2010 ANNUAL REPORT

Workers' Compensation Reinsurance Association®

WCRA®

To Our Members

FINANCIAL RECOVERY CONTINUES

We are pleased to report to you that the WCRA enjoyed a second straight year of financial recovery in 2010. Since the global financial crisis in 2008, the combination of superior investment performance and assessments recorded from the Surplus Distribution Recovery Program (Program) has resulted in a significant improvement in the Association's financial condition. At year-end 2008, we reported a deficit of $424 million. That deficit was reduced to $199 million in 2009 and has been further reduced to $59 million in our audited financial statements for year-end 2010.

One of the two keys to our financial recovery is the performance of our investment portfolio. Following a record 30 percent rate of return in 2009, the strong investment performance continued in 2010 with a return of 13 percent. The WCRA's Investment Committee and Board of Directors have carefully considered the Association's investment strategies and have decided to continue the allocation of 60 percent to equities and 40 percent to fixed income investments. This allocation has produced an annualized rate of return of 10 percent since 1979.

The other key contributor to the reduction of our deficit was the $48 million in Program assessments recorded during the year. The Program of assessments was spread over a five-year period, subject to an annual review by the Board of Directors. Given the Association's long-term objective of building a strong positive capital position, the Board decided to continue the Program in 2011.

In 2010, the Board commissioned an independent actuarial review of the WCRA's funded reserves to validate the work of our staff actuaries. Given our projected undiscounted liabilities of $7 billion to be paid out over the next 70+ years, determining our level of required reserves is essential to the long-term financial stability of the Association. The independent report concluded that, while there is a high level of uncertainty surrounding these estimates, "we believe that the WCRA estimate represents a reasonable provision for future payments."

Communication with our members has always been a high priority, and the WCRA, like most business organizations, is increasingly dependent on electronic systems and communications to operate successfully. Over the last ten years, the online calculators we developed have become the industry standard in Minnesota, and our eMember site has become the platform for increasing electronic communication and business transactions with our members. During the past year, we continued to focus on strengthening our information technology systems to improve our internal operating efficiency and to streamline reporting tools for our members.

In closing, with the change in administrations in Minnesota State government, we have also seen a change in our regulators. Commissioner of Labor and Industry Steve Sviggum and Commissioner of Commerce Glenn Wilson have been succeeded by Commissioner Ken Peterson at DOLI and Commissioner Mike Rothman at Commerce. We wish Commissioners Sviggum and Wilson well and thank them for their rigorous but fair regulation over the years; and we look forward to working in a similar professional manner with the new Commissioners.

Carl Cummins III

Stuart C. Henderson

Carl W. Cummins III
WCRA President and CEO

Stuart C. Henderson
WCRA Board Chair

2010 Financial Results
Management's Summary Analysis

OVERVIEW

The WCRA experienced continued financial improvement in 2010. The Association recorded comprehensive income of $92 million, and further reduced the balance sheet deficit. At December 31, 2010, the balance sheet deficit was $59 million, an improvement of $140 million from the December 31, 2009 deficit of $199 million. This continued financial improvement was primarily due to strong investment results and the continuation of the assessment program. The investment portfolio returned 13 percent in 2010, significantly above the assumed investment return of 7 percent. In addition, the WCRA recorded a contribution to capital of $48 million from the Surplus Distribution Recovery Program of assessments approved in 2009.

The WCRA's cash flow from operating activities was $4 million in 2010, the same as in 2009. Although cash flow from operating activities was level with the prior year, there were offsetting components as both premiums collected and paid losses and loss expenses decreased. The WCRA continues to have substantial liquidity and met all of its financial obligations on a timely basis in 2010.

OPERATING RESULTS AND COMPREHENSIVE INCOME

Premiums and Losses

The WCRA earned $50 million in funded premiums in 2010, down from $55 million in 2009. This decrease was primarily due to prior year premium adjustments. In 2010, prior year adjustments resulted in return premiums of $3.1 million, compared to prior year return premiums of less than $0.1 million in 2009.

Funded losses and loss expenses incurred for 2010 were $133 million, down from $155 million in 2009. This decrease was due primarily to actuarial adjustments of prior accident year losses. Prior accident year loss reserves were reduced by $20 million in 2010 compared to a reduction of $2 million in 2009. The reduction in prior accident year reserves in 2010 was due primarily to favorable development on case reserves which resulted in lower projected ultimate losses.

The components of discounted funded losses and loss expenses incurred are shown below.

$ Millions	**2010**	**2009**
Prior accident years:		
Present value update	$ 103	$ 98
Actuarial adjustments	(20)	(2)
Total prior accident years	83	96
Current accident year	50	59
Total funded losses and loss expenses incurred	**$ 133**	**$ 155**

Investment Performance

For the year ended December 31, 2010, the investment portfolio returned 13 percent compared to a record return of 30 percent in 2009. The 2010 investment performance was due to strong returns in the domestic and international investment markets. Returns on domestic equities, international equities, and fixed income investments all exceeded the 7 percent assumed rate of return. In 2010, the WCRA's domestic equities returned 17 percent, international equities returned 11 percent, and fixed income investments returned 10 percent. The 2009 investment return of 30 percent was the best annual return in the history of the WCRA. In 2009, the WCRA's domestic equities returned 27 percent, international equities returned 44 percent, and fixed income investments returned 25 percent.

The components of investment results are shown below.

$ Millions	**2010**	**2009**
Investment income, net of related expenses	$ 27	$ 32
Net realized investment gains (losses)	102	(23)
Change in unrealized gains on securities	49	282
Total investment results	**$ 178**	**$ 291**

In 2010 and 2009, the *WCRA Investment Policy* included asset allocation targets of 40 percent for domestic equities, 20 percent for international equities, and 40 percent for fixed income investments.

