** | **96,000,000** |
| Total current liabilities | **241,173,742** | **397,204,120** |
| NONCURRENT LIABILITIES | | |
| Accounts payable | **147,630** | **122,483** |
| Unpaid Loss & LAE, discounted 5% | **675,650,000** | **644,600,000** |
| Total non current liabilities | **675,797,630** | **644,722,483** |
| Total liabilities | **916,971,372** | **1,041,926,603** |
| NET ASSETS | | |
| Invested in capital assets | **17,680,467** | **14,305,676** |
| Unrestricted | **247,872,470** | **371,685,862** |
| Total net assets | **265,552,937** | **385,991,538** |
| Total liabilities and net assets | **$ 1,182,524,309** | **$ 1,427,918,141** |

(continued on next page)

WSI’s net assets totaled of $265.6 million on June 30, 2009, a decrease of $120 million from the June 30, 2008 net asset total of $386 million. Changes in net assets are the result of two separate activities or major program revenues: underwriting and investing. Underwriting activities measure annual premium revenues against claims costs and administrative expenses; while investing activities measure interest, dividends and changes in the fair market 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 underwriting a loss and still maintain its financial strength.

Although net earned premium from fiscal year 2009 increased 12% over fiscal year 2008, netting an additional $17.7 million in revenue, WSI’s underwriting activities reported a loss of ($9.7) million in fiscal year 2009 compared to a gain of $6.7 million in fiscal year 2008.

**Condensed Underwriting and Investment Analysis**

| | **2009** | **2008** |
|---|---|---|
| Net premium earned | **$ 160,691,829** | **$ 142,985,470** |
| Incurred losses | **137,523,405** | **104,375,611** |
| Allocated loss adjustment expenses | **3,305,031** | **3,925,507** |
| Unallocated loss adjustment expenses | **6,251,805** | **5,838,203** |
| General and administrative expenses | **23,325,099** | **22,191,861** |
| Total losses and expenses | **170,405,340** | **136,331,182** |
| Underwriting income (loss) | **(9,713,511)** | **6,654,288** |
| Investment and other income (loss) | **(110,725,090)** | **(87,498,102)** |
| Change in net assets | **$ (120,438,601)** | **$ (80,843,814)** |

*Capital Assets*

WSI’s non-current assets include land, the Century Center office building, furniture, equipment, and construction in progress assets that are not yet operational. The investment in capital assets increased in fiscal year 2009 as work continued on the software system replacement project. At June 30, 2009, WSI’s construction in progress account totaled $7 million, compared to $3.5 million on June 30, 2008. These assets will begin depreciating when they are placed into service. A statement of changes in capital assets for fiscal year 2009 and fiscal year 2008 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 its’ main sources of revenue. To ensure solvency of the fund, premium rates are actuarially established on an annual basis. For policy year 2010, WSI anticipates statewide premiums to remain about the same.

# WORKFORCE SAFETY & INSURANCE
**BALANCE SHEETS**
**JUNE 30, 2009, AND 2008**

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 2,030,233 | $ 1,375,198 |
| Investments | 1,075,741,662 | 1,250,754,546 |
| Invested securities lending collateral | 60,747,094 | 136,798,103 |
| Premium receivable, net | 15,695,881 | 13,269,128 |
| Estimated retrospective policy premium receivable, current | 130,445 | 438,028 |
| Due from other state agencies | 1,855 | - |
| Other accounts receivable, net | 605,371 | 844,469 |
| Investment interest receivable | 8,521,532 | 8,444,843 |
| Prepaid expenses | 62,411 | 99,164 |
| Total current assets | 1,163,536,484 | 1,412,023,479 |
| NONCURRENT ASSETS | | |
| Estimated retrospective policy premium receivable, non current | 1,307,358 | 1,588,986 |
| Land | 901,974 | 901,974 |
| Capital assets, net | 9,767,934 | 9,939,539 |
| Construction in progress | 7,010,559 | 3,464,163 |
| Total assets | $ 1,182,524,309 | $ 1,427,918,141 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 4,563,677 | $ 3,985,317 |
| Due to other state agencies | 127,527 | 68,946 |
| Unearned premium | 77,004,241 | 68,073,674 |
| Dividend payable | 1,644,630 | 91,581,080 |
| Compensated absences payable | 836,573 | 697,000 |
| Securities lending collateral | 60,747,094 | 136,798,103 |
| Unpaid loss and LAE | 96,250,000 | 96,000,000 |
| Total current liabilities | 241,173,742 | 397,204,120 |
| NONCURRENT LIABILITIES | | |
| Compensated absences payable, net of current | 147,630 | 122,483 |
| Unpaid loss and LAE, discounted at 5% | 675,650,000 | 644,600,000 |
| Total noncurrent liabilities | 675,797,630 | 644,722,483 |
| Total liabilities | 916,971,372 | 1,041,926,603 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 17,680,467 | 14,305,676 |
| Unrestricted | 247,872,470 | 371,685,862 |
| Total net assets | 265,552,937 | 385,991,538 |
| Total liabilities and net assets | $ 1,182,524,309 | $ 1,427,918,141 |

