



Self-Insurers' Security Fund

Financial Statements

For the Years Ended June 30, 2011 and 2010

Self-Insurers' Security Fund

Financial Statements

For the Years Ended June 30, 2011 and 2010

Self-Insurers' Security Fund

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Independent Auditors' Report

To the Board of Directors
Self-Insurers' Security Fund
Walnut Creek, California

We have audited the accompanying statement of financial position of Self-Insurers' Security Fund (the "Fund") as of June 30, 2011 and the related statement of activities, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended June 30, 2010 were audited by other auditors whose report dated October 7, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Self-Insurers' Security Fund at June 30, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

January 23, 2012

Financial Statements

Self-Insurers' Security Fund
Statements of Financial Position

<i>June 30,</i>	2011	2010
Assets		
Cash and cash equivalents (Note 3)	\$ 63,580,491	\$ 34,924,693
Investments (Note 4)	274,109,756	228,523,270
Credit default swaps	3,468,239	6,886,922
Surety bonds, net of allowance for uncollectible bonds of \$2,884,071 and \$3,482,392, as of June 30, 2011 and 2010, respectively	5,565,018	584,490
Excess insurance receivable	32,608,250	48,495,382
Interest receivable	1,238,827	1,059,196
Settlement receivable, net of allowance for uncollectible portion of \$2,068,143 as of June 30, 2011 and 2010 (Note 5)	1,400,000	1,400,000
Prepaid expenses and other assets	240,340	90,820
Property and equipment, net (Note 6)	104,556	42,660
Total assets	\$ 382,315,477	\$ 322,007,433
Liabilities and net assets		
Accounts payable	\$ 1,461,391	\$ 730,556
Accrued paid time off	108,556	92,042
Credit default swaps	18,522,890	-
Residual equity liability, net (Note 7)	4,331,101	4,712,008
Estimated future liabilities for claims and administration costs (Note 8):	295,701,295	165,596,184
Deferred compensation (Note 10)	100,017	70,298
Total liabilities	320,225,250	171,201,088
Commitments and contingencies (Notes 8 and 9)		
Net assets (Note 1)		
Temporarily restricted	135,184,467	151,185,080
Unrestricted	(73,094,240)	(378,735)
Net assets	62,090,227	150,806,345
Total liabilities and net assets	\$ 382,315,477	\$ 322,007,433

See accompanying independent auditors' report and notes to financial statements.

Self-Insurers' Security Fund
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Security deposits and recoveries	\$ 42,692,283	\$ -	\$ 42,692,283
Alternative Security Program assessments (Note 1):			-
Default loss fund fee	-	19,386,808	19,386,808
Excess liability protection fee	-	24,912,471	24,912,471
Investment income, net (Note 4)	-	37,644,041	37,644,041
Excess insurance recoveries	262,916	-	262,916
Net assets released from restriction (Note 1)	52,581,004	(52,581,004)	-
Total revenues	95,536,203	29,362,316	124,898,519
Expenses			
Program (Note 8):			
Provision for claims	148,786,557	-	148,786,557
Provision for claims administrative costs	16,174,339	-	16,174,339
Total program expenses	164,960,896	-	164,960,896
General and administrative	3,290,812	-	3,290,812
Alternative Security Program (Note 1):			
Financial instruments	-	42,964,077	42,964,077
Program design and implementation	-	2,398,852	2,398,852
Total Alternative Security Program expenses	-	45,362,929	45,362,929
Total expenses	168,251,708	45,362,929	213,614,637
Change in net assets	(72,715,505)	(16,000,613)	(88,716,118)
Net assets, beginning of year	(378,735)	151,185,080	150,806,345
Net assets, end of year	\$ (73,094,240)	\$ 135,184,467	\$ 62,090,227

Self-Insurers' Security Fund
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

