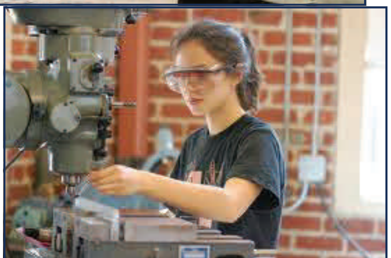
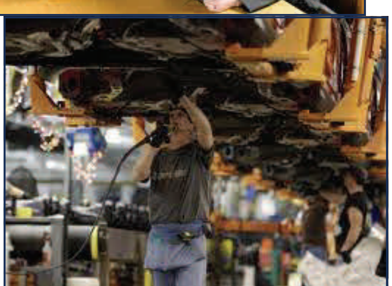








WCRA®

Workers' Compensation Reinsurance Association®

2012 Annual Report

To Our Members

Don't Stop Thinking About Tomorrow
~Fleetwood Mac

The nature of our business at the WCRA is such that we are always thinking about tomorrow. In fact, we need to plan for 70 or more years of tomorrows as we project our future financial obligations to our members and responsibilities to injured workers. This need to plan carefully became even more important during 2012 as your Board of Directors prepared for significant leadership changes expected to take place in 2013 and 2014. Carl "Buzz" Cummins, WCRA president and CEO, plans to retire late in 2013 after 20 years with the Association; and Donald Swanson, WCRA vice president of finance and investments, is planning to retire in September 2014.

In order to assure a smooth leadership transition, the Board put in place a series of projects designed to stabilize the WCRA's long-term operational and financial future.

The Board appointed a search committee led by Board chair Stuart Henderson to identify and recommend candidates to succeed Mr. Cummins as president of the Association. The search committee retained Cincinnatus, Inc. to manage the search, and the Board plans to select the new president in September or October of 2013. The Board will then work with the new president to select Mr. Swanson's successor in 2014.

For several years, the Association has worked with members and key constituencies to secure support for legislation to eliminate the WCRA's "prefunded limit." This statutory change would result in slightly higher premiums for members in the short term, but would save members an estimated $300 million dollars in premium over the next 30 to 40 years. With the support of the Commissioner of Labor and Industry, the Minnesota Self-Insurers' Association, the Insurance Federation of Minnesota, and organized labor, the Board decided to seek legislative approval of this change during the 2013 legislative session. If this legislation is enacted, it will help to ensure that Minnesota continues to be the only state where unlimited workers' compensation reinsurance is available to all insurers and self-insurers.

Over the past 20 years, the use of a variety of information systems has enabled the Association to improve operating efficiency, control costs, and enhance communications with members. A new website was launched as an improved resource for members, but an in-depth review of future information technology requirements indicated that a comprehensive redesign of existing systems was necessary. In December 2012, the Association selected Tropics Software Technologies, a company specializing in software for workers' compensation insurers, to provide the WCRA's new systems. WCRA staff will work closely with Tropics to customize its "Breeze" software product to serve the Association's reinsurance needs. The new system is expected to be completed in 2014.

As the audited 2012 financial results indicate, the combination of strong investment performance and continuation of the assessments under the Surplus Distribution Recovery Program resulted in year-end capital of $153 million. This is a substantial improvement over the 2011 year-end deficit of $8 million and a remarkable recovery from the 2008 deficit of $424 million. The WCRA Investment Committee, however, has raised the question of whether the Association's discount rate assumption of 7 percent is sustainable given the reduced returns that are expected in the fixed income markets. As a result, the Board directed staff to conduct studies of the economic assumptions used by the WCRA in setting rates and reserves as well as alternative investment structures the Association might consider. These reports will be submitted to the Board of Directors in June 2013.

As the WCRA approaches its 35th year in business, we would like to acknowledge the support and cooperation we have received from our member organizations. The evolutionary and occasionally dramatic changes that have taken place in the workers' compensation insurance industry and in the financial world have presented challenges for all of us, but your Association has kept pace with those changes. The plans that are in place to prepare for the challenges of tomorrow will assure that the WCRA retains the financial strength and stability to meet your needs long into the future.