## WORKFORCE SAFETY & INSURANCE
### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
### YEARS ENDED JUNE 30, 2009, AND 2008

| | 2009 | 2008 |
|---|---|---|
| OPERATING REVENUES | | |
| Net premiums earned | $ 160,691,829 | $ 142,985,470 |
| Penalties and finance charges | 919,303 | 938,767 |
| Third party subrogation recoveries | 1,474,595 | 855,268 |
| Rental operations | 759,180 | 691,087 |
| Miscellaneous | 12,874 | 17,325 |
| Total operating revenues | 163,857,781 | 145,487,918 |
| OPERATING EXPENSES | | |
| Incurred losses | 147,080,241 | 114,139,321 |
| Dividend expense | (3,300,000) | 97,517,672 |
| Payroll and benefits | 14,481,049 | 13,779,767 |
| Other administrative expenses | 3,360,345 | 8,761,357 |
| Bad debt expense | 399,999 | 359,687 |
| Depreciation expense | 248,627 | 359,148 |
| Total operating expenses | 162,270,259 | 234,916,953 |
| OPERATING INCOME (LOSS) | 1,587,522 | (89,429,035) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest and investment revenue | 47,384,970 | 50,444,010 |
| Investment expenses | (4,903,230) | (4,525,556) |
| Securities lending investment revenue | 2,202,925 | 7,884,760 |
| Securities lending expenses | (1,429,024) | (7,101,126) |
| Net decrease in fair value of investments | (165,281,764) | (38,116,867) |
| Net non-operating (expenses) revenues | (122,026,123) | 8,585,221 |
| CHANGE IN NET ASSETS | (120,438,601) | (80,843,814) |
| TOTAL NET ASSETS, BEGINNING OF YEAR | 385,991,538 | 466,835,352 |
| TOTAL NET ASSETS, END OF YEAR | $ 265,552,937 | $ 385,991,538 |

See Notes to Financial Statements

**WORKFORCE SAFETY & INSURANCE**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2009, AND 2008**

| | 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from employers | $ 88,306,037 | $ 80,713,020 |
| Receipts from other state agencies | 1,127,207 | 1,621,468 |
| Receipts from others | 1,707,991 | 3,395,373 |
| Payments to medical providers | (67,375,597) | (54,779,339) |
| Payments to injured workers | (42,510,387) | (44,812,068) |
| Payments to employers | (2,300,855) | (1,858,897) |
| Payments to employees | (10,845,602) | (10,327,904) |
| Payments to other state agencies | (1,545,746) | (965,642) |
| Payments to others | (15,615,457) | (19,775,265) |
| Net cash used by operating activities | (49,052,409) | (46,789,253) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (3,623,419) | (3,503,702) |
| Net cash used by capital and related financing activities | (3,623,419) | (3,503,702) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Contributions to pooled investments | (2,669,137) | (2,008,978) |
| Withdrawals from pooled investments | 56,000,000 | 52,000,000 |
| Net cash provided by investing activities | 53,330,863 | 49,991,022 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 655,035 | (301,934) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,375,198 | 1,677,132 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 2,030,233 | $ 1,375,198 |
| SCHEDULE OF OTHER NONCASH ACTIVITIES | | |
| Net decrease in fair value of investments | $(117,088,561) | $ (41,098,153) |
| Change in securities lending collateral | (76,051,009) | (115,781,879) |
| Investment income | 43,923,868 | 48,035,545 |
| Dividends credited to premium billings | 86,636,450 | 62,845,929 |
| Account receivable premium reductions | (86,636,450) | (62,845,929) |

(continued on next page)

**STATEMENTS OF CASH FLOWS**

| | 2009 | 2008 |
|---|---|---|
| RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | **$ 1,587,522** | **$ (89,429,035)** |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities | | |
| Depreciation expense | **248,627** | **359,148** |
| Change in assets and liabilities | | |
| (Increase) decrease in premium receivable | **(2,426,753)** | **27,130,282** |
| Decrease in retrospective premium receivable | **589,211** | **200,997** |
| Decrease (increase) in other accounts receivable | **239,098** | **(379,861)** |
| Decrease (increase) in prepaid expenses | **36,753** | **(65,945)** |
| Increase in accounts payable | **155,711** | **1,784,839** |
| Increase (decrease) in due to other state agencies | **58,581** | **(100,772)** |
| (Decrease) in dividend payable | **(89,936,450)** | **(1,027,170)** |
| Increase in unearned premium | **8,930,567** | **5,050,231** |
| Increase (decrease) in compensated absences payable | **164,720** | **(11,967)** |
| Increase in unpaid loss and LAE | **31,300,000** | **9,700,000** |
| Net cash used by operating activities | **$ (49,052,409)** | **$ (46,789,253)** |

# WORKFORCE SAFETY & INSURANCE
## STATEMENT OF APPROPRIATIONS
## YEAR ENDED JUNE 30, 2009

| | Approved 2007-2009 Biennial Appropriation | Appropriation Adjustments | 2007-2009 Biennial Appropriation As Adjusted | Expenditures 2008 | Expenditures 2009 | Unexpended Appropriation |
|---|---|---|---|---|---|---|
| APPROPRIATED EXPENDITURES | $ 53,241,157 | $ - | $ 53,241,157 | $ 20,893,860 | $ 21,956,624 | $ 10,390,673 |
| CONTINUING APPROPRIATIONS | | | | | | |
| Performance evaluation | | | | 157,534 | 39,386 | |
| Building operations | | | | 655,051 | 768,100 | |
| Other states coverage | | | | 337,700 | 337,400 | |
| Collection agency fees | | | | 245 | 52 | |
| Safety programs | | | | 9,820,020 | 4,414,389 | |
| Preferred worker program | | | | 85,409 | 75,573 | |
| Employer fraud | | | | 10,773 | 24,364 | |
| Provider fraud | | | | - | - | |
| Total* | $ 53,241,157 | $ - | $ 53,241,157 | $ 31,960,592 | $ 27,615,888 | $ 10,390,673 |

*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 North Dakota Century Code 65-02 Workforce Safety and Insurance Organization.