Comprehensive Income

The WCRA recorded comprehensive income of $92 million in 2010, compared to comprehensive income of $189 million in 2009. Comprehensive income consists of net income (loss) and the change in unrealized gains (losses) on investments. In 2010, the comprehensive income was due primarily to strong investment performance, including realized investment gains of $102 million. In 2009, the comprehensive income was also due primarily to strong investment results, including unrealized investment gains totaling $282 million.

BALANCE SHEET

Assets and Liabilities

Total assets were $1,923 million at December 31, 2010 compared with $1,611 million at the end of 2009. The increase in total assets was due primarily to an increase in invested assets.

Total liabilities were $1,982 million at December 31, 2010 compared with liabilities of $1,810 million at December 31, 2009. The increase in liabilities was due primarily to an increase in the amount due to securities brokers for unsettled investment transactions.

The WCRA's largest liability is the reserve for funded losses and loss expenses. This liability totaled $1,571 million at December 31, 2010 compared with $1,512 million at December 31, 2009. This liability represents the present value, discounted at 7 percent, of the total estimated obligation for losses and loss expenses for unpaid amounts up to the prefunded limit. Because this liability involves claims that will be paid out over a period of many years, judgments as to the ultimate exposure are an important component of the loss reserving process. Reserves are reviewed on a regular basis using a variety of actuarial techniques. They are adjusted based on loss experience and as new information becomes available.

Changes in the discounted liability for funded losses and loss expenses are shown below.

$ Millions	**2010**	**2009**
Funded reserves as of January 1	$ 1,512	$ 1,436
Losses and loss expenses incurred:		
Prior accident years	83	96
Current accident year	50	59
Total incurred	133	155
Losses and loss expenses paid	(74)	(82)
Claims receivable from litigation	—	3
Funded reserves as of December 31	**$ 1,571**	**$ 1,512**

The components of prior accident year incurred losses and loss expenses are discussed above under "Operating Results and Comprehensive Income."

The liability for unfunded losses and loss expenses totaled $195 million at December 31, 2010 compared to $180 million at December 31, 2009. This liability represents the present value, discounted at 7 percent, of the total estimated obligation for losses and loss expenses for unpaid amounts in excess of the prefunded limit. In both 2010 and 2009, the increase in this liability was driven by the present value update and reserves for the current accident year. Unfunded deferred premium revenue of $17 million was recognized in 2010 and 2009, concurrent with incurred unfunded losses and loss expenses of $17 million. Loss payments in excess of prefunded limits totaled $1.6 million and $1.3 million in 2010 and 2009, respectively.

Deficit

At December 31, 2010, the WCRA had an accumulated deficit of $59 million, an improvement of $140 million from the December 31, 2009 deficit of $199 million. This improvement was primarily due to strong investment results and the continuation of the assessment program. The investment portfolio returned 13 percent in 2010, well above the 7 percent assumed rate of return. In addition, the WCRA recorded a contribution to capital of $48 million from the assessment program.

In 2009, the Board of Directors adopted the Surplus Distribution Recovery Program which declared deficient premium assessments to members of $178 million and deficiency assessments to self-insurer members and workers' compensation policyholders of $90 million. The deficient premium assessments are payable in five equal annual installments. In both 2010 and 2009, the WCRA recorded an installment of $36 million of the deficient premium assessments as a contribution to capital. The deficient premium assessments are being recorded on an installment basis due to reasonable uncertainty regarding continuation of the assessments over the full five years. The deficiency assessments are prospective in nature and will be determined on a year-to-year basis over the five-year period 2010 through 2014. Deficiency assessments of $12 million were recorded as a contribution to capital in 2010.

CASH FLOW AND LIQUIDITY

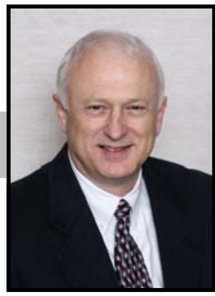
Cash flow from operating activities was $4 million in 2010, the same as in 2009. Although cash flow from operating activities was level with the prior year, there were offsetting components. Premiums collected in 2010 decreased by $4 million, while paid losses and loss expenses also decreased by $4 million. The WCRA continues to have substantial liquidity and met all of its financial obligations on a timely basis in 2010. In addition, the WCRA has a marketable investment portfolio that can provide significant liquidity. Management believes the WCRA has the liquidity necessary to continue to meet its financial obligations on a timely basis for the foreseeable future.

Board of Directors

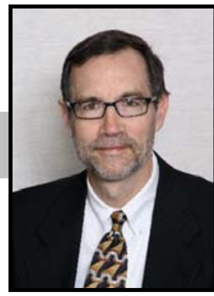
Per State law, Board membership is drawn from the business community, the insurance industry, organized labor, state government, and the public.

Elected by Insurer Members of the WCRA

FOUR INSURER REPRESENTATIVES



Stuart Henderson
Western National Insurance Group



Robert Lund
SFM

Brian Melas
Liberty Mutual Insurance Group

Michael Thoma
The Travelers Companies, Inc.

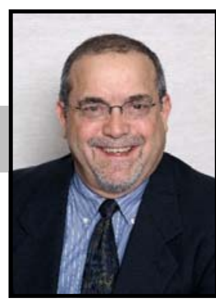
Minnesota State Board of Investment

– Executive Director –
or Designee

Howard Bicker
Executive Director

Elected by Self-Insurer Members of the WCRA

TWO SELF-INSURER REPRESENTATIVES



David Hennes
The Toro Company

Gary Nelson
Medtronic, Inc.

Minnesota Management & Budget

– Commissioner –
or Designee

Kristin Hanson
Assistant Commissioner

Appointed by the Commissioner of the Minnesota Department of Labor and Industry

TWO EMPLOYER REPRESENTATIVES

Michele Spencer
Ecumen

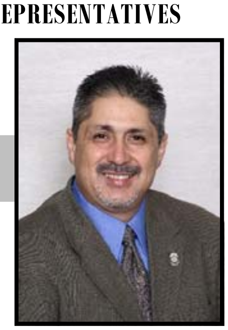
Allison Waggoner
DCI, Inc.

