

SELF-INSURERS' SECURITY FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2008 and 2007

AND

INDEPENDENT AUDITOR'S REPORT

SELF-INSURERS' SECURITY FUND

FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

The Audit Committee and Board of Directors of
Self-Insurers' Security Fund

We have audited the accompanying statements of financial position of Self-Insurers' Security Fund (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows for the years then ended, as listed in the accompanying table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Self-Insurers' Security Fund as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, respectively, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the 2007 financial statements have been restated for an error in the recognition of bonds receivable.

Perry-Smith LLP

September 19, 2008

SELF-INSURERS' SECURITY FUND
STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents (Note 3)	\$ 15,915,796	\$ 11,970,379
Investments (Note 4)	192,495,500	174,874,027
Accounts receivable:		
Bonds (Note 5)	5,409,083	5,241,989
Excess insurance	432,667	460,725
Interest	1,228,503	1,236,557
Other	17,005	5,598
Prepaid expenses	3,894	10,334
Property and equipment, net (Note 6)	253,842	231,067
 Total assets	 \$ 215,756,290	 \$ 194,030,676
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 650,887	\$ 505,429
Accrued paid time off	49,581	47,398
Residual equity liability (Note 7)	7,430,279	7,383,369
Estimated future liabilities for (Note 8):		
Claims	40,734,184	36,078,927
Administrative costs	11,558,967	7,275,737
 Total liabilities	 60,423,898	 51,290,860
Commitments and contingencies (Notes 9 and 10)		
Net assets:		
Temporarily restricted	183,032,573	161,163,759
Unrestricted	(27,700,181)	(18,423,943)
 Net assets	 155,332,392	 142,739,816
 Total liabilities and net assets	 \$ 215,756,290	 \$ 194,030,676

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

SELF-INSURERS' SECURITY FUND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Security deposits and recoveries	\$ 7,628,376		\$ 7,628,376
Alternative Security Program assessments (Note 2):			
Default loss fund fee		\$ 25,055,908	25,055,908
Excess liability protection fee		6,942,079	6,942,079
Investment income (loss)	2,493,114	(2,769,885)	(276,771)
Excess insurance recoveries	<u>1,018,657</u>		<u>1,018,657</u>
Total revenues	<u>11,140,147</u>	<u>29,228,102</u>	<u>40,368,249</u>
Expenses:			
Program (Note 8):			
Provision for claims	10,825,656		10,825,656
Provision for claims administration costs	<u>5,835,553</u>		<u>5,835,553</u>
Total program expenses	<u>16,661,209</u>		<u>16,661,209</u>
General and administrative	<u>3,755,176</u>		<u>3,755,176</u>
Alternative Security Program (Note 2):			
Financial instruments		6,023,643	6,023,643
Program design and implementation		<u>1,335,645</u>	<u>1,335,645</u>
Total Alternative Security Program expenses		<u>7,359,288</u>	<u>7,359,288</u>
Total expenses	<u>20,416,385</u>	<u>7,359,288</u>	<u>27,775,673</u>
Change in net assets	(9,276,238)	21,868,814	12,592,576
Net assets, beginning of period	<u>(18,423,943)</u>	<u>161,163,759</u>	<u>142,739,816</u>
Net assets, end of period	<u>\$ (27,700,181)</u>	<u>\$ 183,032,573</u>	<u>\$ 155,332,392</u>

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

SELF-INSURERS' SECURITY FUND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

(Continued)

