Olsen Thielen & Co., Ltd.
CPAS AND ADVISORS

Minnesota Workers' Compensation Assigned Risk Plan

Financial Statements
Together with
Independent Auditors' Report

December 31, 2017

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

CONTENTS

INDEPENDENT AUDITORS' REPORT

Plan Administrator and the Commerce Department
of the State of Minnesota
Minnesota Workers' Compensation Assigned Risk Plan
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Minnesota Workers' Compensation Assigned Risk Plan (the Plan), which comprise the balance sheet as of December 31, 2017 and 2016, and the related statements of income and comprehensive income, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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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 Plan as of December 31, 2017 and 2016, 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.

Olsen Thielen + Co., Ltd.

Roseville, Minnesota
July 9, 2018

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

BALANCE SHEET
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
INVESTMENTS:		
Fixed Maturities - at Fair Value	**$ 247,975,133**	$ 245,732,314
Equity Securities - at Fair Value	**69,164,298**	64,051,090
Short-Term Investments	**5,173,934**	7,020,909
Total Investments	**322,313,365**	316,804,313
Cash	**2,509,200**	2,254,195
Accrued Interest and Dividends	**1,209,806**	1,028,227
Premiums Receivable, Net	**9,649,372**	11,908,243
Reinsurance Recoverable on Unpaid Losses	**352,488,000**	322,986,000
Reinsurance Recoverable on Paid Losses	**9,054,153**	7,247,979
Deferred Service Carrier Fees	**2,361,321**	3,067,987
Deferred Policy Acquisition Costs	**934,884**	1,053,065
Due From Broker for Security Sales	**88,217**	–
Other Assets	**160,287**	13,708
TOTAL ASSETS	**$ 700,768,605**	$ 666,363,717

LIABILITIES AND POLICYHOLDERS' SURPLUS

	2017	2016
LIABILITIES:		
Reserve for Losses	**$ 537,560,000**	$ 538,046,000
Reserve for Loss Adjustment Expenses	**37,622,000**	36,483,000
Unearned Premiums	**18,431,365**	24,172,354
Due to Broker for Pending Purchases	**14,726**	7,592
Special Compensation Fund Assessment Payable	**2,080,753**	2,571,912
Servicing Carrier Administration Fee Payable	**2,722,615**	3,048,852
Other Liabilities	**513,493**	292,630
Total Liabilities	**598,944,952**	604,622,340
POLICYHOLDERS' SURPLUS:		
Restricted - Terrorism Coverage	**4,482,080**	4,387,025
Appropriated for State of Minnesota	**51,823,653**	11,741,377
Unassigned	**37,321,054**	33,485,508
Accumulated Other Comprehensive Income	**8,196,866**	12,127,467
Total Policyholders' Surplus	**101,823,653**	61,741,377
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 700,768,605**	$ 666,363,717

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF INCOME AND COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUES:		
Net Earned Premiums	**$ 43,418,799**	$ 55,744,934
Net Investment Income	**6,128,017**	5,144,640
Net Realized Capital Gains	**14,862,857**	2,246,500
Total Revenues	**64,409,673**	63,136,074
LOSSES AND EXPENSES INCURRED:		
Losses and Loss Adjustment Expenses	**(2,441,911)**	37,589,855
Servicing Carrier Fees	**6,261,468**	7,880,653
Special Compensation Fund Assessments	**987,643**	1,521,920
Other Underwriting Expenses	**3,848,219**	6,025,061
Total Losses and Expenses Incurred	**8,655,419**	53,017,489
NET INCOME	**55,754,254**	10,118,585
OTHER COMPREHENSIVE INCOME (LOSS):		
Change in Unrealized Appreciation (Depreciation) of Investments	**(3,930,601)**	1,622,792
Other Comprehensive Income (Loss)	**(3,930,601)**	1,622,792
COMPREHENSIVE INCOME	**$ 51,823,653**	$ 11,741,377