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 executive director of WSI is appointed by the Governor. Workforce Safety & Insurance provides no-fault medical and disability insurance to all North Dakota employees. The state of North Dakota is a "monopolistic" state where WSI is the sole provider of workers compensation insurance. At June 30, 2009 and 2008, coverage extended to the following employers:

| | 2009 | 2008 |
|---|---|---|
| Annual premium $250 - $5,000 | **15,411** | **15,590** |
| Annual premium $5,001 - $50,000 | **3,947** | **3,764** |
| Annual premium $50,001 - $100,000 | **323** | **291** |
| Annual premium over $100,000 | **286** | **241** |
| Total policyholders | **19,967** | **19,886** |

The number of WSI's policyholders continued to grow. There was an overall increase of eighty-one policyholders in fiscal year 2009, compared to an overall increase of two hundred fourteen in fiscal year 2008. WSI is financed entirely by premiums charged to employers doing business in North Dakota. The premiums are available primarily for the payment of claims to employees injured in the course of employment.

The accompanying financial statements of Workforce Safety & Insurance follow the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing accounting principles generally accepted in the United States of America for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, WSI follows all applicable GASB pronouncements as well as following Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with GASB pronouncements.

For financial reporting purposes, WSI has included all funds and has considered all potential component units for which WSI is financially accountable, and other organizations for which the nature and significance of their relationship with WSI are such that exclusion would cause WSI's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria 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.

(continued on next page)

*Fund Financial Statements*

WSI uses a fund to report on its financial position and the results of its operations. 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, as well as third party liability subrogation recoveries. Operating expenses include incurred losses, payroll and benefits, other administrative expenses, bad debt expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*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 and depreciation on capital assets. 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 that 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. Changes to the appropriation are limited to Board of Director's review, Governor approval, Emergency Commission authorization, initiative, or referendum action. The Legislative Assembly approved a single-line appropriation beginning with the 2001-2003 biennium.

(continued on next page)

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

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

*Cash and Investments*

Cash and cash equivalents for reporting purposes, includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes investments with original maturity of three months or less. Investments are stated at fair value. Fair value is, *"the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale."* Fair value was determined by reference to published market data for publicly traded securities or through the use of independent valuation services and appraisers for other investments.

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 $500,000 at June 30, 2009 and June 30, 2008. The 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 $4,000,000 at June 30, 2009 and June 30, 2008.

(continued on next page) 

*Prepaid Expenses*

Payment made to vendors for services that will benefit periods beyond June 30, 2009 and 2008 are recorded as prepaid expenses.

*Capital Assets and Depreciation*

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

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

*Due to Other State Agencies*

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 state agencies" on the statement of net assets 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 percent of the employee's accumulated unused sick leave.

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

*Unearned Premium*

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

*Unpaid Loss and Loss Adjustment Expenses (LAE)*

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

(continued on next page)

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.

## 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, 2009 and 2008 are presented below:

| | 2009 | 2008 |
|---|---|---|
| Administrative expenses on an appropriations basis | $ 27,615,900 | $ 31,960,592 |
| Reconciling adjustments | | |
| Fixed asset additions | (3,623,419) | (3,503,702) |
| Payroll and benefits | (14,481,046) | (13,779,767) |
| Unallocated loss adjustment expense | (6,251,804) | (5,838,203) |
| Increase (decrease) in compensated absences payable | 164,720 | (11,967) |
| Increase (decrease) in property taxes payable | (2,179) | 122,184 |
| Increase in administrative payable | 40,100 | - |
| Increase (decrease) in prepaid expenses | 36,753 | (65,945) |
| Refund of prior biennium expenses | (1,229) | (10,589) |
| All states premium | (137,400) | (111,000) |
| Collection agency fees | (52) | (245) |
| Administrative expenses on a GAAP basis | $ 3,360,344 | $ 8,761,357 |

## 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 $2,030,233 on June 30, 2009 and $1,375,198 on June 30, 2008. Bank balances were $3,826,477 and $3,015,016 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.

(continued on next page) 

*Investments*

The fair value of WSI's investments for June 30, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| Fair value of investments | | |
| Domestic equity securities | **$ 143,521,309** | **$ 160,848,827** |
| International equity securities | **98,267,892** | **91,156,690** |
| Fixed income | **789,524,054** | **906,858,202** |
| Real estate | **41,135,395** | **83,402,474** |
| Cash pool | **3,293,012** | **8,488,353** |
| Securities lending collateral | **60,747,094** | **136,798,103** |
| Total | **$ 1,136,488,756** | **$ 1,387,552,649** |

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.

WSI establishes an investment allocation policy and the SIB administers the portfolio by selecting money managers and monitoring performance on a continual basis. WSI updated its investment allocation in FY 2005 to a mix with 13% in domestic equity, 8% in international equity, 50% in domestic fixed income, 22% in treasury inflation protected securities (TIPS), 6% in real estate, and 1% in cash equivalents.

WSI hired Callen & Associates to review its investment allocation policy in July and August of 2009. In August 2009, the WSI Board recommended WSI slightly modify the current allocation slightly by reducing domestic equity to 12% and increasing domestic fixed income to 51%. This recommendation was approved by the Governor and the modified allocation was accepted by the State Investment Board in August 2009.

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

*Credit Risk*

WSI is invested in an external investment pool managed by the SIB. The pool is not rated.