Finally, we would like to acknowledge WCRA director Howard Bicker's singular contributions to the financial success of the Association. He has generously shared his expertise and the resources of the State Board of Investment staff for more than 27 years. Over that time he has steered the Association's investment portfolio to an annualized return of over 9 percent per year. We wish Howard well in his retirement.

Carl W. Cummins III
WCRA President and CEO

Stuart C. Henderson
WCRA Board Chair

WCRA VISION

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

2012 Financial Results
Management's Summary Analysis

OVERVIEW

The WCRA experienced a fourth consecutive year of financial improvement in 2012. At December 31, 2012, the balance sheet capital was $153 million, an improvement of $161 million from the December 31, 2011 deficit of $8 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 2012, significantly above the assumed return of 7 percent. In addition, the WCRA recorded a contribution to capital of $53 million from the Surplus Distribution Recovery Program approved in 2009.

The WCRA's cash flow from operating activities was $22 million in 2012, up significantly from $5 million in 2011. This increase was due primarily to $13 million of litigation income received. The WCRA continues to have substantial liquidity and met all of its financial obligations on a timely basis in 2012.

OPERATING RESULTS AND COMPREHENSIVE INCOME (LOSS)

PREMIUMS AND LOSSES

The WCRA earned $47 million in funded premiums in 2012, down from $49 million in 2011. This decrease was due to a reduction in exposure base and an increase in prior year return premiums.

Funded losses and loss expenses incurred for 2012 were $149 million, up significantly from $59 million in 2011. This increase was due primarily to actuarial adjustments of prior accident year losses in 2011. Prior accident year losses were reduced by $100 million in 2011, but there was no reduction in 2012. The reduction in prior year losses in 2011was due primarily to favorable development on case reserves which resulted in lower projected ultimate losses.

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

$ Millions	2012	2011
Prior accident years:		
Present value update	$ 106	$ 108
Actuarial adjustments	0	(100)
Total prior accident years	106	8
Current accident year	43	51
Total funded losses and loss expenses incurred	**$ 149**	**$ 59**

INVESTMENT PERFORMANCE

For the year ended December 31, 2012, the investment portfolio returned 13 percent compared to a return of 1 percent in 2011. In both 2012 and 2011, the WCRA's assumed rate of investment return was 7 percent. The 2012 investment performance was due primarily to strong returns in the domestic and international equity markets. In 2012, both domestic and international equities returned 17 percent. In 2011, international equities lost 13 percent and domestic equities returned only 1 percent.

The components of investment results are shown below.

$ Millions	2012	2011
Investment income, net of related expenses	$ 31	$ 30
Net realized investment gains	39	7
Change in unrealized gains (losses) on securities	129	(28)
Total investment results	**$199**	**$ 9**

In 2012 and 2011, 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 (LOSS)

The WCRA recorded comprehensive income of $108 million in 2012, compared to a comprehensive loss of $3 million in 2011. Comprehensive income consists of net income (loss) and other comprehensive income, which includes the change in unrealized gains (losses) on investments, 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. In 2012, the comprehensive income was due primarily to strong investment performance, including unrealized investment gains of $129 million. In 2011, the comprehensive loss was due primarily to unrealized losses on investments.

BALANCE SHEET

ASSETS AND LIABILITIES

Total assets were $2,133 million at December 31, 2012 compared with $1,854 million at the end of 2011. The increase in total assets was due primarily to an increase in invested assets.

Total liabilities were $1,981 million at December 31, 2012 compared with liabilities of $1,862 million at December 31, 2011. The increase in liabilities was due primarily to an increase in the liabilities for losses and loss expenses and an increase in the amount due to securities brokers for unsettled securities transactions.