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
RESTRICTED - TERRORISM COVERAGE:		
Beginning of Year	**$ 4,387,025**	$ 4,262,713
Transfer From Unassigned Surplus	**95,055**	124,312
End of Year	**4,482,080**	4,387,025
APPROPRIATED FOR STATE OF MINNESOTA:		
Beginning of Year	**11,741,377**	1,355,223
Transfer From Unassigned Surplus	**51,823,653**	11,741,377
Distributions to the State of Minnesota	**(11,741,377)**	(1,355,223)
End of Year	**51,823,653**	11,741,377
UNASSIGNED:		
Beginning of Year	**33,485,508**	35,232,612
Net Income	**55,754,254**	10,118,585
Transfer to Restricted - Terrorism Coverage	**(95,055)**	(124,312)
Transfer to Appropriated for State of Minnesota	**(51,823,653)**	(11,741,377)
End of Year	**37,321,054**	33,485,508
ACCUMULATED OTHER COMPREHENSIVE INCOME:		
Beginning of Year	**12,127,467**	10,504,675
Change in Unrealized Appreciation (Depreciation) of Investments	**(3,930,601)**	1,622,792
End of Year	**8,196,866**	12,127,467
TOTAL POLICYHOLDERS' SURPLUS	**$ 101,823,653**	$ 61,741,377

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

MINNESOTA WORKERS' COMPENSATION ASSIGNED RISK PLAN

STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums Collected, Net of Reinsurance	**$ 39,936,681**	$ 53,176,212
Investment Income Received	**5,830,322**	4,820,052
Loss and Loss Adjustment Expenses Paid, Net of Recoveries	**(28,213,263)**	(30,034,464)
Special Compensation Fund Assessments Paid	**(1,478,802)**	(1,603,800)
Underwriting and Other Expenses Paid	**(9,536,793)**	(13,299,043)
Net Cash Flows From Operating Activities	**6,538,145**	13,058,957
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Fixed Maturities	**(129,678,737)**	(95,559,899)
Purchases of Equity Securities	**(111,240,552)**	(26,228,158)
Proceeds From Sales of Fixed Maturities	**124,997,651**	85,958,773
Proceeds From Sales of Equity Securities	**118,363,714**	23,042,210
Due to/Due From Broker for Security Purchases and Sales	**(81,083)**	(1,902,276)
Paydowns of Fixed Maturities	**1,250,269**	1,221,962
Net Change in Short-Term Investments	**1,846,975**	1,414,418
Distributions to the State of Minnesota	**(11,741,377)**	(1,355,223)
Net Cash Flows From Investing Activities	**(6,283,140)**	(13,408,193)
NET CHANGE IN CASH	**255,005**	(349,236)
CASH at Beginning of Year	**2,254,195**	2,603,431
CASH at End of Year	**$ 2,509,200**	$ 2,254,195

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

NOTE 1 - DESCRIPTION OF PLAN

The Minnesota Workers' Compensation Assigned Risk Plan (the Plan) is the source of workers' compensation and employers' liability coverage for Minnesota employers who have been unable to obtain an insurance policy through the voluntary market. Coverage provided through the Plan is substantially the same as coverage available from licensed workers' compensation insurance companies.

The Plan was established in 1982 and contracts with servicing contractors who review applications, issue policies, collect premiums, pay claims, and perform other administrative duties for the Plan per contractual requirements. To the extent that the assets of the Plan are inadequate to meet its obligations, the Commissioner of the Minnesota Department of Commerce shall assess all licensed workers' compensation insurance companies doing business in the state of Minnesota an amount sufficient to fully fund the obligations of the Plan. The assessment of each insurer shall be in a proportion equal to the proportion that the amount of workers' compensation insurance written by that insurer in Minnesota during the calendar year preceding the assessment bears to the total workers' compensation insurance written in Minnesota during the same calendar year by all licensed insurers. No assessments were made in either 2017 or 2016. The servicing contractors bear no share of the Plan's liabilities.

Since inception, the Plan has contracted with seven servicing contractors to administer the program. These contractors are as follows:

- Berkley Risk Administrators Company, LLC (BRAC);
- RTW, Inc. (RTW);
- SFM Risk Solutions, Inc. (SFM);
- Employers Insurance of Wausau, a Mutual Company (EIW);
- Occupational Healthcare Management Services (OHMS);
- Deferred Compensation Administrators, Inc. (DCA); and
- St. Paul Risk Services, Inc. (SPRS)

Policies are allocated to servicing carriers according to each carrier's contractual percentage participation in the program. The percentage participations have varied over time, as outlined in the following chart:

	Percentage Participation						
Policy Inception Period	BRAC	RTW	SFM	EIW	OHMS	DCA	SPRS
Inception - 6/30/83	7.0%	–%	–%	30.0%	–%	3.0%	60.0%
7/1/83 - 12/31/86	18.0	–	–	67.0	–	15.0	–
1/1/87 - 3/31/89	50.0	–	–	33.0	–	17.0	–
4/1/89 - 3/31/92	65.0	–	–	35.0	–	–	–
4/1/92 - 3/31/94	50.0	–	–	50.0	–	–	–
4/1/94 - 3/31/97	50.0	–	–	25.0	25.0	–	–
4/1/97 - 6/30/00	50.0	–	–	50.0	–	–	–
7/1/00 - 6/30/04	100.0	–	–	–	–	–	–
7/1/04 - 12/31/09	75.0	25.0	–	–	–	–	–
1/1/10 - 12/31/16	33.3	33.3	33.3	–	–	–	–
1/1/17 - 12/31/17	–	40.0	60.0	–	–	–	–

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Plan's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Risks and Uncertainties

Certain risks and uncertainties are inherent in the Plan's day-to-day operations and in the process of preparing its financial statements. The more significant of those risks and uncertainties, as well as the Plan's methods for mitigating, quantifying, and minimizing such risks, are presented below and throughout the notes to the financial statements.

Financial Statements Risk

The preparation of financial statements requires the Plan administrator to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities. The most significant of these amounts is the liability for loss and loss adjustment expense (LAE) reserves. While the Plan administrator believes the reserve for losses and LAE makes a reasonable provision to cover the ultimate liability, it is reasonably possible that the actual ultimate loss and LAE costs may vary from amounts provided, and the variance could be material to the financial statements.

Investments Risk

The Plan is exposed to risks that issuers of securities owned by the Plan will default or that interest rates will change and cause a decrease in the value of its investments. The Plan mitigates these risks by investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

Premiums Receivable Risk

Premiums receivable represent amounts to be received for policies issued. Premiums are calculated based upon information provided by the insured. Audits are performed on the information provided after the policy expiration date. These audits may result in an additional premium billing or a premium refund. Any difference between the initial premium and the audit premium is reflected in current operations when the audit premium is billed or premium refund is recorded. The Plan provides for probable uncollectible accounts through charges to earnings and credits to a valuation allowance based on prior experience and assessment of the current status of individual accounts. Balances that are still outstanding after the Plan has used reasonable collection efforts are written-off through charges to the valuation allowance and credits to receivable accounts. The Plan's allowance for uncollectible accounts at December 31, 2017 and 2016 amounted to $2,844,061 and $3,604,409, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Plan's entire fixed maturity and equity investment portfolios are classified as available-for-sale, in accordance with the Financial Accounting Standards Board (FASB) *Accounting Standards Codification*. Accordingly, the Plan carries these investments on the balance sheet at estimated fair value.

Short-term investments include investments maturing within one year and money market instruments and are carried at cost, which approximates fair value.

Realized gains and losses from sales of investments are reflected in earnings based on the average cost of the investments sold. The difference between the cost and estimated fair value of investments is monitored. If any investments experience a decline in value that the Plan believes is other than temporary, the asset is written down for the decline and a realized loss is reflected in earnings. Changes in unrealized appreciation or depreciation resulting from changes in the fair value of investments are reflected directly in policyholders' surplus as accumulated other comprehensive income (loss).

Deferred Costs and Fees

Policy acquisition costs, such as commissions and premium taxes which vary with and are primarily related to the production of business, are deferred and amortized over the effective period of the related insurance policies. If deferred policy acquisition costs were to exceed the sum of unearned premiums and related anticipated investment income less related losses and loss adjustment expenses, the excess costs would be expensed immediately.

Service carrier fees, which are primarily related to the production and maintenance of business, are deferred and amortized over the effective period of the related insurance policies.

Unearned Premiums

Premiums are earned ratably over the terms of the policies. Unearned premiums are calculated on the daily pro-rata method and represent the unexpired portion of premiums written.

Losses and LAE

The reserves for losses and LAE represent an estimate of the ultimate net cost of all claims that have occurred and are unpaid. The reserves are based on loss factors determined by independent consulting actuaries, using statistical analyses and projections and the historical loss experience of the Plan, and give effect to estimates of trends in claim severity and frequency. As claim settlements occur that differ from reserves estimates, these differences are included in current operations.