For the Years Ended June 30, 2008 and 2007

	<u>2007</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Security deposits and recoveries	\$ 1,324,180		\$ 1,324,180
Alternative Security Program assessments (Note 2):			
Default loss fund fee		\$ 31,409,159	31,409,159
Excess liability protection fee		10,011,128	10,011,128
Investment income	1,603,759	14,392,132	15,995,891
Excess insurance recoveries	<u>734,904</u>		<u>734,904</u>
Total revenues	<u>3,662,843</u>	<u>55,812,419</u>	<u>59,475,262</u>
Expenses:			
Program (Note 8):			
Provision for claims	2,503,290		2,503,290
Provision for claims administration costs	<u>1,328,774</u>		<u>1,328,774</u>
Total program expenses	<u>3,832,064</u>		<u>3,832,064</u>
General and administrative	<u>3,471,231</u>		<u>3,471,231</u>
Alternative Security Program (Note 2):			
Financial instruments		8,133,232	8,133,232
Program design and implementation		<u>2,097,835</u>	<u>2,097,835</u>
Total Alternative Security Program expenses		<u>10,231,067</u>	<u>10,231,067</u>
Total expenses	<u>7,303,295</u>	<u>10,231,067</u>	<u>17,534,362</u>
Change in net assets	(3,640,452)	45,581,352	41,940,900
Net assets, beginning of period	<u>(14,783,491)</u>	<u>115,582,407</u>	<u>100,798,916</u>
Net assets, end of period	<u>\$ (18,423,943)</u>	<u>\$ 161,163,759</u>	<u>\$ 142,739,816</u>

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

SELF-INSURERS' SECURITY FUND

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash and cash equivalents provided by operating activities:		
Change in net assets	\$ 12,592,576	\$ 41,940,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	182,248	148,333
Net unrealized (loss) gain on investments	8,544,549	(8,013,948)
Decrease (increase):		
Bonds receivable	(167,094)	(755,418)
Excess insurance receivable	28,058	256,673
Interest receivable	8,054	(439,405)
Other receivables	(11,407)	57,234
Prepaid expenses	6,440	(6,906)
Deferred costs		1,202,719
Increase (decrease):		
Accounts payable	145,458	502,879
Accrued paid time off	2,183	6,013
Residual equity	46,910	(168,026)
Claims liability	<u>8,938,487</u>	<u>(4,049,542)</u>
Net cash provided by operating activities	<u>30,316,462</u>	<u>30,681,506</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment	<u>(205,023)</u>	<u>(61,479)</u>
Cash flows from investing activities:		
Sale and maturity of investments	60,332,532	57,908,603
Purchase of investments	<u>(86,498,554)</u>	<u>(93,226,993)</u>
Net cash used in investing activities	<u>(26,166,022)</u>	<u>(35,318,390)</u>
Increase (decrease) in cash and cash equivalents	3,945,417	(4,698,363)
Cash and cash equivalents, beginning of period	<u>11,970,379</u>	<u>16,668,742</u>
Cash and cash equivalents, end of period	<u>\$ 15,915,796</u>	<u>\$ 11,970,379</u>

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

SELF-INSURERS' SECURITY FUND
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Self-Insurers' Security Fund (SISF) 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 Department of Industrial Relations (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. Effective July 1, 2003, SISF implemented the Alternative Security Program (ASP) (Note 2).

Net Assets

SISF had net assets of \$155,332,392 and \$142,739,816 as of June 30, 2008 and 2007, respectively. As discussed in Note 2, effective July 1, 2003, SISF established an Alternative Security Program (ASP) whereby self-insured corporations meeting certain minimum credit quality are assessed annual fees for participation in the ASP in satisfaction of security deposit requirements. The net assets of the ASP are temporarily restricted by California Labor Code 3701.8 until released by the Director of Industrial Relations.

Basis of Accounting

The accounting records of SISF are maintained on the accrual basis of accounting. SISF's net assets are classified as unrestricted and temporarily restricted as defined by Financial Accounting Standards Board Statement No. 117, *Financial Statements of Not-For-Profit Organizations*.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year's balances in order to conform with the classifications used in 2008.

Correction of Error

Bonds receivable in 2007 was restated from \$2,677,731 to \$5,241,989 in order to reflect amounts receivable from sureties which were not previously included. This adjustment resulted in a corresponding restatement of residual equity from \$4,819,111 to \$7,383,369.

Cash and Cash Equivalents

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

Investments

SISF accounts for its investments in accordance with SFAS No. 124 *Accounting for Certain Investments by Not-For-Profit Organizations*. Investments are carried at fair market value based on market quotes with corresponding changes in market value included in the statements of activities.