	2010		
	Unrestricted	Temporarily Restricted	Total
Revenues			
Security deposits and recoveries	\$ 11,530,945	\$ -	\$ 11,530,945
Alternative Security Program assessments (Note 1):			-
Default loss fund fee	-	23,466,372	23,466,372
Excess liability protection fee	-	22,503,411	22,503,411
Investment income, net (Note 4)	-	17,136,481	17,136,481
Excess insurance recoveries	3,914,523	-	3,914,523
Settlement income (Note 5)	3,468,143	-	3,468,143
Net assets released from restriction (Note 1)	42,829,864	(42,829,864)	-
Total revenues	61,743,475	20,276,400	82,019,875
Expenses			
Program (Note 9):			
Provision for claims	18,953,442	-	18,953,442
Provision for claims administrative costs	7,993,674	-	7,993,674
Total program expenses	26,947,116	-	26,947,116
General and administrative	5,897,851	-	5,897,851
Alternative Security Program (Note 1):			
Financial instruments	-	10,160,850	10,160,850
Program design and implementation	-	1,216,884	1,216,884
Total Alternative Security Program expenses	-	11,377,734	11,377,734
Total expenses	32,844,967	11,377,734	44,222,701
Change in net assets	28,898,508	8,898,666	37,797,174
Net assets, beginning of year	(29,277,243)	142,286,414	113,009,171
Net assets, end of year	\$ (378,735)	\$ 151,185,080	\$ 150,806,345

See accompanying independent auditors' report and notes to financial statements.

Self-Insurers' Security Fund

Statements of Cash Flows

<i>Years Ended June 30,</i>	2011	2010
Reconciliation of change in net assets to net cash and cash equivalents provided by operating activities:		
Change in net assets	\$ (88,716,118)	\$ 37,797,174
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation expense	32,032	30,407
Recoveries on uncollectible bonds	(598,321)	(788,771)
Provision for uncollectible settlement receivable	-	2,068,143
Net realized gain on investments	(2,616,172)	(265,932)
Net unrealized gain on investments	(27,120,533)	(9,494,240)
Net unrealized loss on credit default swaps	42,964,077	10,157,913
Decrease (increase):		
Surety bonds receivable	(4,382,207)	853,633
Excess insurance receivable	15,887,132	(2,866,662)
Interest receivable	(179,631)	6,477
Settlement receivable	-	(3,468,143)
Prepaid expenses and other assets	(149,520)	(17,882)
Increase (decrease):		
Accounts payable	730,835	(92,928)
Accrued paid time off	16,514	22,046
Residual equity liability	(380,907)	322,390
Claims and administration costs liability	130,105,111	10,258,101
Deferred compensation plan liability	29,719	16,696
Net cash and cash equivalents provided by operating activities	65,622,011	44,538,422
Cash flows used in capital and related financing activities		
Purchase of property and equipment	(93,928)	(11,049)
Cash flows from investing activities		
Proceeds from sale and maturity of investments	114,336,193	83,105,273
Purchase of investments	(130,185,974)	(115,837,901)
Purchase of credit default swaps	(21,022,504)	(7,111,615)
Net cash and cash equivalents used in investing activities	(36,872,285)	(39,844,243)
Increase in cash and cash equivalents	28,655,798	4,683,130
Cash and cash equivalents, beginning of year	34,924,693	30,241,563
Cash and cash equivalents, end of year	\$ 63,580,491	\$ 34,924,693

See accompanying independent auditors' report and notes to financial statements.

Self-Insurers' Security Fund

Notes to Financial Statements

1. Organization and Background

Organization

Self-Insurers' Security Fund ("SISF" or the "Fund") was established by California law under the Labor Code Article 2.5, Section 3744, effective in 1984. SISF is a tax-exempt organization engaged principally in the administration of workers' compensation claims arising from insolvent private entities that are declared by the Department of Industrial Relations (DIR) as in default with respect to their self-insured workers' compensation claims obligations in California. Revenues to SISF consist mainly of (1) assessments against self-insured member entities; (2) the transfer of the proceeds of self-insured security deposits (surety bonds, LOC's, Cash and/or Securities) arising from defaulting member entities; (3) recoveries from excess insurance carriers and old-form surety bonds; (4) investment income; and/or proceeds payable from risk transfer instruments such as credit default obligations (CDO's) or credit default swaps (CDS's).

SISF levies assessments against current and previously self-insured corporations to provide funds to pay for claims costs arising from its defaulted estates as well as for its on-going operations. Current self-insured corporations are subject to unlimited annual assessments. Once an entity leaves self-insurance it is subject to SISF assessments for 36 months from the date its certificate to self-insure is effectively revoked.