For policies with inception dates prior to April 1, 1992, the servicing contractors were responsible for all allocated and unallocated LAE incurred in the settlement of losses. Allocated loss adjustment expenses (ALAE) include legal fees and related expenses (expert testimony, investigations, etc.), medical examinations, and other costs paid to third parties associated with the defense and settlement of particular claims. Unallocated loss adjustment expenses (ULAE) include that portion of the cost of settling claims that cannot be attributed to a specific claim and are more in the nature of an overhead expense (servicing contractors' claim adjuster salaries, rent, etc.).

For polices with inception dates after April 1, 1992, the Plan is responsible for legal and related expenses incurred in the settlement of losses and, accordingly, a liability for these amounts has been established. All other ALAE and all ULAE continue to be the responsibility of the servicing contractors.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Compensation Fund Assessments

The Minnesota Department of Labor and Industry currently assesses all insurers writing workers' compensation insurance in Minnesota. The assessment pays for the operation of the Special Compensation Fund (SCF). The SCF pays the cost of administration by the State of Minnesota of the workers' compensation laws; reimburses supplementary benefits paid to claimants; reimburses certain benefits paid to claimants with qualifying, prior registered conditions; and, pays claims of injured employees of uninsured employers.

In March 2002, legislation was passed by the Minnesota state legislature and signed into law to change the method of assessing insured employers from a loss-based assessment to a premium-based assessment. This change was effective beginning in 2003, from which point the obligating event for assessment liability became the writing of, or becoming obligated to write or renew, the premiums on which the future assessments are to be based. According to MN Senate File 3136, the premium-based method of assessment is to be collected through a policyholder surcharge.

The special compensation fund assessment payable represents those assessments currently due based on pure premiums and the estimated liabilities for future SCF assessments based on SCF surcharges collected on policies with an effective date on or after January 1, 2003.

Restricted Surplus - Terrorism Coverage

As a result of the “Terrorism Risk Insurance Act” passed by Congress and signed into law by the President in November 2002, the Plan is required to restrict a portion of its surplus for terrorism. Through December 31, 2017, the Plan restricted $1 for every $5,000 of payroll covered by the Plan’s policies. The “Terrorism Risk Insurance Program Reauthorization Act of 2015” extends this program through 2020 and may require additional amounts to be restricted in future years.

Income Taxes

The Plan is exempt from paying income taxes under Section 501 of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Plan reviews income tax positions taken or expected to be taken to determine if there are any income tax uncertainties. This includes positions that the Plan is exempt from income taxes and as such has not filed Federal or Minnesota Income Tax Returns. The Plan recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by taxing authorities, based on the technical merits of the positions. The Plan has identified no income tax uncertainties.

Credit Risk

Financial instruments which potentially subject the Plan to concentrations of credit risk consist principally of cash. The Plan places its cash with high credit quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. The Plan had a credit risk concentration at December 31, 2017 as a result of depositing $5,159,172 of funds in excess of Federal Deposit Insurance (FDIC) coverage.

Subsequent Events

In preparing these financial statements, the Plan has evaluated for recognition or disclosure the events or transactions that occurred through July 9, 2018, the date the financial statements were available to be issued. There were no subsequent events identified that required recognition or disclosure in the financial statements.

NOTE 3 - CASH PROVIDED BY OPERATING ACTIVITIES

A reconciliation of cash provided by operating activities to the amount reflected in the statement of cash flows is as follows:

	2017	2016
Net Cash Flow From Operating Activities:		
Net Income	**$ 55,754,254**	$ 10,118,585
Adjustments to Reconcile Net Income to		
Net Cash Flows From Operating Activities:		
Net Realized Capital Gains	**(14,862,857)**	(2,246,500)
Amortization and Accretion	**(116,116)**	(98,201)
Changes in Operating Assets and Liabilities:		
Reserve for Losses and Loss Adjustment Expenses	**653,000**	(11,601,000)
Reinsurance Recoverable on Paid Losses	**(1,806,174)**	(99,609)
Reinsurance Recoverable on Unpaid Losses	**(29,502,000)**	19,256,000
Unearned Premiums	**(5,740,989)**	(3,671,987)
Premiums Receivable, Net	**2,258,871**	1,103,265
Deferred Service Carrier Fees	**706,666**	678,122
Deferred Policy Acquisition Costs	**118,181**	200,780
Special Compensation Fund Assessment Payable	**(491,159)**	(81,880)
Servicing Carrier Administration Fee Payable	**(326,237)**	(230,915)
Other Liabilities	**220,863**	(45,262)
Accrued Interest and Dividends	**(181,579)**	(226,387)
Other Assets	**(146,579)**	3,946
Net Cash Flows From Operating Activities	**$ 6,538,145**	$ 13,058,957