The WCRA's largest liability is the reserve for funded losses and loss expenses. This liability totaled $1,629 million at December 31, 2012 compared with $1,554 million at December 31, 2011. 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	2012	2011
Funded reserves as of January 1	$ 1,554	$ 1,571
Losses and loss expenses incurred:		
Prior accident years	106	8
Current accident year	43	51
Total incurred	149	59
Losses and loss expenses paid	(74)	(76)
Funded reserves as of December 31	**$ 1,629**	**$ 1,554**

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

The liability for unfunded losses and loss expenses totaled $177 million at December 31, 2012 compared to $167 million at December 31, 2011. 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 2012, the $10 million increase in this liability was due to the present value update and reserves for the current accident year. In 2011, the $28 million decrease in this liability was due to a $42 million reduction in prior accident year loss reserves. This prior-year impact was due to favorable case reserve development. Unfunded deferred premium revenue of $13 million was recognized in 2012, concurrent with incurred unfunded losses and loss expenses of $13 million. Loss payments in excess of prefunded limits totaled $3.2 million and $1.8 million in 2012 and 2011, respectively.

CAPITAL

At December 31, 2012, the WCRA had accumulated balance sheet capital of $153 million, an improvement of $161 million from the December 31, 2011 deficit of $8 million. This improvement was primarily due to strong investment results and the continuation of the assessment program. The investment portfolio returned 13 percent in 2012, significantly above the assumed return of 7 percent. In addition, the WCRA recorded a contribution to capital of $53 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. The WCRA recorded installments of $35 million of deficient premium assessments as a contribution to capital in 2012 and 2011. 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 are being determined on a year-to-year basis over the five year period, 2010 through 2014. Deficiency assessments of $18 million were recorded as a contribution to capital in 2012 and 2011.

CASH FLOW AND LIQUIDITY

The WCRA's cash flow from operating activities was $22 million in 2012, up from $5 million in 2011. This increase was due primarily to $13 million of litigation income received. The WCRA continues to have substantial liquidity and met all of its financial obligations on a timely basis in 2012. 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.

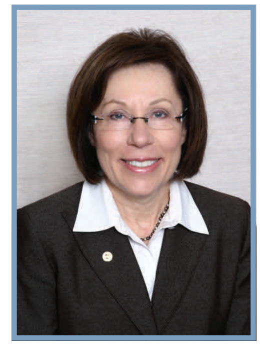
Stuart Henderson, Chair
Western National Insurance Group

WCRA Board of Directors

Howard Bicker
Minnesota State Board of Investment

Kristin Hanson
Minnesota Management and Budget

David Hennes
The Toro Company



Sharyle Knutson
Minnesota AFL-CIO

Jane Jasper Krumrie
Federated Insurance Companies

Robert Lund, Vice Chair
SFM

Gary Nelson
Medtronic, Inc.

Edward Reynoso
Teamsters Joint Council 32 DRIVE

Wayne Simoneau
Public Representative

Michele Spencer
Ecumen

Michael Thoma
The Travelers Companies, Inc.

Allison Waggoner
DCI, Inc.

WCRA Senior Management

Carl (Buzz) Cummins III
President and
Chief Executive Officer

James Heer
Vice President
Actuarial

Elisabeth Skoglund
Vice President
Claims & Information Systems

Cynthia Smith
Vice President
Operations
and
Corporate Secretary

Donald Swanson
Vice President
Finance & Investments
and
Corporate Treasurer

WCRA Staff

Ann Dominik | Reinsurance Claims Specialist
Jodi Elleraas | Administrative Support
Mary Fraser | Administrative Assistant
Dawn Gagnelius | Reinsurance Claims Examiner
Natalie Haefner | Director of Injury Management
Thor Haugen | Reinsurance Claims Specialist
Greg Jeans | Claims Account Manager
David Jerden | Premium Field Auditor
Dan Lovhaug | Actuarial Assistant
Jeanne Mann | Administrative Assistant
Eva McClellan | Web Content Coordinator and Administrative Assistant
Karen Newcom | Administrative Assistant
Julie Olson | Acting Director of Claims
Tom Reynen | Programmer/Developer
Jim Sanem | Senior Premium Audit Specialist
Sherry Staffa | Reinsurance Claims Specialist
Dory Sullivan | Member Services and Financial Assistant
Lori Thompson | Corporate Controller
Tony Tio | Actuary
Annie Whitney | Network and Computer Systems Administrator

Our 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.