The Labor Code allows, subject to the annual approval of the DIR, acceptance of an alternative security deposit system whereby eligible private self-insured entities can collectively secure collateral for security deposits on a pooled basis through payment to SISF rather than on an individual basis.

Alternative Security Program

Prior to July 1, 2003, all self-insured corporations were required to post a security deposit, in the form of a surety bond insured by third parties, letters of credit, or cash and/or approved securities. In many cases, these deposits have been inadequate to cover the ultimate liabilities of defaulting estates.

To address this shortfall, an Alternative Security Program (ASP) was established and implemented in July 2003. Under the ASP, self-insured corporations meeting certain minimum credit quality standards (B3/B- or better) are assessed annual fees for participation in the ASP in lieu of posting a security deposit. SISF uses assessments to (i) provide funds for any future defaults of the self-insured employers, and (ii) purchase catastrophe coverage/hedge instruments for certain loss exposures associated with the ASP.

For the years ended June 30, 2011 and 2010, self-insured corporations participating in the ASP were assessed fees of \$44,299,279 and \$45,969,783, respectively. Approximately \$22.3 million and \$19.6 million, for the years ended June 30, 2011 and 2010, respectively, were used to arrange for and purchase catastrophe coverage.

Pursuant to 8 CCR section 15220.3(c), the assessed funds are posted by the Security Fund with the Director of the Department of Industrial Relations. Pursuant to that same section, the Director permits the Security Fund to hire its own funds manager and "invest the deposited cash on behalf of the Security Fund outside of the State Treasury," subject to certain restrictions. One such restriction is that "regardless of whether the Director or the Security Fund manages the cash

Self-Insurers' Security Fund

Notes to Financial Statements

posted, the funds shall remain in the name of the Director as set forth in [CCR section 15220.8(e)] until such time as the Director orders any or all of the funds released to the Security Fund or refunded to the private self insured employers." The Director releases net assets from restriction under the ASP annually based on SISF's projected payments for claims, administrative costs and operating expenses.

For the fiscal year ended June 30, 2011, the Director released \$41,560,000 from restriction in July 2010 in satisfaction of the proposed payments in the 2010/11 Implementation Plan. In addition, the Director approved a one-time release from restriction as of June 30, 2011 of \$11,021,004 to account for claims, administrative costs and operating expenses that had exceeded the original projected payments as a result of the admission of new estates during fiscal year 2011.

For the fiscal year ended June 30, 2010, the Director released \$35,829,864 from restriction in July 2009. In addition, the Director approved a release of \$7,000,000 from restriction as of June 30, 2010 to account for the amount of claims expenses that exceeded the initial projected payments proposed in the 2009/10 Implementation Plan.

Excluded Members

Self-insured private entities not eligible under the ASP post their required security deposit with the Office of Self Insurance Plans (OSIP) and pay a portion of the annual assessments, which can be used to fund potential deposit shortfalls. SISF can accept one or a combination of the following security instruments specified in the Labor Code to cover the deposit requirements of participating self-insured corporations: (i) cash, (ii) letters of credit, (iii) approved securities, (iv) surety bonds, (v) insurance coverage, or (vi) other financial instruments, such as commercial paper or reinsurance contracts; or financial guarantees, including SISF's own guarantee backed by cash or securities.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of SISF are maintained on the accrual basis of accounting.

Net Assets

SISF had net assets of \$62,090,227 and \$150,806,345 as of June 30, 2011 and 2010, respectively. SISF's net assets are classified as unrestricted and temporarily restricted as follows:

- Unrestricted net assets - Unrestricted net assets includes cash or receivables received from either surety bonds and/or deposits placed by the bankrupt corporation with the Fund. Net assets that are not subject to restrictions and may be expendable for any purpose in performing the primary objective of the Fund.
- Temporarily restricted net assets - Temporarily restricted net assets, includes cash received under the ASP annual assessments as well as investment income, net. The net assets of the ASP are temporarily restricted by California Labor Code 3701.8 until released by the Director of Industrial Relations.