ONE PUBLIC REPRESENTATIVE

Wayne Simoneau
Retired

TWO EMPLOYEE REPRESENTATIVES

Sharyle Knutson
Minnesota AFL-CIO



Edward Reynoso
Teamsters Joint Council 32 DRIVE

Senior Management

STANDING

Cynthia Smith | *Vice President, Operations (WCRA Secretary)*
Donald Swanson | *Vice President, Finance and Investments (WCRA Treasurer)*
James Heer | *Vice President, Actuarial*

SEATED

Elisabeth Skoglund | *Vice President, Claims and Information Systems*
Carl (Buzz) Cummins | *President and Chief Executive Officer*

WCRA Mission

The WCRA ensures the availability of long-term reinsurance protection for serious Minnesota workers' compensation claims. Our staff of innovative professionals is dedicated to achieving the highest standard of excellence through stable and reasonable rates, expert claims administration, and informational services.

WCRA Vision

The WCRA will provide reinsurance services that are considered superior by its members and other participants in the workers' compensation system.

Report of Independent Auditors

To the Board of Directors and Members of
Workers' Compensation Reinsurance Association

In our opinion, the accompanying balance sheets and the related statements of operations, comprehensive income and accumulated deficit and of cash flows present fairly, in all material respects, the financial position of the Workers' Compensation Reinsurance Association (the "Association") at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 2, 2011

PricewaterhouseCoopers LLP, Suite 1400, 225 South Sixth Street, Minneapolis, MN 55402
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Workers' Compensation Reinsurance Association
Balance Sheets
December 31, 2010 and 2009

(in thousands of dollars)		2010		2009
Assets				
Investments, at fair value				
Cash and cash equivalents	**$**	**59,884**	$	55,961
Short-term		**46,841**		1,657
Common and preferred stock		**978,250**		816,559
Bonds		**581,350**		504,236
Total investments		**1,666,325**		1,378,413
Uncollected reinsurance premiums				
Current premiums due		**-**		20
Deferred for unfunded losses		**194,726**		179,612
Total uncollected reinsurance premiums		**194,726**		179,632
Assessments receivable (Note 9)		**11,874**		15,920
Accrued investment income		**4,598**		4,207
Due from securities brokers		**45,326**		32,723
Prepaid expenses and other assets		**421**		386
Property and equipment, less accumulated depreciation of $708 and $658 at December 31, 2010 and 2009, respectively		**116**		80
Total assets	**$**	**1,923,386**	$	1,611,361
Liabilities and Accumulated Deficit				
Liabilities				
Losses and loss expenses				
Funded	**$**	**1,571,289**	$	1,511,871
Unfunded		**195,350**		179,990
Total losses and loss expenses		**1,766,639**		1,691,861
Deferred assessments (Note 9)		**67,004**		66,333
Due to securities brokers		**147,297**		50,758
Accounts payable and other liabilities		**1,528**		987
Total liabilities		**1,982,468**		1,809,939
Accumulated deficit from operations		**(257,443)**		(347,498)
Accumulated other comprehensive income		**198,361**		148,920
Designated accumulated deficit		**(59,082)**		(198,578)
Total liabilities and accumulated deficit	**$**	**1,923,386**	$	1,611,361

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

Workers' Compensation Reinsurance Association
Statements of Operations, Comprehensive Income and Accumulated Deficit
Years Ended December 31, 2010 and 2009

(in thousands of dollars)	**2010**	2009
Revenues		
Reinsurance premiums		
Funded earned	**$ 49,709**	$ 54,804
Unfunded deferred	**16,973**	16,920
Investment income, net of related expenses	**26,508**	31,866
Realized investment gains (losses)		
Net realized investment gains (losses)	**106,162**	(18,222)
Net realized impairment (losses)	**(4,596)**	(4,384)
Total revenues	**194,756**	80,984
Expenses		
Losses and loss expenses		
Funded	**133,302**	154,700
Unfunded	**16,973**	16,920
Losses and loss expenses incurred	**150,275**	171,620
Operating and administrative expenses	**1,978**	1,900
Total expenses	**152,253**	173,520
Net income (loss)	**42,503**	(92,536)
Other comprehensive income		
Change in net unrealized gains on securities and foreign currency translation adjustment	**49,441**	281,867
Comprehensive income	**91,944**	189,331
Assessments (Note 9)	**47,552**	35,786
Accumulated deficit, beginning of year	**(198,578)**	(423,695)
Accumulated deficit, end of year	**$ (59,082)**	$ (198,578)

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

Workers' Compensation Reinsurance Association
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

(in thousands of dollars)	2010	2009
Cash flows from operating activities		
Net premiums collected	**$ 51,597**	$ 55,503
Interest and dividends received, net of related expenses	**29,781**	30,333
Losses and loss expenses paid	**(75,497)**	(79,680)
Operating and administrative expenses paid	**(1,953)**	(2,193)
Net cash provided by operating activities	**3,928**	3,963
Cash flows from investing activities		
Sale and maturities of investments		
Collateral for securities on loan, net	**-**	63,717
Common and preferred stocks	**1,126,658**	822,503
Bonds	**2,327,111**	3,461,832
Purchase of investments		
Short-term	**(45,184)**	(1,744)
Common and preferred stocks	**(1,168,990)**	(885,282)
Bonds	**(2,285,737)**	(3,538,423)
Purchase of equipment	**(77)**	(8)
Net cash used in investing activities	**(46,219)**	(77,405)
Cash flows from financing activities		
Payable under securities loan agreement	**-**	(76,021)
Assessments (Note 9)	**46,214**	84,268
Net cash provided by financing activities	**46,214**	8,247
Net increase (decrease) in cash and cash equivalents	**3,923**	(65,195)
Cash and cash equivalents		
Beginning of year	**55,961**	121,156
End of year	**$ 59,884**	$ 55,961

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

1. General Information

Description of Association

In 1979, the Minnesota Legislature created the Workers’ Compensation Reinsurance Association (the “Association”), a nonprofit, unincorporated association, to provide reinsurance protection for serious workers’ compensation losses to all primary workers’ compensation insurance providers and self-insured employers in the state of Minnesota. The Association provides full indemnification to its members for workers’ compensation losses paid in accordance with Minnesota Statutes Chapter 176 that exceed a member’s retention limit.