Workers' Compensation Reinsurance Association

Financial Statements
December 31, 2012 and 2011

pwc

Independent Auditor's Report

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

We have audited the accompanying financial statements of Workers' Compensation Reinsurance Association (the "Association"), which comprise the balance sheets as of December 31, 2012 and December 31, 2011, and the related statements of operations, comprehensive income (loss) and accumulated capital (deficit) and its cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association at December 31, 2012 and December 31, 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 27, 2013

PricewaterhouseCoopers LLP, Suite 1400, 225 South Sixth Street, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com/us

Workers' Compensation Reinsurance Association
Balance Sheets
December 31, 2012 and 2011

(in thousands of dollars)	2012	2011
Assets		
Investments, at fair value		
Cash and cash equivalents	**$ 79,954**	$ 21,638
Short-term	**5,470**	4,300
Common and preferred stock	**1,086,306**	918,503
Bonds	**707,241**	672,390
Total investments	**1,878,971**	1,616,831
Uncollected reinsurance premiums		
Deferred for unfunded losses	**177,935**	168,229
Total uncollected reinsurance premiums	**177,935**	168,229
Assessments receivable	**8,569**	10,694
Accrued investment income	**4,450**	5,689
Due from securities brokers	**62,457**	51,688
Prepaid expenses and other assets	**430**	365
Property and equipment, less accumulated depreciation of $727 and $607 at December 31, 2012 and 2011, respectively	**412**	271
Total assets	**$ 2,133,224**	$ 1,853,767
Liabilities and Accumulated Capital (Deficit)		
Liabilities		
Losses and loss expenses		
Funded	**$ 1,628,959**	$ 1,553,694
Unfunded	**176,801**	167,334
Total losses and loss expenses	**1,805,760**	1,721,028
Deferred assessments	**26,275**	46,411
Due to securities brokers	**146,136**	92,155
Accounts payable and other liabilities	**2,393**	2,569
Total liabilities	**1,980,564**	1,862,163
Accumulated deficit from operations	**(145,904)**	(178,298)
Accumulated other comprehensive income	**298,564**	169,902
Accumulated capital (deficit)	**152,660**	(8,396)
Total liabilities and accumulated capital (deficit)	**$ 2,133,224**	$ 1,853,767

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

Workers' Compensation Reinsurance Association
Statements of Operations, Comprehensive Income (Loss) and Accumulated Capital (Deficit)
Years Ended December 31, 2012 and 2011

(in thousands of dollars)	**2012**	2011
Revenues		
Reinsurance premiums		
Funded earned	**$ 46,983**	$ 49,125
Unfunded deferred	**12,705**	(26,205)
Investment income, net of related expenses	**31,228**	30,343
Realized investment gains (losses)		
Net realized investment gains	**44,689**	26,650
Net realized impairment (losses)	**(5,659)**	(19,964)
Litigation income	**13,103**	-
Total revenues	**143,049**	59,949
Expenses		
Losses and loss expenses		
Funded	**148,720**	58,559
Unfunded	**12,705**	(26,205)
Losses and loss expenses incurred	**161,425**	32,354
Operating and administrative expenses	**2,489**	2,058
Total expenses	**163,914**	34,412
Net (loss) income	**(20,865)**	25,537
Other comprehensive income (loss)		
Change in net unrealized gains (losses) on securities and foreign currency translation adjustment	**128,662**	(28,459)
Comprehensive income (loss)	**107,797**	(2,922)
Assessments	**53,259**	53,608
Accumulated deficit, beginning of year	**(8,396)**	(59,082)
Accumulated capital (deficit), end of year	**$ 152,660**	$ (8,396)

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

Workers' Compensation Reinsurance Association
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