Self-Insurers' Security Fund

Notes to Financial Statements

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

SISF considers all money market mutual funds and highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Investments

Investments are carried at fair value based on market quotes with corresponding changes in fair value included in the statements of activities and changes in net assets.

Credit Default Swap Agreements

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other credit event for the referenced entity, obligation or index. SISF purchases credit default swaps to cover its exposure above portfolio default protection insurance retention limits. Credit default swaps with net fair values totaling (\$15,054,651) and \$6,886,922 at June 30, 2011 and 2010, respectively, are included in the statement of financial position. Unrealized losses totaling \$42,964,077 and \$10,160,850 are recorded within financial instruments expense in the statement of activities and changes in net assets for the years ended June 30, 2011 and 2010, respectively. Credit default swaps with net fair values totaling (\$601,409), (\$4,573,854), (6,492,848) and \$(3,386,540) mature in 2011, 2012, 2013 and 2014, respectively.

Volume of Derivatives

At June 30, 2011, \$1,968,000,000 in notional amounts were outstanding on CDS long positions held by the Fund.

Impact of Derivatives on the Statement of Activities and Changes in Net Assets

<u>Effect of transactions in derivative trading</u>	<u>Realized gain/loss from securities</u>	<u>Net change in unrealized</u>	<u>Total</u>
For the year ended June 30, 2011	\$ (21,022,504)	\$ (21,941,573)	\$ (42,964,077)

Self-Insurers' Security Fund

Notes to Financial Statements

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed on the straight-line method with useful lives of three to ten years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterment are capitalized.

Security Deposit Revenue and Surety Bond Receivables

Revenues from surety bonds and deposits are recognized in the financial statements when SISF assumes, as stipulated in the Labor Code, the responsibility to administer the funds necessary to pay workers' compensation obligations against an insolvent self-insurer. SISF initially records revenue in the aggregate amount of (i) cash received from either surety bonds and/or deposits placed by the bankrupt corporation, and (ii) the amount receivable from surety bonds and deposits necessary to pay for estimated future liabilities for claims and administration costs, net of an allowance for uncollectible amounts when collectability from a surety that is or may become insolvent is uncertain.

As of June 30, 2011 and 2010, the Fund has a gross receivable of \$8,449,089 and \$4,066,882, respectively, as well as has an allowance recorded for uncollectible surety bonds and deposits of, \$2,888,071 and \$3,482,392, respectively. For the years ended June 30, 2011 and 2010, the Fund recorded recoveries of previously uncollectible surety bonds of \$598,321 and \$788,771, respectively.

During fiscal year 2011, the Fund received a \$5,000,000 surety bond from a defaulted estate, which was collected in December 2011.

Excess Insurance Receivable

SISF establishes a receivable for estimated excess insurance amounts due from paid and expected to be paid claims on a claim by claim basis depending on the specific insurance limits of each excess policy. Adjustments to these estimates from unpaid claims are charged or credited to future liabilities for claims and administration costs expense in the periods in which the estimates are revised. Adjustments to the receivable from paid claims are recorded through excess insurance recoveries in the periods in which the adjustments are known. The excess insurance receivable balance includes unbilled excess insurance of \$32,169,074 and \$45,549,759 and billed excess insurance of \$439,176 and \$2,945,623 at June 30, 2011 and 2010, respectively.

Estimated Future Liabilities for Claims and Administration Costs

SISF establishes estimated future liabilities for claims and administration costs based on actuarial estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Due to the fact that SISF is the primary obligor for these claims and administration costs, the estimated amounts of subrogation and excess insurance recoverable on unpaid claims are not deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrine of legal liability, and claim obligations, the process used in computing estimated future liabilities for claims and administration costs will not result in the

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exact amount ultimately paid. Estimated future liabilities for claims and administration costs are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect changes in the legal and financial exposures associated with each open claim. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to estimated future liabilities for claims and administration costs are charged or credited to expense in the periods in which the estimates are revised.

SISF records the actuarial estimate of claims liabilities for defaulted self-insured corporations when they become estates of the Fund, as assigned by the DIR. During the year ended June 30, 2011, SISF assumed \$129 million of estimated future claims liabilities from defaulted self-insured corporations; SISF also received approximately \$42 million of assets related to these defaulted self-insured corporations.