Operating procedures are prescribed by Minnesota Statutes Section 79.34-79.40, as amended (the “Enabling Act”), and the Association’s Plan of Operation (the “Plan”). Amendments to the Plan must be approved by the Board of Directors of the Association (the “Board”) and the Minnesota Commissioner of Labor and Industry.

Membership

All insurance carriers authorized to underwrite workers’ compensation risks in Minnesota and all employers, including political sub-divisions, authorized to self-insure their workers’ compensation liabilities in Minnesota are required to be members of the Association.

Retention Limits

For 2010, members selected one of three maximum per-loss occurrence retention limits, which were $450,000, $900,000 or $1,800,000. For 2009, members selected one of three maximum per-loss occurrence retention limits, which were $430,000, $860,000 or $1,720,000. Retention limits are determined annually based on a formula prescribed in the Enabling Act. Minnesota workers’ compensation losses incurred by members in excess of the retention limit selected are reinsured by the Association.

Premiums

The estimated aggregate annual reinsurance premium billed by the Association to members in each calendar year is calculated to cover the following estimated costs:

- The present value of the estimated ultimate liability for members’ incurred losses above the selected retention limit up to and including the prefunded limit of $9.0 million and $8.6 million per occurrence for 2010 and 2009, respectively, for funded losses reinsured by the Association.

- Loss payments expected to be made to members for claim amounts in excess of prefunded limits (unfunded losses).

- Operating and administrative expenses of the Association, and loss expenses incurred by the Association. (Loss expenses incurred by members on reinsured claims are not recoverable from the Association.)

- Charges for the current year or a prior year, as determined by the Board, for any reinsurance coverage purchased by the Association.

- Adjustments due to excess or deficient funded premiums, if any, for prior years as determined by the Board.

Estimated reinsurance premiums for each year are billed to the individual members based on: (1) the funded rate for the member's selected retention limit; (2) the rate for expected unfunded payments; and (3) the member's most recent actual exposure base available at the beginning of the annual billing cycle, adjusted for a factor which represents the estimated difference between the member's most recent actual exposure base and the actuarially projected exposure base. In the following year, reinsurance premium adjustments to bring the estimated premiums to actual are calculated and billed or credited to members. In addition, members may be charged for reinsurance purchased by the Association based on: (1) the rate for the reinsurance protection and (2) the member's estimated or actual exposure base for the coverage year of the reinsurance protection.

For insurer members, the exposure base is the earned premium at the WCRA standard earned premium reporting level reported in the WCRA Annual Financial Call multiplied by 1.20. Experience rating modifications of the insurers' individual insured are reflected in the Annual Call data.

For self-insurer members, the exposure base is calculated from Minnesota's covered payroll, multiplied by pure premium base rates as published by the MWCIA, multiplied by 1.20, multiplied by an experience rating modification factor.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Risks and Uncertainties

The Association invests in stocks and bonds of U.S. and foreign companies, U.S. government securities, and mortgage-backed securities. The investment viability and return of funds is dependent on, among other factors, the financial results of the underlying issuers. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values will occur in the near term and that such changes could materially affect the financial statements.

The process of estimating the liability for losses and loss expenses, by its very nature, involves substantial uncertainty. The level of uncertainty is influenced by factors such as the economic assumptions associated with workers' compensation reinsurance. Ultimate actual payments for losses and loss expenses could be significantly different from the estimates.

The Association holds cash on deposit balances throughout the fiscal year that exceed the FDIC insurable limits for banking institutions.

Comprehensive Income

The Association follows the reporting concept of "Comprehensive Income" which requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Comprehensive income for the Association includes net income and other comprehensive income, which includes unrealized gains and losses on available-for-sale securities, the impact of foreign currency translation adjustments on securities denominated in a currency other than U.S. dollars, and the change in the funded status of the defined benefit pension plan.

Cash Equivalents
Cash on deposit, shares in money market funds, and short-term debt securities with original maturities of three months or less are classified as cash equivalents.

Short-Term
Debt securities with original maturities greater than three months and less than one year are classified as short term. Amortized cost approximates market value.

Investments
The Association has classified its investments as "available for sale" and carries such securities at fair value. Accordingly, the net unrealized gains or losses are included in other comprehensive income as a separate component of capital. In determining the realized gain or loss on sales of investments, cost is based on the average cost method. Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date.

Purchased premiums and discounts are amortized or accreted using the effective interest rate method over the terms of the respective issues.

When a decline in value of an investment is determined to be other-than-temporary, the specific investment is carried at estimated fair value, and its original book value is reduced to reflect this impairment. Such reductions in book value are recognized in the period in which they were written down as either realized investment losses or as a component of other comprehensive income. See also "New Accounting Pronouncements" in Note 2.

Effective January 1, 2008, the Association adopted Accounting Standards Codification ("ASC") 820. This Standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Property and Equipment
Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Determination of Required Capital

After the close of each fiscal year or at such other times that it deems appropriate, the Board reports whether capital or a deficit exists based on the annual audited year-end financial statements. In determining whether or not to declare an excess surplus distribution or a deficiency assessment, the Board evaluates the capital or deficit relative to the reserves for discounted funded losses and loss expenses. The Board has determined that up to 60% of the liability for funded losses and loss expenses should be retained and reflected on the balance sheet as required capital. Required capital is needed to maintain sufficient assets to provide for variations between expected and actual investment returns, variations between expected and actual claims experience, and other unexpected financial developments. The Board will consider a deficiency assessment if the designated accumulated deficit exceeds 10% of the liability for funded losses and loss expenses.