(continued on next page) 

The following investments represent 5 percent or more of total investments as of June 30, 2009 and 2008:

| Investment | Market Value 06/30/09 | Allocation Percentage | Market Value 06/30/08 | Allocation Percentage |
|---|---|---|---|---|
| **Domestic Fixed Income** | | | | |
| Western Asset | 175,459,351 | 16.2% | 177,717,213 | 14.1% |
| Bank of ND | 94,978,180 | 8.8% | 89,565,227 | 7.1% |
| Wells Capital | 192,188,926 | 17.7% | 179,597,296 | 14.3% |
| **Inflation Protected Assets** | | | | |
| Northern Trust Global Investments | 76,430,391 | 7.0% | 144,904,184 | 11.5% |
| Western | 67,489,735 | 6.2% | 141,247,512 | 11.2% |
| JP Morgan | 63,023,240 | 5.8% | - | 0.0% |
| **Real Estate** | | | | |
| JP Morgan | - | 0.0% | 84,203,644 | 6.7% |

*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) | Market Value | Less Than 1 year | 1-6 Years | 6-10 Years | Over 10 years |
|---|---|---|---|---|---|
| Asset backed securities | $ 10,060 | $ - | $ 2,157 | $ 226 | $ 7,677 |
| Bank Loans | 1,771 | - | 1,584 | 187 | - |
| Commercial mortgage-backed | 14,272 | 43 | - | - | 14,229 |
| Guaranteed Fixed Income | 3,282 | - | 3,282 | - | - |
| Corporate bonds | 288,902 | 6,858 | 101,004 | 99,334 | 81,706 |
| Corporate convertible bonds | 1,370 | - | 1,350 | - | 20 |
| Government agencies | 27,443 | - | 17,422 | 3,334 | 6,687 |
| Government bonds | 63,750 | 208 | 30,674 | 19,682 | 13,186 |
| Government mortgage & commercial backed | 47,536 | 399 | 582 | 6,162 | 40,392 |
| Index linked government bonds | 69,055 | 2,589 | 20,571 | 15,956 | 29,939 |
| Municipal/provincial bonds | 2,989 | - | 904 | 798 | 1,287 |
| Nongovernmental backed CMO's | 15,546 | - | 73 | 531 | 14,942 |
| Short term bills and notes | 454 | 454 | - | - | - |
| Pooled investments | 159,173 | 1,621 | 80,686 | 76,766 | 101 |
| Total debt securities | $ 705,603 | $ 12,172 | $ 260,289 | $ 222,976 | $ 210,166 |

(continued on next page) 

*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 |
|---|---|---|---|---|
| Austrian dollar | $ (1,148) | $ - | $ 3,417 | $ 2,269 |
| Brazilian real | (30) | - | 33 | 3 |
| British pound sterling | (6,655) | 73 | 13,357 | 6,775 |
| Canadian dollar | (2,674) | 1,433 | 2,066 | 825 |
| Israeli shekel | - | - | 62 | 62 |
| Danish krone | (329) | 844 | - | 515 |
| Euro | (12,376) | 71 | 24,871 | 12,566 |
| Hong Kong dollar | (944) | - | 2,684 | 1,740 |
| Hungarian forint | (104) | 140 | - | 36 |
| Japanese yen | (8,809) | - | 17,950 | 9,141 |
| Mexican peso | - | - | 99 | 99 |
| New Zealand dollar | (137) | 204 | - | 67 |
| Norwegian krone | (141) | 72 | 650 | 581 |
| Polish zloty | (90) | 114 | - | 24 |
| Singapore dollar | (230) | - | 615 | 385 |
| South African rand | - | - | 93 | 93 |
| South Korean won | - | - | 142 | 142 |
| Swedish krona | (385) | 65 | 1,069 | 749 |
| Swiss franc | (3,886) | - | 6,830 | 2,944 |
| International commingled funds | - | - | 19,344 | 19,344 |
| Total securities subject to foreign currency risk | $(37,938) | $ 3,016 | $ 93,282 | $ 58,360 |

*Securities Lending*

GASB Statement No. 28, *"Accounting and Financial Reporting for Securities Lending Transactions,"* establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The investment pool managed by the North Dakota Retirement and Investment Office, which manages WSI's investments, enters into security lending transactions.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest. As of June 30, 2009, the fair value of the securities on loan totaled $75,772,000. As of

(continued on next page) 

June 30, 2009, the total amount of cash and non-cash collateral related to these lent securities was $373,000 and $76,999,000, respectively.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Wachovia Global Securities Lending (Securities Lending Agent for RIO) has failed to live up to its contractual responsibilities relating to the lending of those securities. Wachovia's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Wachovia indemnifies the System if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

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

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All open securities loans can be terminated on demand by either the lender or the borrower.

**NOTE 4 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

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

(continued on next page)

## NOTE 5 – CAPITAL ASSETS

A statement of changes in capital assets for the years ended June 30, 2009 and 2008 are as follows:

| | Balance July 1, 2008 | Additions | Deletions | Balance June 30, 2009 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 901,974 | $ - | $ - | $ 901,974 |
| Construction in progress | 3,464,164 | 3,546,395 | | 7,010,559 |
| Total capital assets, not being depreciated | 4,366,138 | 3,546,395 | - | 7,912,533 |
| Capital assets, being depreciated | | | | |
| Building | 10,980,056 | 21,294 | - | 11,001,350 |
| Furniture and equipment | 1,619,030 | 55,730 | (8,454) | 1,666,306 |
| Less accumulated depreciation for | | | | |
| Building | (1,098,005) | (219,709) | - | (1,317,714) |
| Furniture and equipment | (1,561,543) | (28,919) | 8,454 | (1,582,008) |
| Total capital assets, being depreciated, net | 9,939,538 | (171,604) | - | 9,767,934 |
| Total capital assets, net | $ 14,305,676 | $ 3,374,791 | $ - | $ 17,680,467 |

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|---|---|---|---|---|
| Capital assets, not being depreciated | | | | |
| Land | $ 901,974 | $ - | $ - | $ 901,974 |
| Construction in progress | - | 3,464,164 | | 3,464,164 |
| Total capital assets, not being depreciated | 901,974 | 3,464,164 | - | 4,366,138 |
| Capital assets, being depreciated | | | | |
| Building | 10,980,056 | - | - | 10,980,056 |
| Furniture and equipment | 1,598,666 | 39,538 | (19,174) | 1,619,030 |
| Less accumulated depreciation for | | | | |
| Building | (878,404) | (219,601) | - | (1,098,005) |
| Furniture and equipment | (1,441,170) | (139,547) | 19,174 | (1,561,543) |
| Total capital assets, being depreciated, net | 10,259,148 | (319,610) | - | 9,939,538 |
| Total capital assets, net | $ 11,161,122 | $ 3,144,554 | $ - | $ 14,305,676 |