Alternative Security Program

Assessments for the Alternative Security Program (ASP) are recognized as revenue when earned over the coverage period provided. In addition, the costs associated with implementing the ASP are recognized to approximately match the expenses with the related revenues.

Income Taxes

Income taxes are not recorded in the accompanying financial statements as SISF has been notified by the Internal Revenue Service that it qualifies as a tax-exempt organization under the Internal Revenue Code Section 501(c)(6). The State of California has notified SISF that it qualifies as a tax-exempt organization under similar provisions of the California Revenue and Taxation Code.

Reclassifications

The Fund reclassified certain balances in the 2010 financial statements including the unbilled excess insurance receivable previously netted against the estimated future liabilities for claims and adjustment costs. The effects of this change in presentation increased the Estimated Future Liabilities for Claims by \$45,549,759. Additionally, the Fund increased its excess insurance receivable by this same amount.

The results of these reclassifications had no impact on previously reported Changes in Net Assets.

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

<i>June 30,</i>	2011	2010
Cash in bank	\$ 5,519,140	\$ 864,313
Money market accounts	58,061,351	34,060,380
	\$ 63,580,491	\$ 34,924,693

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Notes to Financial Statements

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Fund has never experienced any losses related to these balances. All of the Fund's non-interest bearing cash balances were fully insured at June 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning January 1, 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the Fund's non-interest bearing cash balances may again exceed federally insured limits.

For money market funds held by a broker who is a member of the Securities Investor Protection Corporation, cash and securities are insured up to \$100,000 and \$500,000, respectively, in the event the brokerage firm goes out of business.

4. Investments

The estimated fair value of the Fund's portfolio investments are as follows:

<i>June 30,</i>	2011	2010
Federal Government securities	\$ 86,836,482	\$ 72,485,715
Mortgage-backed securities	32,158,684	43,174,322
Taxable fixed-income securities	25,187,279	17,348,662
Equity securities	129,927,311	95,514,571
Total	\$ 274,109,756	\$ 228,523,270

The following schedule summarizes the investment returns:

<i>For the Years Ended June 30,</i>	2011	2010
Net realized gains	\$ 2,616,172	\$ 265,932
Net unrealized gains	27,120,533	9,494,240
Net realized and unrealized gains	29,736,705	9,760,172
Investment income	8,753,935	8,199,728
Less: investment related expenses	(846,599)	(823,419)
Net investment returns	\$ 37,644,041	\$ 17,136,481

Self-Insurers' Security Fund

Notes to Financial Statements

5. Settlement Receivable

In June 2011, SISF entered into a settlement agreement with one of the Fund's estates (the "Debtor") which had filed for bankruptcy. As part of the settlement, the Debtor agreed to pay SISF \$3,468,143, of which \$1,400,000 is secured by real property and personal property of the Debtor. Also as part of the settlement, the secured portion is accompanied by a promissory note with interest-only payments at three percent for the first five years, five percent for the next five years, and all principal and accrued interest due after ten years. The unsecured portion of the settlement will be satisfied pursuant to the terms of the Debtor's plan of reorganization, as confirmed by the Bankruptcy Court. SISF has established a receivable of \$3,468,143 and related allowance of \$2,068,143 because management believes collection of the unsecured portion of the settlement is unlikely.

6. Property and Equipment

Property and equipment consist of the following:

<i>June 30,</i>	2011	2010
Software	\$ 46,708	\$ 45,320
Furniture and equipment	233,786	141,246
Leasehold improvements	9,469	9,469
	289,963	196,035
Accumulated depreciation	(185,407)	(153,375)
Property and equipment, net	\$ 104,556	\$ 42,660

Depreciation expense totaled \$32,032 and \$30,407 for the years ended June 30, 2011 and 2010 respectively.