The Board may declare an excess surplus distribution or an assessment if no such distribution or assessment has been declared in the preceding four years, provided that distributions or assessments may be declared more or less frequently than every five years if the Board, at its sole discretion, determines that it is necessary and prudent to do so. Excess surplus distributions or assessments may be declared by the Board and distributed to or collected from members or policyholders pursuant to the provisions of The Enabling Act and applicable provisions of the Plan. In 2009, the Board declared deficient premium assessments and deficiency assessments. See also Note 9.

Reinsurance Premiums

Funded earned reinsurance premiums are for the calendar year coverage period for funded losses (losses up to and including the prefunded limit). These premiums are billed in the current period. The reinsurance premiums for the calendar year may also include a credit or charge to equitably distribute excess or deficient premiums for previous periods, including any excess or deficient premiums resulting from a retroactive change in the prefunded limit.

Unfunded deferred reinsurance premiums are to be billed in future years for unfunded losses (loss amounts in excess of the prefunded limit) incurred during the calendar year coverage period and are recognized as earned revenue concurrent with the related unfunded losses and loss expenses. Reinsurance premiums for unfunded losses are billed to the members of the Association in the calendar year when payments in excess of prefunded limits are expected to be reimbursed by the Association. The Association began billing for losses in the unfunded layer in 2003. Premiums of $1.9 million were billed in both 2010 and 2009.

Losses and Loss Expenses

The liability for funded losses and loss expenses represents the present value, discounted using 7% (this is the Association's expected long term return on investments), of the estimated liability for losses and loss expenses of the Association for unpaid amounts up to and including the prefunded limit, as determined by actuarial projections using historical pricing model simulations and the payment and case reserve experience of the Association.

The liability for unfunded losses and loss expenses represents the present value, discounted using 7%, of the estimated liability for losses and loss expenses of the Association for unpaid amounts in excess of the prefunded limit, as determined by actuarial projections of the Association.

Subsequent Events

The Association has evaluated events that have occurred subsequent to December 31, 2010, through March 2, 2011.

New Accounting Pronouncements
Effective January 1, 2010, the Association adopted FASB amended guidance on "Fair Value Measurements and Disclosures" which was intended to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance provides for a greater level of disaggregated information and expanded disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on our financial condition and results of operations but resulted in additional disclosures.

3. Investments

The cost of common and preferred stocks, amortized cost of bonds, and estimated fair values at December 31, 2010 and 2009, are as follows:

	2010			
(in thousands of dollars)	**Cost/ Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Cash and cash equivalents	**$ 59,875**	**$ 9**	**$ -**	**$ 59,884**
Short-term	**46,838**	**3**	**-**	**46,841**
Common stocks	**$ 785,788**	**$ 191,489**	**$ (6,521)**	**$ 970,756**
Preferred stocks	**5,763**	**1,731**	**-**	**7,494**
Total stocks	**$ 791,551**	**$ 193,220**	**$ (6,521)**	**$ 978,250**
U.S. Treasury securities and obligations of U.S. government and agencies	**$ 177,590**	**$ 2,094**	**$ (3,054)**	**$ 176,630**
Corporate debt securities	**215,831**	**13,977**	**(2,073)**	**227,735**
Mortgage-backed securities	**175,036**	**2,671**	**(722)**	**176,985**
Total bonds	**$ 568,457**	**$ 18,742**	**$ (5,849)**	**$ 581,350**

	2009			
(in thousands of dollars)	**Cost/ Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Cash and cash equivalents	$ 55,961	$ -	$ -	$ 55,961
Short-term	1,914	-	(257)	1,657
Common stocks	$ 694,974	$ 126,000	$ (10,101)	$ 810,873
Preferred stocks	5,184	807	(305)	5,686
Total stocks	$ 700,158	$ 126,807	$ (10,406)	$ 816,559
U.S. Treasury securities and obligations of U.S. government and agencies	$ 154,865	$ 1,767	$ (2,715)	$ 153,917
Corporate debt securities	233,539	36,355	(3,061)	266,833
Mortgage-backed securities	82,173	1,749	(436)	83,486
Total bonds	$ 470,577	$ 39,871	$ (6,212)	$ 504,236

Total unrealized losses were $12.4 million and $16.9 million at December 31, 2010 and 2009, respectively. The following tables provide a breakdown of unrealized losses at December 31, 2010 and 2009. The Association has reviewed the components and duration of these unrealized losses and concluded that the losses are temporary in nature. The unrealized losses are primarily on common stocks. The unrealized losses as of December 31, 2010 and 2009 are as follows:

Unrealized Holding Losses as of December 31, 2010

(in thousands of dollars)	Less than 12 months Estimated Fair Value	Less than 12 months Unrealized Losses	12 months or more Estimated Fair Value	12 months or more Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
Short-term	$ -	$ -	$ -	$ -	$ -	$ -
Common stocks	$ 69,508	$ (4,501)	$ 16,677	$ (2,020)	$ 86,185	$ (6,521)
Preferred stocks	-	-	-	-	-	-
Total stocks	$ 69,508	$ (4,501)	$ 16,677	$ (2,020)	$ 86,185	$ (6,521)
U.S. Treasury securities and obligations of U.S. government and agencies	$ 103,541	$ (3,054)	$ -	$ -	$ 103,541	$ (3,054)
Corporate debt securities	68,591	(1,361)	10,354	(712)	78,945	(2,073)
Mortgage-backed securities	61,501	(691)	2,833	(31)	64,334	(722)
Total bonds	$ 233,633	$ (5,106)	$ 13,187	$ (743)	$ 246,820	$ (5,849)