(continued on next page)

## NOTE 6 – DUE FROM (TO) OTHER STATE AGENCIES

The following is a detail of amounts due from other State of North Dakota agencies at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| State Fire & Tornado | $ 8 | $ - |
| Petroleum Tank Release Compensation Fund | 27 | - |
| Health Care Trust Fund | 150 | - |
| Cultural Endowment Fund | 2 | - |
| Risk Management Workers Comp Fund | 74 | - |
| Budget Stabilization Fund | 1,414 | - |
| Total | $ 1,855 | $ - |

The following is a detail of amounts due to other State of North Dakota agencies at June 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Central Services | $ - | $ 4,507 |
| Department of Transportation | - | 7,310 |
| Information Technology | 108,443 | 57,128 |
| North Dakota Dept of Transportation | 11,027 | - |
| Office of Administrative Hearing | 2,796 | - |
| Office of Management & Budget | 5,261 | - |
| Total | $ 127,527 | $ 68,945 |

The significant increase due to Information Technology is from several IT consultants working with WSI on the computer conversion project.

## 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, 2009 and 2008. 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, 2009, 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 2009 | Low | Expected Value | High |
|---|---|---|---|
| Full value basis, undiscounted | $1,165,000 | $1,293,800 | $1,490,000 |
| Present value basis, discounted at 5% | * | 771,900 | 1,160,000 |

*Not computed by actuary

(continued on next page)

WSI recorded the actuary's estimate for unpaid loss and LAE of $771,900,000.

For the year ended June 30, 2008, 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. These ranges are as follows (in thousands):

| **FY 2008** | **Low** | **Expected Value** | **High** |
|---|---|---|---|
| Full value basis, undiscounted | $ 1,100,000 | $ 1,228,600 | $ 1,410,000 |
| Present value basis, discounted at 5% | * | 740,600 | 850,000 |

*Not computed by actuary

WSI recorded the actuary's estimate for unpaid loss and LAE of $740,600,000.

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) | |
|---|---|---|
| | **2009** | **2008** |
| Beginning balance | $ 740,600 | $ 730,900 |
| Incurred losses and loss adjustment expenses (LAE) | | |
| Provision for current fiscal year | 168,967 | 131,380 |
| Change in provision for prior fiscal years | 9,427 | (363) |
| Payments attributable to | | |
| Current fiscal year | (32,054) | (26,584) |
| Prior fiscal years | (81,137) | (76,933) |
| Change in provision for liability discount | (33,900) | (17,800) |
| Ending balance | $ 771,900 | $ 740,600 |

## NOTE 8 – REINSURANCE

In accordance with NDCC 65-02-13.1, WSI has obtained reinsurance coverage with the 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. Subsequent to this date, WSI does not have reinsurance in place. 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 annual contract periods beginning December 1, 1999 and ending November 30, 2002 was $1,100,000, $1,100,000 and $2,484,820 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, 2009 and 2008 were $4,523,447 and $4,103,007 respectively. The amounts recoverable on pending losses at June 30, 2009 and 2008 were $23,199,885 and $21,802,402 respectively.

(continued on next page)

WSI is currently working with a reinsurance intermediary to determine feasibility of acquiring reinsurance at this time. See Note 20 for additional information.

## NOTE 9 – ALL STATES COVERAGE

WSI is the sole provider of workers' compensation coverage in North Dakota and insures employers for work related injuries. However, a North Dakota employer that operates outside of the State may be required to obtain additional coverage from a licensed insurance carrier in the state of operation.

In accordance with NDCC 65-02-13, WSI contracted with the Accident Fund of America in September 2004 to provide "temporary and incidental" coverage for all states except Washington, West Virginia, Ohio and Wyoming. The premium for this coverage is available to North Dakota employers for $600 per year. See Note 20 for additional information.

## NOTE 10 – OPERATING LEASES

WSI has entered into various operating leases for office space and equipment. The operating leases are for 12 months or less with a renewal clause unless notice is given within 90 days to the lesser. Certain leases contain a clause stating that renewal is dependent on appropriation funding by the State Legislature. Expenditures for operating leases were $173,994 for fiscal year 2009 and $146,892 for fiscal year 2008. The following is a schedule of future minimum lease payments required under the operating leases.

| Year Ending June 30 | | |
|---|---|---|
| 2010 | $ | 176,794 |
| 2011 | | 138,240 |
| 2012 | | 31,719 |
| 2013 | | 27,651 |
| | $ | 374,404 |

## NOTE 11 – LONG-TERM LIABILITIES

*Compensated Absences Payable*

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

The reported liabilities for compensated absences were $984,203 and $819,483 at June 30, 2009 and 2008. This balance includes the employer's share of FICA taxes.

| | FY 2009 Beginning Balance | Additions | Reductions | FY 2009 Ending Balance | Amount Due Within One Year |
|---|---|---|---|---|---|
| Other long-term liabilities | | | | | |
| Compensated absences | $ 819,483 | $ 811,918 | $ 647,198 | $ 984,203 | $ 836,573 |

(continued on next page)

| | FY 2008 Beginning Balance | Additions | Reductions | FY 2008 Ending Balance | Amount Due Within One Year |
|---|---|---|---|---|---|
| Other long-term liabilities | | | | | |
| Compensated absences | $ 831,450 | $ 698,708 | $ 710,675 | $ 819,483 | $ 697,000 |

In fiscal year 2009, WSI had very low employee turnover. WSI also filled positions that had been left open in fiscal year 2008 due to program restructuring.