(in thousands of dollars)	2012	2011
Cash flows from operating activities		
Net premiums collected	**$ 49,982**	$ 49,416
Interest and dividends received, net of related expenses	**37,534**	35,161
Litigation income received	**13,103**	-
Losses and loss expenses paid	**(76,693)**	(77,965)
Operating and administrative expenses paid	**(2,177)**	(1,753)
Net cash provided by operating activities	**21,749**	4,859
Cash flows from investing activities		
Sale and maturities of investments		
Short-term, net	**-**	42,541
Common and preferred stocks	**142,266**	557,576
Bonds	**4,105,935**	3,335,116
Purchase of investments		
Short-term, net	**(1,170)**	-
Common and preferred stocks	**(167,509)**	(548,119)
Bonds	**(4,074,533)**	(3,459,396)
Purchase of equipment	**(269)**	(231)
Net cash provided by (used in) investing activities	**4,720**	(72,513)
Cash flows from financing activities		
Assessments	**31,847**	29,408
Net cash provided by financing activities	**31,847**	29,408
Net increase (decrease) in cash and cash equivalents	**58,316**	(38,246)
Cash and cash equivalents		
Beginning of year	**21,638**	59,884
End of year	**$ 79,954**	$ 21,638

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 2012, members selected one of three maximum per-loss occurrence retention limits, which were $460,000, $920,000 or $1,840,000. For 2011, members selected one of three maximum per-loss occurrence retention limits, which were $450,000, $900,000 or $1,800,000. 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 $9.2 million and $9.0 million per occurrence for 2012 and 2011, 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.

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.

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 future 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 may 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 may 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 $3.0 million and $0.3 million were billed in 2012 and 2011, respectively.

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.

The selection of the discount rate is based on a very long-term investment horizon, corresponding to the nature of the Association's funded and unfunded losses and loss expenses liabilities.

Subsequent Events
The Association has evaluated events that have occurred subsequent to December 31, 2012, through February 27, 2013.

New Accounting Pronouncements
In June 2011, the FASB issued ASU No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income.*" ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of accumulated capital. It requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements.

3. Investments

The cost of common and preferred stocks, amortized cost of bonds, and estimated fair values at December 31, 2012 and 2011, are as follows:

	2012			
(in thousands of dollars)	**Cost/ Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Cash and cash equivalents	$ 79,951	$ 3	-	$ 79,954
Short-term	5,469	2	(1)	5,470
Common stocks	$ 807,747	$ 275,895	$ (5,547)	$ 1,078,095
Preferred stocks	5,368	2,843	-	8,211
Total stocks	$ 813,115	$ 278,738	$ (5,547)	$ 1,086,306
U.S. Treasury securities and obligations of U.S. government and agencies	$ 281,827	$ 6,547	$ (1,081)	$ 287,293
Corporate debt securities	206,202	16,530	(398)	222,334
Mortgage-backed securities	192,158	5,575	(119)	197,614
Total bonds	$ 680,187	$ 28,652	$ (1,598)	$ 707,241

(in thousands of dollars)	2011 Cost/ Amortized Cost	2011 Gross Unrealized Gains	2011 Gross Unrealized Losses	2011 Estimated Fair Value
Cash and cash equivalents	$ 21,638	$ -	$ -	$ 21,638
Short-term	4,300	-	-	4,300
Common stocks	$ 772,735	$ 151,071	$ (11,805)	$ 912,001
Preferred stocks	4,989	1,514	(1)	6,502
Total stocks	$ 777,724	$ 152,585	$ (11,806)	$ 918,503
U.S. Treasury securities and obligations of U.S. government and agencies	$ 274,376	$ 18,768	$ (121)	$ 293,023
Corporate debt securities	225,705	11,920	(3,752)	233,873
Mortgage-backed securities	141,075	4,542	(123)	145,494
Total bonds	$ 641,156	$ 35,230	$ (3,996)	$ 672,390

Total unrealized losses were $7.1 million and $15.8 million at December 31, 2012 and 2011, respectively. The following tables provide a breakdown of unrealized losses at December 31, 2012 and 2011. 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, 2012 and 2011 are as follows:

Unrealized Holding Losses as of December 31, 2012

	Less than 12 months		12 months or more		Total	
(in thousands of dollars)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Cash	$ 30	$ -	$ -	$ -	$ 30	$ -
Short-term	2,799	(1)	-	-	2,799	(1)
Common stocks	$ 36,591	$ (3,252)	$ 13,733	$ (2,295)	$ 50,324	$ (5,547)
Preferred stocks	-	-	-	-	-	-
Total stocks	$ 36,591	$ (3,252)	$ 13,733	$ (2,295)	$ 50,324	$ (5,547)
U.S. Treasury securities and obligations of U.S. government and agencies	$ 131,857	$ (1,081)	$ -	$ -	$ 131,857	$ (1,081)
Corporate debt securities	14,447	(71)	9,574	(327)	24,021	(398)
Mortgage-backed securities	11,673	(118)	2,600	(1)	14,273	(119)
Total bonds	$ 157,977	$ (1,270)	$ 12,174	$ (328)	$ 170,151	$ (1,598)