Unrealized Holding Losses as of December 31, 2009

(in thousands of dollars)	Less than 12 months Estimated Fair Value	Less than 12 months Unrealized Losses	12 months or more Estimated Fair Value	12 months or more Unrealized Losses	Total Estimated Fair Value	Total Unrealized Losses
Short-term	$ 1,657	$ (257)	$ -	$ -	$ 1,657	$ (257)
Common stocks	$ 47,541	$ (3,203)	$ 50,280	$ (6,898)	$ 97,821	$ (10,101)
Preferred stocks	2,381	(305)	-	-	2,381	(305)
Total stocks	$ 49,922	$ (3,508)	$ 50,280	$ (6,898)	$ 100,202	$ (10,406)
U.S. Treasury securities and obligations of U.S. government and agencies	$ 114,882	$ (2,715)	$ -	$ -	$ 114,882	$ (2,715)
Corporate debt securities	27,499	(746)	20,220	(2,315)	47,719	(3,061)
Mortgage-backed securities	38,603	(430)	302	(6)	38,905	(436)
Total bonds	$ 180,984	$ (3,891)	$ 20,522	$ (2,321)	$ 201,506	$ (6,212)

The amortized cost and estimated fair value of debt securities at December 31, 2010, by contractual maturity, are shown below:

(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 105,757	$ 106,205
Due after one year through five years	117,613	118,360
Due after five years through ten years	114,663	114,817
Due after ten years	230,424	241,968
	$ 568,457	$ 581,350

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The Association evaluates its investment securities for other-than-temporary impairment on an annual basis. Factors considered in determining whether an impairment is other-than-temporary include: (1) the length of time and the extent to which fair value is less than cost, (2) the financial condition, industry, and near-term prospects of the issuer, (3) adverse changes or events impacting the issuer, and (4) for equity securities, the ability and intent of the Association to hold these investments until recovery.

During 2010, the Association made a determination that the decline in the fair value of certain of its investments was other-than-temporary. As a result of this determination, the cost bases of the individual securities were written down to fair value as the new cost bases. For debt securities, the Association further determined that the decline in fair value that was other-than-temporary was entirely credit loss. In 2010, the total write-down for all investments was $4.6 million and this entire amount was recorded in earnings as a realized loss. The Association also wrote down $4.4 million of individual securities to fair value in 2009.

Other comprehensive income in 2010 and 2009 is comprised of the change in unrealized gains on available-for-sale securities arising during the year, the impact of foreign currency translation adjustments on securities denominated in currency other than U.S. dollars and the change in the funded status of the defined benefit pension plan as follows:

(in thousands of dollars)	**2010**	**2009**
Change in net unrealized gains on securities	$ **46,841**	$ 277,888
Foreign currency net translation gain	**2,960**	4,138
Pension benefit obligation	**(360)**	(159)
Total other comprehensive income	$ **49,441**	$ 281,867

(in thousands of dollars)	**2010**	**2009**
Accumulated other comprehensive income consists of		
Net unrealized gains on securities	$ **192,756**	$ 145,915
Foreign currency translation gain	**6,848**	3,888
Pension benefit obligation	**(1,243)**	(883)
Total accumulated other comprehensive income	$ **198,361**	$ 148,920

Gross gains of $182.5 million and $238.8 million, and gross losses of $76.3 million and $257.0 million, were realized on sales of investments during 2010 and 2009, respectively. Additional realized losses of $4.6 million and $4.4 million were recognized due to other-than-temporary impairment of securities during 2010 and 2009, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2010 and 2009, are summarized below:

	Net Investment Income		Net Realized Gains (Losses)	
(in thousands of dollars)	**2010**	**2009**	**2010**	**2009**
Cash and cash equivalents	**$ 141**	$ 270	**$ -**	$ 1
Common and preferred stocks	**14,314**	11,832	**49,002**	(56,248)
Bonds	**21,495**	24,716	**52,564**	33,641
Securities lending	**1,164**	175	**-**	-
Miscellaneous	**-**	109	**-**	-
	37,114	37,102	**$ 101,566**	$ (22,606)
Investment expenses	**(4,551)**	(4,637)		
Interest expense on prepaid assessments	**(6,055)**	(500)		
Securities lending interest expense	**-**	(80)		
Securities lending bank fees	**-**	(19)		
	$ 26,508	$ 31,866		

In 2010, net realized gains consisted of gains on securities of approximately $101.6 million and foreign currency translation loss of $0.1 million. In 2009, net realized losses consisted of losses on securities of approximately $23 million and foreign currency translation gain of $0.3 million.

The Association terminated participation in the Wells Fargo securities lending program in March 2009. All securities loans were terminated and all obligations to borrowing brokers were settled. See also Note 10, Contingencies.

The Association has entered into interest-rate future, stock index future, interest-rate options, and interest rate swap contracts. These derivatives are used for several purposes including the management of yield curve and duration on fixed income investments, and for the overlay of cash balances to maintain equity and fixed income exposure in accordance with asset allocation policy. Hedge accounting is not used for any derivative contracts. The primary risks of these derivative instruments are interest rate, credit, and equity market risk. By using certain derivative instruments, the Association is exposed to the counterparty's credit risk i.e. the risk that derivative counterparties may not perform in accordance with the contractual provisions. The Association's exposure to counterparty credit risk is limited to the unrealized gains on such transactions. As of December 31, 2010 and December 31, 2009, the total net liability of derivative instruments was $0.3 million and $0.1 million, respectively. In 2010, net realized gains and the change in net unrealized losses on derivatives totaled $4.0 million and $(0.2) million, respectively. The majority of this income from derivatives was net realized gains on interest-rate and stock-index futures. In 2009, the net realized losses and the change in net unrealized gains on derivatives totaled $(0.5) million and $0.2 million, respectively.

4. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2010 and 2009, is summarized as follows:

(in thousands of dollars)		**2010**		**2009**
Funded, undiscounted	$	**6,940,273**	$	6,409,177
Discount		**(5,368,984)**		(4,897,306)
Funded, discounted		**1,571,289**		1,511,871
Unfunded, undiscounted		**1,737,537**		1,554,652
Discount		**(1,542,187)**		(1,374,662)
Unfunded, discounted		**195,350**		179,990
Total, discounted	$	**1,766,639**	$	1,691,861

Funded Liabilities
Activity in the funded liability for losses and loss expenses is summarized as follows:

(in thousands of dollars)		**2010**		**2009**
Balance at January 1				
Funded, undiscounted	$	**6,409,177**	$	5,778,591
Incurred related to				
Current year		**396,017**		382,496
Prior years		**208,963**		329,854
Total incurred		**604,980**		712,350
Paid related to				
Current year		**32**		1,454
Prior years		**73,852**		80,310
Total paid		**73,884**		81,764
Balance at December 31				
Funded, undiscounted		**6,940,273**		6,409,177
Discount		**(5,368,984)**		(4,897,306)
Funded, discounted	$	**1,571,289**	$	1,511,871

Reserves are reviewed periodically and updated based on current claims experience, trends, and economic outlook.

The following table compares the present value of the Association's funded reserve changes during 2010 with those of 2009.

	2010	2009
Discount rate at year end	**7.0%**	7.0%

(in thousands of dollars)		2010		2009
Funded reserves as of prior year end	**$**	**1,511,871**	$	1,435,549
Prior year impact of actuarial adjustments		**(20,266)**		(2,141)
Payments on prior accident years		**(73,852)**		(80,310)
Present value update		**103,246**		97,915
Reserves for current accident year		**50,290**		57,472
Total calendar year funded reserve changes		**59,418**		72,936
Claims receivable from litigation settlement (Note 10)		**-**		3,386
Funded reserves as of year end	**$**	**1,571,289**	$	1,511,871

In 2010, the reduction in prior year loss reserves was due primarily to favorable development on case-incurred losses, which resulted in lower projected ultimate losses.

Unfunded Liabilities
Payments on prior accident years in excess of prefunded limits totaled $1.6 million and $1.3 million in 2010 and 2009, respectively. Anticipated payments in excess of prefunded limits are billed as premiums for the unfunded layer.

The unfunded reserve methodology follows the funded analysis. Discount rates for unfunded reserves are the same as the funded reserves. The table below compares the present value unfunded reserve changes during 2010 with those of 2009.

(in thousands of dollars)		2010		2009
Unfunded reserves as of prior year end	**$**	**179,990**	$	164,372
Prior year changes				
Payments on prior accident years		**(1,613)**		(1,302)
Present value update		**12,543**		11,461
Reserves for the current accident year		**4,430**		5,459
Total calendar year unfunded reserve changes		**15,360**		15,618
Unfunded reserves as of year end	**$**	**195,350**	$	179,990

Reserve changes for the unfunded layer do not have an impact on accumulated deficit because on the statement of operations, unfunded losses incurred (which include reserve changes) are offset by an unfunded deferred premium.

5. Employee Benefit Plans

Defined Benefit Pension Plan

The Association has a non-contributory defined benefit pension plan that covers employees who meet eligibility and entry date requirements. The Association uses a December 31 measurement date. As of December 31, 2010, the plan's investment mix was 60% equities and 40% debt securities. The determination of the long-term rate of return on plan assets was based on historical rates of return and future estimated returns for the individual assets classes. Based on the target allocation, the overall expected long-term rate of return for the plan is 8%.

Benefits paid in 2010 were $23,106. The estimated benefit payments for 2011 are $27,350.

(in thousands of dollars)		**2010**		**2009**
Benefit obligation, end of year	**$**	**3,529**	$	2,672
Plan assets at fair value, end of year		**2,543**		2,099
Funded status (recognized as a component of accrued liabilities and accumulated comprehensive income)	**$**	**(986)**	$	(573)

(in thousands of dollars)		**2010**		**2009**
Employer contributions	**$**	**186**	$	523
Discount rate		**5.06%**		5.86%
Expected return on plan assets		**8.00%**		8.00%
Rate of compensation increase		**4.00%**		4.00%

The fair value of the plan's assets was determined in accordance with ASC 820, Fair Value Measurements, using the three levels of inputs described in Note 2.

The fair value of plan equities of $1.5 million was determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. The fair value of plan debt securities of $1.0 million was determined using Level 2 inputs consisting of quoted prices for similar securities in active markets. There were no securities where the fair value was determined using Level 3 inputs, i.e. unobservable inputs supported by little or no market activity.

Defined Contribution Plan

The Association sponsors a defined contribution plan, which covers employees who meet the plan's eligibility requirements and have completed the service requirements, under Section 401(k) of the Internal Revenue Code. Participants can contribute a certain percentage of their compensation (subject to annual contribution limits) to the plan. In 2010 and 2009, the Association matched a maximum of 4.0% and 6.0% of participant eligible compensation, respectively. The Association's matching contribution to the plan was $0.1 million in both 2010 and 2009.

6. Income Tax Status

In 1996, the Association was granted an exemption from federal income taxes under Section 501(c)(27)(a) of the Internal Revenue Code. The Association received a tax-exempt determination letter from the Internal Revenue Service dated February 7, 1997. Therefore, no provision for income taxes is included in the Association's financial statements.

7. Fair Value Measurements

Accounting Standards Codification 820 defines fair value as the exit price that would be received for an asset in the principal or most advantageous market for the asset. See Note 2 for the three levels of inputs that may be used in measuring fair value. We do not have any assets or liabilities measured at fair value on a non-recurring basis at December 31, 2010 or December 31, 2009. There were no securities as of December 31, 2010 and 2009, respectively, where the fair value was determined using Level 3 inputs, i.e. unobservable inputs supported by little or no market activity.