**NOTE 12 – PENSION PLANS**

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

*Defined Benefit Pension Plan*

PERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the WSI. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credit service, a death benefit equal to the value of the employees' accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

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

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credit service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a *"salary reduction"* agreement. WSI has implemented a salary reduction agreement and is currently contributing the employees' shares. WSI is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement board was created by the State Legislature and is the governing authority of PERS. WSI's required and actual contributions to PERS for the fiscal years ended June 30, 2009, 2008, and 2007, were $464,016, $390,557, and$360,181 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.

(continued on next page) 

*Defined Contribution Retirement Plan*

The North Dakota Defined Contribution Retirement Plan (Plan) is a defined contribution plan administered by the North Dakota Public Employees Retirement System Board. The Plan was established on January 1, 2000, and is administered in accordance with Chapter 54-52.6 of the North Dakota Century Code. The Plan covers state employees who are in positions not classified by the central personnel division of the State of North Dakota. Employees of the judicial branch or the Board of Higher Education and State Institutions under the jurisdiction of the Board of Higher Education are not eligible to participate in the Plan.

Member contributions to the Plan are vested immediately and employer contributions to the Plan made on behalf of the member are 100% vested after four years of service. Contribution rates for the Plan are set by state statute. Member contributions are established at 4 percent and employer contributions are established at 4.12 percent of regular compensation.

Contributions made to the Plan, by the members and WSI, for the years ending June 30, 2009, 2008, and 2007 totaled $503,874, $516,465, and $547,906 respectively.

**NOTE 13 – POSTRETIREMENT BENEFITS**

Former employees receiving retirement benefits under the Retirement Plan for Employees of WSI are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. During each month of employment, WSI contributes a percentage based upon each employee's salary into the Retiree Health Benefits Fund. Total contributions for the fiscal years ending June 30, 2009, 2008, and 2007 were $106,126, $99,454, and $99,571 respectively. The 61st Legislative Assembly increased the contribution percentage from 1.00% to 1.14%, effective August 1, 2009.

**NOTE 14 – EMPLOYEE DEFERRED COMPENSATION PLAN**

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

Since the investments are not held by WSI, the investments and the related obligation to employees is not included in WSI's statement of net assets.

(continued on next page)

## NOTE 15 – RISK MANAGEMENT

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

WSI is insured by the State Fire & Tornado Fund as well as the State Bonding Fund. WSI pays an annual premium to the Fire & Tornado Fund for 90% of the replacement cost on its personal property. Replacement cost is estimated on the office building and all furniture and equipment in consultation with the Fire & Tornado Fund. The State Bonding Fund currently provides WSI with blanket fidelity bond coverage in the amount of $2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

## NOTE 16 – SIGNIFICANT LEGISLATIVE CHANGES

The 2009 Legislative Assembly enacted several significant legislative changes for WSI. These include:

- 2009 HB1021 added ten discretionary full time employees in the Return to Work Vocational Rehabilitation area.
- 2009 HB1035 defined “available surplus” and established parameters for the action required based upon different levels of available surplus.
- 2009 HB1036 limits the amount of variance the selected statewide average premium rate level may change in comparison to the statewide actuarial indicated rate.
- 2009 HB1061 provides for payment of artificial members such as eyeglasses, contact lenses, and braces if such prescriptive devices are damaged due to an injury.
- 2009 HB1062 expands Vocational Rehabilitation benefits needed for retraining and job placement.
- 2009 HB1063 provide for 60 days of payment of unknown pre-existing conditions.
- 2009 HB1064 reduced the waiting period for eligibility of supplementary benefits to three years.
- 2009 HB1073 provides workers compensation coverage to in-state emergency healthcare practitioners.
- 2009 HB1101 increased the weekly dependency allowance, increased disability pre-acceptance rates, increased maximum disability benefits from 110% to 125% of the state’s average weekly wage, increased personal reimbursements on aggravation claims to 100%, and increased death benefits.
- 2009 HB1455 increased benefits payable to a surviving spouse following the death of the permanent total disability recipient.
- 2009 HB1464 reconciled existing statute with the initiated measure passed by North Dakota citizens in November 2008. Some of the changes include:
  - Requires WSI hearings be conducted by the Office of Administrative Hearings (OAH) and that decisions issued by OAH are final.
  - WSI Director is to be appointed by the Governor rather than the WSI Board of Directors.
  - Requires WSI Board of Directors to make formal recommendations to the Governor regarding premium rates, dividends, investment allocation and legislation.
  - Places WSI employees into the state classification system.
- 2009 SB2057 added a permanent partial impairment schedule award for partial eyesight loss.
- 2009 SB2059 provides for some payment of attorney fees and costs for review of a claim after completion of the Decision Review Office or review of a settlement offer.

## NOTE 17 – RELATED PARTIES

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

## NOTE 18 – TENANT LEASES

WSI has leased office space to 6 tenants in their main office building at 1600 East Century Avenue, Bismarck, ND. The following state agencies began leasing space on July 1, 2003. All tenants have renewed their leases with a term of July 1, 2009 through June 30, 2011 as provided below:

| | Monthly Rent | Annual Rent |
|---|---|---|
| ND Council on the Arts | $ 1,502 | $ 18,018 |
| ND Department of Commerce | 17,881 | 214,573 |
| ND Human Services Child Support | 8,794 | 105,528 |
| ND Human Services Provider Audit | 1,777 | 21,324 |
| ND OMB Risk Management | 1,743 | 20,916 |
| ND Parks & Recreation | 6,421 | 77,046 |
| Total | $ 38,118 | $ 457,405 |

## NOTE 19 – FINANCIAL RESERVES AND SURPLUS

NDCC 65-04-02 requires WSI to maintain adequate financial reserves plus surplus of at least 120% to a maximum of 140% of the actuarial established discounted reserve amount.