7. Residual Equity Liability

Proceeds from surety bonds and/or deposits are assets of SISF. However, when all known claims and administration costs related to proceeds from a particular surety bond or deposit of an estate have been paid, any remaining net assets held by SISF under the arrangement (Residual Equity) may be subject to a claim by the surety, the bankrupt estate or the State, unless negotiated otherwise. SISF records a liability for Residual Equity when they assume the estate. At June 30, 2011 and 2010, assets held (cash and cash equivalents and investments) in excess of estimated liabilities for certain bankruptcy cases were \$4,331,101 and \$4,712,008, respectively, which all or a portion thereof may be subject to a claim by a surety or the estate at a future date when all claims and costs have been paid.

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Notes to Financial Statements

8. Estimated Future Liabilities for Claims and Administration Costs

As discussed in Note 2, SISF establishes a liability for both reported and unreported insured events. Activity in the estimated future liabilities for claims and administration costs are as follows:

<i>For the Years Ended June 30,</i>	2011	2010
Balance at July 1,	\$ 165,596,184	\$ 155,338,083
Less: Unbilled excess insurance receivable	45,549,759	45,224,188
Net Balance at July 1,	120,046,425	110,113,895
Incurred claims and administration costs:		
Provision for claims	148,786,557	18,953,442
Provision for administration costs	16,174,339	7,993,674
Total incurred claims and claim adjustment expenses	164,960,896	26,947,116
Payments:		
Claims	17,133,533	13,404,594
Administration costs	4,341,567	3,609,992
Total payments	21,475,100	17,014,586
Net Balance at June 30,	263,532,221	120,046,425
Add: Unbilled excess insurance receivable	32,169,074	45,549,759
Balance at June 30,	\$ 295,701,295	\$ 165,596,184

The components of the estimated future liabilities for claims and administration costs are as follows:

<i>For the Years Ended June 30,</i>	2011	2010
Reported claims	\$ 110,257,404	\$ 60,850,864
Claims incurred but not reported	146,908,561	78,042,762
Administration costs	38,535,330	26,702,558
	\$ 295,701,295	\$ 165,596,184

For the year ended June 30, 2011, the Fund assumed estimated future liabilities for claims and administration costs of approximately \$129 million.

9. Commitments and Contingencies

Credit Facility

SISF maintains a credit facility with a financial institution with a total available balance of \$100 million. A commitment fee of 1% per annum is payable quarterly on the unused portion of the available balance. The line is secured by SISF cash and marketable securities and has been established for short-term liquidity needs. No funds have been drawn on this credit facility as of June 30, 2011 or 2010. Interest rates charged in the event the credit facility is drawn upon range

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from 1.25% to 3.25%, depending on the amortization period selected when drawn. In August 2011, the credit facility was amended and, amongst other things, the commitment fee, which is payable quarterly, on the unused portion of the available balance was reduced to 0.25% per annum.

Administration Contracts

SISF contracts for the conceptual design and arrangement of various hedging instruments of the Alternative Security Program. In addition, service providers assist in developing, administering and monitoring an on-going member entity credit rating process and associated procedures.

Contingencies

The Fund is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the Fund's financial position or results of operations.

Operating Lease

SISF leases office space under an operating lease with a term ending September 30, 2015. Future minimum lease payments are as follows:

<i>Years Ending June 30,</i>	
2012	\$ 72,675
2013	73,950
2014	75,225
2015	76,500
	<hr/>
	\$ 298,350

Total rent expense was \$67,224 and \$55,378 for the years ended June 30, 2011 and 2010, respectively.

10. Employee Retirement Plan

SISF established a deferred compensation plan pursuant to Internal Revenue Code Section 457(b) primarily for the purpose of providing deferred compensation for a select group of management. Eligible employees may elect to defer a portion of their salary each year. Additionally, the Fund makes non-elective contributions to the plan for the benefit of participating employees. Eligible employees are credited with income and gains and charged with losses, expenses and distributions based upon investment selections made by the employees. Liabilities under the deferred compensation plan totaled \$100,017 and \$70,298 at June 30, 2011 and 2010, respectively.

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Notes to Financial Statements

SISF also adopted a contributory 401 (k) Plan effective August 1, 2005. The Plan is available to all employees who have completed one month or 30 days of service and are at least 21 years of age. Under the Plan, employees can elect to defer a selected portion of their annual compensation and SISF may match each employee contribution in an amount to be determined annually by the Board of Directors. For the years ended June 30, 2011 and 2010, SISF contributed \$20,318 and \$19,791, respectively.