	Unrealized Holding Losses as of December 31, 2011					
	Less than 12 months		12 months or more		Total	
(in thousands of dollars)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Short-term	$ -	$ -	$ -	$ -	$ -	$ -
Common stocks	$ 94,666	$ (11,327)	$ 4,196	$ (478)	$ 98,862	$ (11,805)
Preferred stocks	491	(1)	-	-	491	(1)
Total stocks	$ 95,157	$ (11,328)	$ 4,196	$ (478)	$ 99,353	$ (11,806)
U.S. Treasury securities and obligations of U.S. government and agencies	$ 21,909	$ (109)	$ 904	$ (5)	$ 22,813	$ (114)
Corporate debt securities	87,789	(2,856)	12,135	(903)	99,924	(3,759)
Mortgage-backed securities	(21,069)	(123)	-	-	(21,069)	(123)
Total bonds	$ 88,629	$ (3,088)	$ 13,039	$ (908)	$ 101,668	$ (3,996)

The amortized cost and estimated fair value of debt securities at December 31, 2012, by contractual maturity, are shown below:

(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 22,469	$ 22,941
Due after one year through five years	166,359	171,334
Due after five years through ten years	154,260	157,126
Due after ten years	337,099	355,840
	$ 680,187	$ 707,241

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 2012, 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 2012, the total write-down for all investments was $5.6 million and this entire amount was recorded in earnings as a realized loss. The Association also wrote down $19.9 million of individual securities to fair value in 2011.

In 2012, net realized gains consisted of gains on securities of approximately $39.2 million and foreign currency translation loss of $0.2 million. In 2011, net realized gains consisted of gains on securities of approximately $7.0 million and foreign currency translation loss of $0.3 million.

Gross gains of $74.5 million and $92.4 million, and gross losses of $29.9 million and $65.8 million, were realized on sales of investments during 2012 and 2011, respectively. Additional realized losses of $5.6 million and $19.9 million were recognized due to other-than-temporary impairment of securities during 2012 and 2011, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2012 and 2011 are summarized below:

	Net Investment Income		Net Realized Gains (Losses)	
(in thousands of dollars)	**2012**	**2011**	**2012**	**2011**
Cash and cash equivalents	**$ 123**	$ 218	**$ 11**	$ -
Common and preferred stocks	**18,125**	16,859	**9,420**	(4,459)
Bonds	**19,579**	21,028	**29,599**	11,145
Securities lending	**15**	15	**-**	-
Miscellaneous	**897**	1,236	**-**	-
	38,739	39,356	**$ 39,030**	$ 6,686
Investment expenses	**(4,113)**	(4,226)		
Interest expense on prepaid assessments	**(3,398)**	(4,787)		
	$ 31,228	$ 30,343		

Other comprehensive income in 2012 and 2011 is comprised of the change in unrealized (losses) 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)	**2012**	**2011**
Change in net unrealized gains (losses) on securities	**$ 121,738**	$ (41,744)
Adjustment of losses included in net (loss) income	**5,659**	19,964
Foreign currency net translation gain (loss)	**839**	(5,811)
Pension benefit obligation	**426**	(868)
Total other comprehensive income (loss)	**$ 128,662**	$ (28,459)

(in thousands of dollars)	**2012**	**2011**
Accumulated other comprehensive income consists of		
Net unrealized gains on securities	**$ 298,228**	$ 170,831
Foreign currency translation gain	**2,021**	1,182
Pension benefit obligation	**(1,685)**	(2,111)
Total accumulated other comprehensive income	**$ 298,564**	$ 169,902