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

WSI’s surplus or net assets plus discounted reserve liabilities on June 30, 2009 equals 134.4% of the actuarial discounted reserve of $771,900,000. This compares to nets assets plus discounted reserve liabilities on June 30, 2008 which equal 152.1% of the actuarial discounted reserve of $740,600,000.

As of June 30, 2009, the net asset total of $265,552,938 is within the statutory surplus requirements.

(continued on next page)

| SURPLUS REPORT | June 30, 2008 | | June 30, 2009 | |
|---|---|---|---|---|
| Estimated Discounted Financial Reserves | $ 740,600,000 | 100% | $ 771,900,000 | 100% |
| Net Assets (Surplus) | $ 385,991,538 | 52.1% | $ 265,552,938 | 34.4% |
| Minimum Limit - 20% of actuarial discounted financial reserve estimate | $ 148,120,000 | 20.0% | $ 154,380,000 | 20.0% |
| Maximum Limit - 40% of actuarial discounted financial reserve estimate | $ 296,240,000 | 40.0% | $ 308,760,000 | 40.0% |
| Surplus amount exceeding 40% maximum | $ 89,751,538 | 12.1% | $ - | 0.0% |
| Discounted Financial Reserves + Surplus | $ 1,126,591,538 | 152.1% | $ 1,037,452,938 | 134.4% |

## NOTE 20 – CONTINUING APPROPRIATIONS

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

NDCC 65-02-30 Performance Evaluation - This statute requires a performance evaluation be conducted on WSI operations once each biennium through the coordination of the State Auditors Office. Funding is provided through a continuing appropriation.

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. These operations are funded from continuing appropriations.

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 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 are written off for non-payment. A few of these account balances are then turned over to external collection agencies. This continuation appropriation is addressed in OMB Fiscal and Administrative Policy 212. The dollars reported are the fees paid to collection agencies for amounts recovered.

NDCC 65-03-04 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 65-05-36 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.

(continued on next page) 

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.

**NOTE 21 – CONTINGENCY**

In February, 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds whose investments totaled more than $1.5 billion. Subsequent to the filing of a criminal complaint by federal prosecutors, a receiver was appointed by the court to reconstruct the alleged fraud and determine what recoverable assets exist. The receiver issued a report in May, 2009, indicating that approximately $893 million of recoverable assets were identified which equates to 60% of the investors' account values. The SIB held three portfolios with Westridge/WG Trading at the time the fraud was discovered. The three portfolios had been valued at a combined $161.3 million in the month prior to the court actions. $23.3 million was recovered immediately through liquidation of futures and related collateral positions at Westridge. The remaining assets were held by WG Trading and were frozen by the courts and remain frozen as of the balance sheet date. The market value reported on the balance sheet reflects a reduction of 40% of the last known market value, based on the receiver's initial report, and will remain at that value until further information is received from the SIB's legal representatives or the federal courts.

WSI's current portfolio contains an exposure to Westridge of approximately $12 million on June 30, 2009.

(continued on next page)

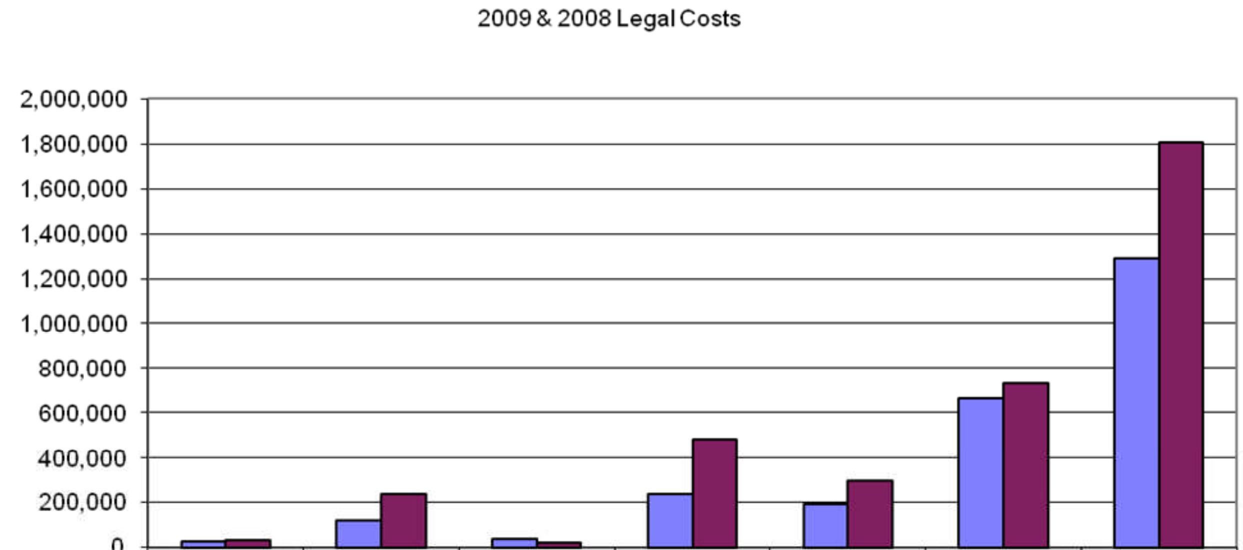
# WORKFORCE SAFETY & INSURANCE
## REQUIRED SUPPLEMENTARY INFORMATION
## LOSS DEVELOPMENT INFORMATION
## JUNE 30, 2009

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.