NOTE 4 - REINSURANCE

The Plan is reinsured by the Minnesota Workers' Compensation Reinsurance Association (WCRA). There is not, nor has there ever been, any other applicable reinsurance. The following table lists the selected per-occurrence retentions by accident year for the past sixteen years:

Accident Year	Loss only Per-Occurrence Retention
2002	350,000
2003	360,000
2004	360,000
2005	380,000
2006	780,000
2007	800,000
2008	820,000
2009	1,720,000
2010	1,800,000
2011	1,800,000
2012	1,840,000
2013	1,880,000
2014	1,920,000
2015	1,960,000
2016	2,000,000
2017	2,000,000

NOTE 4 - REINSURANCE (Continued)

A contingent liability exists with respect to reinsurance ceded to the extent that the reinsurer is unable to meet its obligations assumed under the reinsurance agreement.

The effect of ceded reinsurance on premiums written, premiums earned, and losses and LAE is reflected in the following table:

	2017	2016
Premium Written:		
Direct	**$ 39,250,680**	$ 51,994,235
Ceded	**(574,555)**	(800,279)
Net Premiums Written	**$ 38,676,125**	$ 51,193,956
Premiums Earned:		
Direct	**$ 43,993,354**	$ 56,545,213
Ceded	**(574,555)**	(800,279)
Net Premiums Earned	**$ 43,418,799**	$ 55,744,934
Losses and Loss Adjustment Expenses Incurred:		
Direct	**$ 8,864,268**	$ 48,945,719
Ceded	**(11,306,179)**	(11,355,864)
Net Losses and Loss Adjustment Expenses Incurred	**$ (2,441,911)**	$ 37,589,855

NOTE 5 - INVESTMENTS

Invested Amounts, Investment Income and Gains and Losses

The amortized cost, gross unrealized appreciation and depreciation, and the estimated fair values of investments in fixed maturities are as follows:

	2017			
	Amortized Cost	**Gross Unrealized Appreciation**	**Gross Unrealized Depreciation**	**Estimated Fair Value**
U.S. Treasury Securities and Other Obligations	**$ 150,661,149**	**$ 479,656**	**$ (1,474,384)**	**$ 149,666,421**
Mortgage-Backed Securities	**99,442,435**	**100,595**	**(1,234,318)**	**98,308,712**
Total Fixed Maturities	**$ 250,103,584**	**$ 580,251**	**$ (2,708,702)**	**$ 247,975,133**

	2016			
	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Estimated Fair Value
U.S. Treasury Securities and Other Obligations	$ 181,101,654	$ 1,347,886	$ (1,087,583)	$ 181,361,957
Mortgage-Backed Securities	65,214,100	47,557	(891,300)	64,370,357
Total Fixed Maturities	$ 246,315,754	$ 1,395,443	$ (1,978,883)	$ 245,732,314

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

The amortized cost and estimated fair value of investments in fixed maturities at December 31, 2017 by contractual maturity are shown below. Expected maturities will likely differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in One Year or Less	$ 5,008,412	$ 5,000,464
Due After One Year Through Five Years	93,475,713	92,872,008
Due After Five Years Through Ten Years	52,177,024	51,793,949
Mortgage-Backed Securities	99,442,435	98,308,712
	$ 250,103,584	$ 247,975,133

The cost and fair values of equity securities available-for-sale at 2017 and 2016 were as follows:

	2017			
Description	**Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity Securities	**$ 58,838,980**	**$ 10,325,318**	**$ –**	**$ 69,164,298**

	2016			
Description	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities	$ 51,340,183	$ 13,495,682	$ (784,775)	$ 64,051,090