11. Fair Value Measurements

Fair Value of Financial Instruments

The fair market value of a financial instrument is defined in ASC 825-10, *Disclosures about Fair Value of Financial Instruments*, as "the amount at which the instrument could be exchanged in a current transaction between willing parties." The estimated fair values of SISF's financial instruments are as follows:

	June 30, 2011		June 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 63,580,491	\$ 63,580,491	\$ 34,924,693	\$ 34,924,693
Investments	274,109,756	274,109,756	228,523,270	228,523,270
Credit default swaps	3,468,239	3,468,239	6,886,922	6,886,922
Bonds receivable, net	5,565,018	5,565,018	584,490	584,490
Billed excess insurance receivable	439,176	439,176	2,945,623	2,945,623
Interest receivable	1,238,827	1,238,827	1,059,196	1,059,196
Plan assets - deferred compensation	100,017	100,017	70,298	70,298
Financial liabilities:				
Accounts payable	\$ 1,461,391	\$ 1,461,391	\$ 730,556	\$ 730,556
Deferred compensation	100,017	100,017	70,298	70,298
Credit default swaps	18,522,890	18,522,890	-	-

These estimates do not reflect any premium or discount that could result from offering SISF's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The following methods and assumptions were used to estimate the fair value of the financial instruments noted above. For cash and cash equivalents, bonds receivable, excess insurance receivable, interest receivable, deferred compensation plan assets, accounts payable and deferred compensation, the carrying amount is estimated to be fair value. For investments, the fair value is based on quoted market prices, quoted market prices for similar securities and indications of value provided by brokers. For credit default swaps, the fair value is based on quoted market prices from the counterparties for the credit defaults swaps.

Self-Insurers' Security Fund

Notes to Financial Statements

Fair Value Hierarchy

As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Fund utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Fund primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Fund utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Fund is able to classify fair value balances based on the observability of those inputs.

The Fund's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and net income.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 Inputs: Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the Fund's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Fund's perceived risk of that investment.

Self-Insurers' Security Fund

Notes to Financial Statements

The following are the major categories of investments measured at fair value on a recurring basis during the year ended June 30, 2011, using quoted prices in active markets for identical assets (Level 1) and for similar assets (Level 2):

Fair Value Hierarchy	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Quoted Prices in Active Markets for Similar Assets	Total
Assets			
Money market funds	\$ 849,538	\$ -	\$ 849,538
Equity securities	66,106,221	-	66,106,221
Exchange traded funds			
Large growth	19,673,005	-	19,673,016
Large value	12,912,948	-	12,912,948
Foreign large blend	18,113,250	-	18,113,250
Mid cap value	6,441,901	-	6,441,901
Mid cap growth	6,679,986	-	6,679,986
Debt securities issued by the U.S. treasury and other U.S. governmental corporations and entities	-	49,110,723	57,090,984
Debt securities issued by states of the U.S. states and political subdivisions of the states	-	37,725,759	37,725,759
Corporate debt	-	24,337,741	24,337,741
Residential mortgage backed security	-	32,158,684	24,178,422
Total investments	130,776,849	143,332,907	274,109,756
Credit default swaps	-	3,468,239	3,468,239
Total	\$ 130,776,849	\$ 146,801,146	\$ 277,577,995

Fair Value Hierarchy	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Quoted Prices in Active Markets for Similar Assets	Total
Liabilities			
Credit default swaps	\$ -	\$ (18,522,890)	\$(18,522,890)

Self-Insurers' Security Fund

Notes to Financial Statements

The following table presents assets measured at fair value on a recurring basis as of June 30, 2010:

Fair Value Hierarchy	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Quoted Prices in Active Markets for Similar Assets	Total
Assets			
Investments	\$ 95,514,571	\$ 133,008,712	\$ 228,523,283
Credit default swaps	-	6,886,922	6,886,922
Total	\$ 95,514,571	\$ 139,895,634	\$ 235,410,205

12. Subsequent Events

Management has reviewed events occurring through January 23, 2012, the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.