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Net earned required contribution | | | | | | | | | | |
| and investment revenues | $ 210,363 | $ 117,222 | $ 85,553 | $ 175,459 | $ 194,499 | $ 193,237 | $ 148,161 | $ 220,949 | 165,637 | 48,033 |
| 2. Unallocated expenses | 24,664 | 27,888 | 23,030 | 22,301 | 20,612 | 25,351 | 33,023 | 40,011 | 40,662 | 30,944 |
| 3. Estimated incurred claims and | | | | | | | | | | |
| expense, end of policy year | 80,505 | 82,905 | 80,567 | 92,605 | 102,960 | 110,710 | 105,264 | 120,109 | 131,380 | 168,964 |
| 4. Paid (cumulative) as of | | | | | | | | | | |
| End of policy year | 16,157 | 17,253 | 17,131 | 18,586 | 20,379 | 22,156 | 20,511 | 20,985 | 26,584 | 32,054 |
| One year later | 29,534 | 29,024 | 29,843 | 32,776 | 36,106 | 34,447 | 35,796 | 37,151 | 46,708 | |
| Two years later | 35,470 | 35,064 | 36,524 | 37,938 | 41,503 | 39,012 | 41,392 | 43,292 | | |
| Three years later | 39,586 | 39,682 | 41,233 | 40,884 | 45,710 | 42,288 | 45,829 | | | |
| Four years later | 43,019 | 41,990 | 43,438 | 43,501 | 48,890 | 45,200 | | | | |
| Five years later | 46,974 | 44,857 | 46,520 | 45,956 | 52,015 | | | | | |
| Six years later | 47,964 | 46,923 | 48,050 | 48,329 | | | | | | |
| Seven years later | 50,382 | 49,022 | 52,151 | | | | | | | |
| Eight years later | 51,830 | 50,904 | | | | | | | | |
| Nine years later | 55,735 | | | | | | | | | |
| 5. Reestimated incurred claims and expense | | | | | | | | | | |
| End of policy year | 80,505 | 82,905 | 80,567 | 92,605 | 102,960 | 110,710 | 105,264 | 120,109 | 131,380 | 168,964 |
| One year later | 80,075 | 80,801 | 83,597 | 93,920 | 103,130 | 104,186 | 112,278 | 119,100 | 140,328 | |
| Two years later | 78,893 | 83,161 | 83,419 | 92,680 | 98,620 | 99,532 | 113,408 | 120,358 | | |
| Three years later | 81,221 | 82,628 | 88,494 | 88,587 | 100,363 | 100,733 | 116,475 | | | |
| Four years later | 79,455 | 78,614 | 86,009 | 90,270 | 105,675 | 100,789 | | | | |
| Five years later | 81,826 | 76,665 | 89,752 | 91,030 | 104,774 | | | | | |
| Six years later | 82,185 | 84,861 | 91,029 | 91,937 | | | | | | |
| Seven years later | 88,825 | 87,005 | 98,352 | | | | | | | |
| Eight years later | 89,365 | 89,059 | | | | | | | | |
| Nine years later | 93,816 | | | | | | | | | |
| 6. Change in estimated incurred | | | | | | | | | | |
| claims and expense from end | | | | | | | | | | |
| of policy year | $ 13,311 | $ 6,154 | $ 17,785 | $ (668) | $ 1,814 | $ (9,921) | $ 11,211 | $ 249 | $ 8,948 | - |

# WORKFORCE SAFETY & INSURANCE
## SCHEDULE OF ATTORNEY FEES AND COSTS
## FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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 costs paid in fiscal years 2009 and 2008 were $1,291,171 and $1,806,527. These costs are included as a portion of incurred losses within the "Statements of Revenues, Expenses and Changes in Fund Net Assets" of this report.




| | Court Reporter Fees | Miscellaneous Fees and Costs | Third Party Attorney Fees and Costs | Office of Administrative Hearings | Claimant Attorney Fees and Costs | WSI Attorney Fees and Costs | Total Legal Costs Paid |
|---|---|---|---|---|---|---|---|
| Fiscal Year 2009 | 26,787 | 122,389 | 40,345 | 239,142 | 196,216 | 666,292 | 1,291,171 |
| Fiscal Year 2008 | 31,624 | 236,329 | 20,190 | 483,991 | 301,207 | 733,186 | 1,806,527 |

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**EXHIBIT A-1**

**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***

Governor of North Dakota
The Legislative Assembly

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

We have audited the financial statements of Workforce Safety & Insurance as of and for the year ended June 30, 2009, which collectively comprise Workforce Safety & Insurance's basic financial statements and have issued our report thereon dated October 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

***Compliance and Other Matters***

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

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

Brady . Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

October 7, 2009

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**EXHIBIT B-1**

## INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE YEAR ENDED JUNE 30, 2009

Board of Directors
Workforce Safety & Insurance
Bismarck, North Dakota

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

**Audit Report Communications:**

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

   *An unqualified opinion was issued on the* 2009 *financial statements.*

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

   *Yes*

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

   *Yes*

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

   *No*

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

   *Yes, the prior year finding was resolved in the current year.*

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

   *No*

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

**Audit Committee Communications:**

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

   *None.*

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

   *None.*

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) databases have been identified as the most high-risk systems at Workforce Safety & Insurance. There were no exceptions identified that were directly related to this application.*

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

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

October 7. 2009

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

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

We have audited the financial statements of Workforce Safety & Insurance, a department of the State of North Dakota, for the years ended June 30, 2009 and 2008, and have issued our report thereon dated October 7, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you on June 17, 2009. 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 2009. 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.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

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

(continued on next page)

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894
OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 7, 2009.

*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.

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

Brady, Martz

**BRADY, MARTZ & ASSOCIATES, P.C.**

October 7, 2009