At December 31, 2017 and 2016, gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	2017					
	Less Than 12 Months		**12 Months or More**		**Total**	
Description	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	**$ 67,177,418**	**$ (485,437)**	**$ 52,629,475**	**$ (988,947)**	**$ 119,806,893**	**$ (1,474,384)**
Mortgage-Backed Securities	**50,246,749**	**(435,118)**	**36,584,241**	**(799,200)**	**86,830,990**	**(1,234,318)**
Total Fixed Maturities	**117,424,167**	**(920,555)**	**89,213,716**	**(1,788,147)**	**206,637,883**	**(2,708,702)**
Totals	**$ 117,424,167**	**$ (920,555)**	**$ 89,213,716**	**$ (1,788,147)**	**$ 206,637,883**	**$ (2,708,702)**

NOTE 5 - INVESTMENTS (Continued)

Invested Amounts, Investment Income and Gains and Losses (Continued)

	2016					
	Less Than 12 Months		12 Months or More		Total	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities:						
U.S. Treasury Securities and Other Obligations	$ 34,793,223	$ (684,012)	$ 43,128,307	$ (403,571)	$ 77,921,530	$ (1,087,583)
Mortgage-Backed Securities	44,920,760	(869,212)	9,012,600	(22,088)	53,933,360	(891,300)
Total Fixed Maturities	79,713,983	(1,553,224)	52,140,907	(425,659)	131,854,890	(1,978,883)
Equity Securities	10,202,846	(646,267)	1,683,277	(138,508)	11,886,123	(784,775)
Totals	$ 89,916,829	$ (2,199,491)	$ 53,824,184	$ (564,167)	$ 143,741,013	$ (2,763,658)

The Plan has concluded that no investments have impairment that is other-than-temporary at December 31, 2017. The Plan believes that its unrealized losses in equity securities are caused by market conditions influenced by the existing economic factors, as opposed to deterioration in the fundamentals of individual investments, and intends to maintain its investments through this downturn.

The Plan holds investments in a variety of investment funds. In general, its investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and such changes could be material to the amounts reported in the balance sheet.

Net investment income for 2017 and 2016 is summarized as follows (fixed maturities include interest on short-term investments):

	2017	2016
Fixed Maturities	**$ 5,053,516**	$ 4,319,765
Equity Securities	**1,347,280**	1,208,568
Total	**6,400,796**	5,528,333
Investment Expenses	**(272,779)**	(383,693)
Net Investment Income	**$ 6,128,017**	$ 5,144,640

Cash proceeds received from sales and paydowns of investments in fixed maturities during 2017 and 2016 were $126,247,920 and $87,180,735, respectively. In 2017 and 2016, gross gains of $564,282 and $206,628 and gross losses of $(323,385) and $(159,455), respectively, were realized on those sales.

Gross gains of $22,235,536 and $3,326,938 and gross losses of $(7,615,080) and $(1,127,611) were realized on sales of equity securities in 2017 and 2016, respectively.

Fair Value of Financial Instruments

The FASB *Accounting Standards Codification* establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value, as follows: Level 1, defined as observable inputs (i.e. quoted prices in active markets); Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and, Level 3, defined as unobservable inputs for which little or no market data exists, which then requires an entity to develop its own assumptions.

NOTE 5 - INVESTMENTS (Continued)

The Plan utilizes a pricing service to estimate its fair value measurements for its fixed maturities and equity securities. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, most fair value estimates for fixed maturities are based on observable market information rather than quoted prices. Accordingly, the estimates of fair value for fixed maturities, other than U.S. Treasury securities, are included in Level 2 of the Standard's hierarchy. U.S. Treasury securities are included in Level 1.

The fair value of the Plan's mortgage-backed securities and other debt obligations were determined based on Level 2 inputs and are estimated as the present value of expected future cash inflows, taking into account (1) the type of security, its term, and any underlying collateral, (2) the seniority level of the debt security, and (3) quotes received from brokers and pricing services. In applying the valuation model, significant inputs including probability of default for debt securities, the estimated prepayment rate, and the projected yield based on estimated future market rates for similar securities.

All equity securities owned by the Plan have active markets and are included in Level 1 of the Standard's hierarchy.

Certain equity securities are valued at the net asset value per unit based on either the observable net asset value of the underlying investment or the net asset value of the underlying pool of securities. Net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding.