The Association has entered into interest-rate future, stock index future, interest-rate options, and foreign exchange forward contracts. These derivatives are used for several purposes including the management of yield curve and duration on fixed income investments, for the overlay of cash balances to maintain equity and fixed income exposure in accordance with asset allocation policy, and for the management of foreign currency exposure. Hedge accounting is not used for any derivative contracts. The primary risks of these derivative instruments are interest rate, credit, equity market, and foreign currency 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, 2012, the total net asset of derivative instruments was $0.3 million and as of December 31, 2011, the total net liability was $0.1 million. In 2012, net realized gains and the change in net unrealized gains on derivatives totaled $1.0 million and $0.3 million, respectively. The net realized gains from derivatives were primarily from interest-rate and stock-index futures. In 2011, net realized losses and the change in net unrealized gains on derivatives totaled $(2.8) million and less than $0.1 million, respectively. The net realized losses from derivatives were primarily from interest-rate and stock-index futures.

4. 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 nonrecurring basis at December 31, 2012 or December 31, 2011. There were no securities as of December 31, 2012 and 2011, 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, 2012	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Cash equivalents	$ -	$ 73,136	$ -	$ 73,136
Short-term	200	5,270	-	5,470
Common stocks	$ 1,078,095	$ -	$ -	$ 1,078,095
Preferred stocks	2,480	5,731	-	8,211
Total stocks	$ 1,080,575	$ 5,731	$ -	$ 1,086,306
U.S. Treasury securities and obligations of U.S. government and agencies	$ 252,284	$ 35,009	$ -	$ 287,293
Corporate debt securities	-	222,334	-	222,334
Mortgage-backed securities	-	197,614	-	197,614
Total bonds	$ 252,284	$ 454,957	$ -	$ 707,241

(in thousands of dollars)	Fair Value Measurement Using			
As of December 31, 2011	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Short-term	$ 21,638	$ 4,300	$ -	$ 25,938
Common stocks	$ 912,001	$ -	$ -	$ 912,001
Preferred stocks	-	6,502	-	6,502
Total stocks	$ 912,001	$ 6,502	$ -	$ 918,503
U.S. Treasury securities and obligations of U.S. government and agencies	$ 285,906	$ 7,117	$ -	$ 293,023
Corporate debt securities	-	233,873	-	233,873
Mortgage-backed securities	-	145,494	-	145,494
Total bonds	$ 285,906	$ 386,484	$ -	$ 672,390

5. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2012 and 2011, is summarized as follows:

(in thousands of dollars)	**2012**	**2011**
Funded, undiscounted	**$ 7,409,040**	$ 6,894,306
Discount	**(5,780,081)**	(5,340,612)
Funded, discounted	**1,628,959**	1,553,694
Unfunded, undiscounted	**1,488,477**	1,472,256
Discount	**(1,311,676)**	(1,304,922)
Unfunded, discounted	**176,801**	167,334
Total, discounted	**$ 1,805,760**	$ 1,721,028

Funded Liabilities

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

(in thousands of dollars)	2012	2011
Balance at January 1		
Funded, undiscounted	$ **6,894,306**	$ 6,940,273
Incurred related to		
Current year	**419,581**	395,388
Prior years	**168,608**	(365,202)
Total incurred	**588,189**	30,186
Paid related to		
Current year	**29**	56
Prior years	**73,426**	76,097
Total paid	**73,455**	76,153
Balance at December 31		
Funded, undiscounted	**7,409,040**	6,894,306
Discount	**(5,780,081)**	(5,340,612)
Funded, discounted	$ **1,628,959**	$ 1,553,694

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 2012 with those of 2011.

	2012	2011
Discount rate at year end	**7.0%**	7.0%

(in thousands of dollars)	2012	2011
Funded reserves as of prior year end	$ **1,553,694**	$ 1,571,289
Prior accident year impact of actuarial adjustments	**-**	(100,000)
Payments on prior accident years	**(73,426)**	(76,097)
Present value update	**106,189**	107,327
Reserves for current accident year	**42,502**	51,176
Total calendar year funded reserve changes	**75,265**	(17,595)
Funded reserves as of year end	$ **1,628,959**	$ 1,553,694

In 2011, 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 $3.2 million and $1.8 million in 2012 and 2011, 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 2012 with those of 2011.