Accounts Receivable

SISF has accounts receivable balances for assessments due from participating companies, bonds receivable from third party sureties (Note 5), excess insurance carriers and interest on investments. Currently, there is no allowance for doubtful accounts as all receivables are deemed collectible. When management deems an account to be uncollectible, it will be expensed in the period it becomes uncollectible.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 claims against a bankrupt corporation. 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 amounts estimated not to be collectable from a surety that is or may become insolvent. As the estimated future liabilities for claims and administration costs are adjusted based on an updated actuarial analysis, security deposit revenue and related receivables are also adjusted when warranted. Adjustments to the security deposit revenue are presented in the statements of activities as "Security deposits and recoveries," and may result in negative revenue in circumstances where the net receivable has been reduced.

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. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are 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 damage awards, the process used in computing estimated future liabilities for claims and administration costs does not necessarily result in an exact amount. 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 recent settlements, claim frequency, and other economic and social factors. 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 they are made.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Alternative Security Program

Assessments for the Alternative Security Program (ASP) are recognized as revenue when earned based on the coverage period provided. In addition, the costs associated with implementing the ASP are also deferred 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.

2. 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 bankruptcies of the self-insured employers, and (ii) purchase catastrophe coverage/hedge instruments for certain loss exposures associated with the ASP. Self-insured private entities not eligible under the ASP post their required security deposit with the Office of Self Insurance Plans (OSIP), but still pay a portion of the annual assessments, which can be used to fund potential deposit shortfalls. SISF can use any one or 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.

For the years ended June 30, 2008 and 2007, self-insured corporations participating in the ASP were assessed fees of \$31,997,987 and \$41,420,287, respectively. Approximately \$7.4 million and \$10.2 million, respectively, were used to arrange for and purchase catastrophe coverage.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. ALTERNATIVE SECURITY PROGRAM (Continued)

At June 30, 2008, the retention limit of SISF is \$338 million. SISF purchased portfolio default protection for coverage of \$473 million in excess of the retention. SISF retains an additional \$3.7 billion above the retention and protection described above. The portfolio default protection contained individual limits on eight specified employers. SISF purchased credit default swap agreements to cover the exposure above the individual limits. Coverage limits on the credit default swap agreements total \$807 million, ranging from \$11 million to \$233 million for each of the eight employers.

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 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." By approving the "2008/2009 Implementation Plan (ASP)," the Director released to the Fund the sum of \$18.37 million, comprised of general administrative costs of \$3.53 million, legal fees for the ASP of \$0.08 million, line of credit fee of \$0.25 million, ASP placement fee of \$1.15 million, rating agency fees of \$0.15 million, and risk transfer fees of \$13.21 million.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 6,945,635	\$ 1,826,029
Money market accounts	<u>8,970,161</u>	<u>10,144,350</u>
	<u>\$ 15,915,796</u>	<u>\$ 11,970,379</u>

Bank balances and money market accounts up to \$100,000 are covered by Federal Depository Insurance. At June 30, 2008, \$6,883,707 of the bank balances was uninsured.

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.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. INVESTMENTS

Investments at June 30 consist of:

	<u>2008</u>	<u>2007</u>
Federal Government securities	\$ 42,344,150	\$ 34,400,455
Mortgage-backed securities	40,805,765	25,830,939
Taxable fixed-income securities	37,224,605	49,086,534
Equity securities	<u>72,120,980</u>	<u>65,556,099</u>
	<u>\$ 192,495,500</u>	<u>\$ 174,874,027</u>
Unrealized (losses) gains	\$ (8,544,549)	\$ 8,013,948
Realized gains	<u>354,802</u>	<u>1,229,627</u>
Change in fair value	<u>\$ (8,189,747)</u>	<u>\$ 9,243,575</u>

At June 30, 2008, investment securities were in a loss position for twelve months or more. Management periodically evaluates each investment security relying primarily on its investment advisors, observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is primarily due to interest rate fluctuations.