Investments measured at net asset value include alternative investment fund of funds and private equity fund of funds. The Plan uses the net asset value of these investment entities to determine the fair value of these investments which do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The Plan's fixed maturities and equity investments fair value measurements at December 31, 2017 and 2016 are as follows:

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2017:				
Fixed Maturities				
U.S. Treasury Securities and Other Obligations	$ 149,666,421	$ 149,666,421	$ –	$ –
Mortgage-Backed Securities	98,308,712	–	98,308,712	–
Total Fixed Maturities	247,975,133	$ 149,666,421	$ 98,308,712	$ –
Investments Measured at Net Asest Value	69,164,298			
Totals	$ 317,139,431			

NOTE 5 - INVESTMENTS (Continued)

Fair Value of Financial Instruments (Continued)

	Total	Quoted Prices for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
2016:				
Fixed Maturities				
U.S. Treasury Securities				
and Other Obligations	$ 181,361,957	$ 181,361,957	$ –	$ –
Mortgage-Backed Securities	64,370,357	–	64,370,357	–
Total Fixed Maturities	245,732,314	181,361,957	64,370,357	–
Equity Securities	64,051,090	64,051,090	–	–
Totals	$ 309,783,404	$ 245,413,047	$ 64,370,357	$ –

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2017 and 2016 are as follows:

	2017 Net Asset Value	2016 Net Asset Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
SBI Non-Retirement Fund	**$ 69,164,298**	$ –	$ –	N/A	N/A

NOTE 6 - LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

A reconciliation of beginning and end of year balances in the liability for unpaid losses and loss adjustment expenses (LAE), net of reinsurance recoverable for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Liability for Losses and LAE at Beginning of Year	**$ 574,529,000**	$ 586,130,000
Reinsurance Recoverable on Unpaid Losses - Beginning of Year	**(322,986,000)**	(342,242,000)
Net Liability for Losses and LAE at Beginning of Year	**251,543,000**	243,888,000
Provision for Losses and LAE for Claims Incurred:		
Current Year	**31,143,000**	47,519,000
Prior Years	**(33,584,911)**	(9,929,145)
Total Incurred	**(2,441,911)**	37,589,855
Losses and LAE Payments for Claims Incurred:		
Current Year	**4,787,536**	6,871,615
Prior Years	**21,619,553**	23,063,240
Total Paid	**26,407,089**	29,934,855
Net Liability for Losses and LAE at End of Year	**222,694,000**	251,543,000
Reinsurance Recoverable on Unpaid Losses - End of Year	**352,488,000**	322,986,000
Liability for Losses and LAE at End of Year	**$ 575,182,000**	$ 574,529,000

As a result of changes in estimates of insured events in prior years, the losses and LAE incurred, net of reinsurance, decreased by approximately $33,585,000 in 2017 and approximately $9,929,000 in 2016.

NOTE 7 - CONTINGENCIES

Since inception, the Plan has contracted with seven servicing contractors to provide policy issuance, premium accounting, and claim settlement services in exchange for a service fee based upon standard written premium. Contingent liabilities exist with respect to the performance of the above services to the extent that the servicing carriers are unable to meet their obligations under terms of the general services agreement.

The Plan, through EIW, has purchased annuities to settle certain claims with the claimant as payee but for which the Plan remains contingently liable. The Plan eliminated its loss reserves for these claims at the time the annuities were purchased. A contingent liability exists to the extent that the issuer of the annuity contracts becomes unable to fulfill its contractual obligations. The issuer, Employers Life Insurance Company of Wausau, is an affiliate of EIW. The present value of all annuity contracts still in force at December 31, 2017 was approximately $1,528,000.

The Plan is presently not engaged in any litigation that it considers will have a material adverse effect on its business. As is common with other insurance providers, the Plan is regularly engaged in the defense of claims arising out of the conduct of the insurance business.

NOTE 8 - OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income is defined as any change in policyholders' surplus originating from non-owner transactions. The Plan has identified those changes as being comprised of net income and change in unrealized appreciation or depreciation on investments. The components of comprehensive income, other than net income, are as follows:

	2017	2016
Unrealized Appreciation Arising During the Period	**$ 10,932,256**	$ 3,869,292
Less Reclassification Adjustment for Realized Capital Gains Included in Net Income	**14,862,857**	2,246,500
Total Other Comprehensive Income (Loss)	**$ (3,930,601)**	$ 1,622,792

NOTE 9 - POLICYHOLDERS' SURPLUS

A Minnesota law requires the Plan to transfer its "excess surplus" (as defined in the statute) to the general fund of the State of Minnesota. The amount appropriated by the Plan for the State of Minnesota was $51,823,653 at December 31, 2017 and $11,741,377 at December 31, 2016.