(in thousands of dollars)		**2012**		**2011**
Unfunded reserves as of prior year end	**$**	**167,334**	$	195,350
Prior year changes				
Prior accident year impact of actuarial adjustments		**-**		(42,096)
Payments on prior accident years		**(3,238)**		(1,812)
Present value update		**11,600**		13,611
Reserves for the current accident year		**1,105**		2,280
Total calendar year unfunded reserve changes		**9,467**		(28,016)
Unfunded reserves as of year end	**$**	**176,801**	$	167,334

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

In 2011, the reduction in prior year loss reserves was due primarily to favorable development on case-incurred losses, which resulted in lower projected ultimate losses.

6. Employee Benefit Plans

Defined Benefit Pension Plan

The Association has a noncontributory 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, 2012, 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 7.25%.

Benefits paid in 2012 and 2011 were $32,228 and $32,048, respectively. Based on retirement eligibility, the estimated benefit payments for 2013 are $774,945.

(in thousands of dollars)		**2012**		**2011**
Benefit obligation, end of year	**$**	**5,014**	$	4,734
Plan assets at fair value, end of year		**3,297**		2,756
Funded status (recognized as a component of accrued liabilities and accumulated comprehensive income)	**$**	**(1,717)**	$	(1,978)

(in thousands of dollars)	2012	2011
Employer contributions	**$ 206**	$ 190
Discount rate	**4.04%**	4.09%
Expected return on plan assets	**7.25%**	7.25%
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 $2.0 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 $1.3 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 2012 and 2011, the Association matched a maximum 4.0% of participant eligible compensation. The Association's matching contribution to the plan was $0.1 million in both 2012 and 2011.

7. 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.

8. Cash Flows

A reconciliation of net income to net cash provided by operating activities for the years ended December 31, 2012 and 2011 is as follows:

(in thousands of dollars)	2012	2011
Net (loss) income	**$ (20,865)**	$ 25,537
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Net realized investment gains	**(39,030)**	(6,686)
(Increase) decrease in funded uncollected reinsurance premiums, net of accrued premium adjustments	**(42)**	2
Increase (decrease) in liability for funded losses and loss expenses	**75,265**	(17,595)
Other, net	**6,421**	3,601
Total adjustments	**42,614**	(20,678)
Net cash provided by operating activities	**$ 21,749**	$ 4,859

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%.

The Association recorded installments of $35.3 million of the deficient premium assessments as a contribution to capital in 2012 and 2011. 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, 2012 and 2011, members had prepaid discounted assessments totaling $107.6 million and $106.3 million, respectively. In 2012 and 2011, installments of the total undiscounted amount of the prepaid assessments were recorded as a contribution to capital. As of December 31, 2012 and 2011, the remaining portions of the respective prepaid assessments were recorded as deferred premium assessments. The prepayment discount is being amortized at an annual rate of 7%. Amortization of $3.4 million and $4.8 million was recorded as an offset to investment income in 2012 and 2011, respectively. As of December 31, 2012 and 2011, a deficient premium receivable was recorded for the respective portions of the 2012 and 2011 installments of the deficient premium assessments that were not prepaid.

Deficiency Assessments
The deficiency assessments are prospective in nature, and are being determined on a year-to-year basis over the five year period, 2011 through 2015. 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 $18.0 million were recorded as a contribution to capital in 2012 and 2011.

10. Litigation Income

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 ("court"). 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 judgment entered in June 2011, the court found that the WCRA and the other plaintiffs were also entitled to an award of attorney's fees, litigation costs, forfeiture of certain fees by Wells Fargo, and pre-judgment interest. Wells Fargo appealed the case to the Minnesota Court of Appeals and in April 2012 the Minnesota Court of Appeals affirmed all of the decisions from the trial. Wells Fargo then appealed the case to the Minnesota Supreme Court and in June 2012 the Minnesota Supreme Court denied Wells Fargo's petition to hear the case. In July 2012, the Association received the judgment plus other awarded amounts totaling $13.1 million from Wells Fargo. The legal proceedings have been concluded and the Association recorded the $13.1 million as litigation income in the 2012 financial statements.

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