5. BONDS RECEIVABLE

Bond receivables at June 30, consist of:

	<u>2008</u>	<u>2007</u>
Amounts due on surety bonds and deposits for:		
P-I-E	\$ 1,832,589	\$ 1,832,589
Lone Star	481,261	499,132
Interpace	206,791	146,505
Moore Dry Dock	89,500	89,500
Western Medical	2,522,680	2,445,403
Fleming Foods	<u>276,262</u>	<u>228,860</u>
	<u>\$ 5,409,083</u>	<u>\$ 5,241,989</u>

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. PROPERTY AND EQUIPMENT

Property and equipment at June 30, consist of the following:

	<u>2008</u>	<u>2007</u>
Software	\$ 639,505	\$ 457,477
Furniture and equipment	42,807	19,812
Leasehold improvements	<u>9,469</u>	<u>9,469</u>
	691,781	486,758
Accumulated depreciation	<u>(437,939)</u>	<u>(255,691)</u>
Property and equipment, net	<u>\$ 253,842</u>	<u>\$ 231,067</u>

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 take over the estate. At June 30, 2008 and 2007, assets held (cash and cash equivalents and investments) in excess of estimated liabilities for certain bankruptcy cases approximated \$7,430,279 and \$7,383,369, 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.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. ESTIMATED FUTURE LIABILITIES FOR CLAIMS AND ADMINISTRATION COSTS

As discussed in Note 1, SISF establishes a liability for both reported and unreported insured events. The following represented changes in the aggregate liabilities during the periods ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Estimated future liabilities for claims and administration costs, beginning of period	\$ 43,354,664	\$ 47,404,159
Incurred claims and administration costs:		
Provision for claims	10,825,656	2,503,290
Provision for administration costs	<u>5,835,553</u>	<u>1,328,774</u>
Total incurred claims and claim adjustment expenses	<u>16,661,209</u>	<u>3,832,064</u>
Payments:		
Claims	6,170,399	6,377,572
Administration costs	<u>1,552,323</u>	<u>1,503,987</u>
Total payments	<u>7,722,722</u>	<u>7,881,559</u>
Total estimated future liabilities for claims and administration costs	<u>\$ 52,293,151</u>	<u>\$ 43,354,664</u>

The components of the estimated future liabilities for claims and administration costs as of June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Reported claims	\$ 22,810,019	\$ 24,129,931
Claims incurred but not reported	17,924,165	11,948,996
Administration costs	<u>11,558,967</u>	<u>7,275,737</u>
	<u>\$ 52,293,151</u>	<u>\$ 43,354,664</u>

9. COMMITMENTS AND CONTINGENCIES

Line of Credit

SISF obtained a line of credit in 2005 with a total available balance of \$100 million. A commitment fee, payable quarterly on the unused portion of the available balance is 0.25% per annum. 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 line of credit as of June 30, 2008 or 2007.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

Administrative Contracts

SISF contracts for administration of the Alternative Security Program. The contract to provide services relating to the Alternative Security Program has a fee structure equal to a percentage of the aggregate principal amount of the financing arranged in connection with the program.

10. OPERATING LEASE

SISF entered into a three-year lease for office space beginning September 1, 2005. On February 12, 2008 SISF extended the term of the lease for an additional three-year period. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 48,671
2010	51,412
2011	<u>53,030</u>
	<u>\$ 153,113</u>

Total rent paid for the year ended June 30, 2008 was \$46,649.

11. EMPLOYEE RETIREMENT PLAN

SISF 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, 2008 and 2007, SISF contributed \$31,566 and \$22,163, respectively.

SISF also established an unfunded, 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. Employees may elect to defer a portion of their salary each year. Eligible participants are credited with income and gains and charged with losses, expenses and distributions based upon investment selections made by the employees. As of June 30, 2008 and 2007, there are one and two employees participating in the plan, respectively.

SELF-INSURERS' SECURITY FUND

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. SUBSEQUENT EVENTS

On July 1, 2008 SISF entered into ASP Program where the retention limit of SISF is \$341 million. SISF purchased portfolio default protection for coverage of \$193 million in excess of the retention. SISF retains an additional \$4.0 billion above the retention and protection described above. The portfolio default protection contained individual limits on nine specified employers. SISF purchased credit default swap agreements to cover the exposure above the individual limits. Coverage limits on the credit default swap agreements total \$1 billion, ranging from \$11 million to \$310 million for each of the nine employers.