Assets measured at fair value on a recurring basis are summarized below:

(in thousands of dollars)	**Fair Value Measurement Using**			
As of December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Short-term	**$ 45,220**	**$ 1,621**	**$ -**	**$ 46,841**
Common stocks	**$ 970,756**	**$ -**	**$ -**	**$ 970,756**
Preferred stocks	**-**	**7,494**	**-**	**7,494**
Total stocks	**$ 970,756**	**$ 7,494**	**$ -**	**$ 978,250**
U.S. Treasury securities and obligations of U.S. government and agencies	**$ 164,583**	**$ 12,047**	**$ -**	**$ 176,630**
Corporate debt securities	**-**	**227,735**	**-**	**227,735**
Mortgage-backed securities	**-**	**176,985**	**-**	**176,985**
Total bonds	**$ 164,583**	**$ 416,767**	**$ -**	**$ 581,350**

(in thousands of dollars)	**Fair Value Measurement Using**			
As of December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Short-term	$ -	$ 1,657	$ -	$ 1,657
Common stocks	$ 810,873	$ -	$ -	$ 810,873
Preferred stocks	-	5,686	-	5,686
Total stocks	$ 810,873	$ 5,686	$ -	$ 816,559
U.S. Treasury securities and obligations of U.S. government and agencies	$ 148,774	$ 5,143	$ -	$ 153,917
Corporate debt securities	-	266,833	-	266,833
Mortgage-backed securities	-	83,486	-	83,486
Total bonds	$ 148,774	$ 355,462	$ -	$ 504,236

8. Cash Flows

A reconciliation of net income (loss) to net cash provided by operating activities for the years ended December 31, 2010 and 2009 is as follows:

(in thousands of dollars)	**2010**	**2009**
Net gain (loss)	**$ 42,503**	$ (92,536)
Adjustments to reconcile net loss to net cash provided by operating activities		
Net realized investment (gains) losses	**(101,566)**	22,606
Decrease in claims receivable from litigation settlement	**-**	3,386
Decrease (increase) in funded uncollected reinsurance premiums, net of accrued premium adjustments	**1,403**	(1,624)
Increase in liability for funded losses and loss expenses	**59,418**	76,322
Other, net	**2,170**	(4,191)
Total adjustments	**(38,575)**	96,499
Net cash provided by operating activities	**$ 3,928**	$ 3,963

9. Assessments

On May 19, 2009 the Board declared deficient premium assessments to members of $178 million and deficiency assessments to self-insurer members and workers' compensation policyholders of $90 million.

Deficient Premium Assessments
The deficient premium assessments are retrospective in nature, and are based on members' historic WCRA exposures and selected coverage layers from 1979 to 2008. All insurers and self-insurers who were members of the WCRA on December 31, 2008, are obligated to pay deficient premium assessments.

The deficient premium assessments are payable in five equal annual installments, with the first installment due on July 15, 2010, and subsequent installments due on each February 1, 2011 through 2014. Members were given the options of prepaying their entire five-year deficient premium assessment on December 1, 2009, July 15, 2010, February 1, 2011, 2012 or 2013, and having the assessment obligation discounted at an annual rate of 7%.

In both 2010 and 2009, the Association recorded an installment of $35.8 million of the deficient premium assessments as a contribution to capital. The deficient premium assessments are being recorded on an installment basis due to reasonable uncertainty regarding continuation of the assessments over the full five years. The Board Resolution declaring the assessments provides that annually the Board will determine whether additional capital produced by earlier assessments, improved investment performance, and/or adjustments in loss reserve requirements warrant continuation of the assessments.

As of December 31, 2010 and 2009, members had prepaid discounted assessments totaling $105.9 million and $85.7 million, respectively. In 2010 and 2009, installments of the total undiscounted amount of the prepaid assessments were recorded as a contribution to capital. As of December 31, 2010 and 2009, the respective remaining portions of the prepaid assessments were recorded as deferred premium assessments. The prepayment discount is being amortized at an annual rate of 7%. Amortization of $6.1 million and $0.5 million was recorded as an offset to investment income in 2010 and 2009, respectively. As of December 31, 2010 and 2009, a deficient premium receivable was recorded for the respective portions of the 2010 and 2009 installments of the deficient premium assessments that were not prepaid.

Deficiency Assessments
The deficiency assessments are prospective in nature, and will be determined on a year-to-year basis over the five year period, 2010 through 2014. The exposure base for these deficiency assessments will be calculated in accordance with the policy year accumulated standard earned premium at Designated Statistical Reporting ("DSR") level methodology as defined by the Minnesota Workers' Compensation Insurers Association. For each year of the deficiency assessments, self-insurers and policyholders will pay deficiency assessments based on their estimated DSR premium for the year, subject to subsequent true-up audit adjustments. Deficiency assessments of $11.8 million were recorded as a contribution to capital in 2010.

10. Contingencies

During 2008, the Association reached a $20 million settlement of a lawsuit against American International Group ("AIG") charging that AIG had understated its workers' compensation premiums in Minnesota since 1985. The settlement compensated the Association for unpaid reinsurance premiums and lost investment income. The Association received $16.5 million in cash and recorded a $3.5 million receivable for offsets against future claims payable to AIG. In 2008 and 2009, the $3.5 million receivable was offset against claims payable.

In October 2008, the Association, along with three other Minnesota nonprofit organizations, filed a lawsuit against Wells Fargo Bank, N.A., relating to its securities lending program. The lawsuit was filed in Minnesota District Court in Ramsey County. The trial was concluded in June 2010. The jury found that Wells Fargo Bank had breached its fiduciary duty to the plaintiffs and violated the Minnesota Consumer Fraud statute. Based on the jury verdict, the court entered judgment for the Association in the amount of $12 million. Subsequently, in a Post Judgment Order, the court found that the WCRA and the other plaintiffs are also entitled to an award of attorney's fees, litigation costs, forfeiture of certain fees by Wells Fargo, and pre-judgment interest, in amounts to be determined. In that the legal proceedings are not concluded, the Association did not record a benefit from the lawsuit in the 2010 financial statements.

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