SAIF Corporation

(A Component Unit of the State of Oregon)

Financial Statements and Supplementary Schedule as of and for the Years Ended December 31, 2011 and 2010, and Report of Independent Auditors

SAIF CORPORATION

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OVERVIEW OF SAIF CORPORATION FINANCIAL REPORTING

SAIF Corporation (SAIF) has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. As a discrete component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as a special purpose government engaged solely in business-type activities. Accordingly, SAIF follows the accrual basis of accounting. Revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

SAIF also prepares financial statements in conformity with statutory accounting practices, which are prescribed for use in reporting accounting transactions for insurance companies. These practices arise from state laws and from rules adopted by the State Insurance Commissioner and, for Oregon, are the practices promulgated by the National Association of Insurance Commissioners (NAIC). Statutory accounting practices are conservative in nature and are designed to protect policyholders and claimants to ensure that, in the event of liquidation, sufficient amounts will have been set aside to provide for the outstanding claims of injured workers and their dependents, whereas generally accepted accounting principles (GAAP) are based on the going-concern concept and recognize revenues when earned and expenses when incurred.

There are significant differences between the statutory statements which SAIF prepares for regulatory and management purposes and the accompanying financial statements. They include:

- Statutory accounting requires the majority of invested assets to be recorded at amortized cost, whereas investments are stated at fair value in the accompanying statements with the corresponding change in the fair value for the year recorded as investment income.

- Statutory accounting does not allow the accrual of policyholder dividends until declared by the board of directors. GAAP requires the accrual of estimated policyholder dividends.

- Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred for statutory accounting, while under GAAP, they are deferred and amortized to income as premiums are earned or in relation to estimated gross profits.

- Statutory accounting requires that certain assets not readily available for the payment of claims be "nonadmitted" and removed from the balance sheet. Those assets, such as property and equipment, are included on the GAAP financial statements.

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
SAIF Corporation

The Secretary of State Audits Division of
The State of Oregon

We have audited the accompanying financial statements of SAIF Corporation ("SAIF"), a component unit of the State of Oregon, as of and for the years ended December 31, 2011 and 2010, which collectively comprise SAIF's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SAIF'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 SAIF'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of SAIF Corporation as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2012 on our consideration of SAIF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is

MOSS-ADAMS LLP

an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and postemployment healthcare benefit plan schedule of funding progress on pages 4 through 12 and 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Eugene, Oregon
July 31, 2012

SAIF CORPORATION
Management's Discussion and Analysis
December 31, 2011 and 2010

Management of SAIF Corporation (SAIF) prepares Management's Discussion and Analysis for readers of SAIF's financial statements. This narrative overview and analysis of the financial activities of SAIF is as of and for the years ended December 31, 2011 and 2010. Readers are encouraged to consider this information in conjunction with SAIF's financial statements and notes that follow.

Financial Statements

This discussion and analysis is intended to serve as an introduction to SAIF's financial statements: the Balance Sheets; the Statements of Revenues, Expenses, and Changes in Fund Equity; and the Statements of Cash Flows. The financial statements are designed to provide the readers with an overview of SAIF's financial position and activities.

The Balance Sheets present information on SAIF's assets and liabilities, with the difference between the two reported as fund equity. Assets and liabilities are classified as either current or noncurrent.

The Statements of Revenues, Expenses, and Changes in Fund Equity are SAIF's income statements. Revenues earned and expenses incurred during the year are classified as either operating or nonoperating.

The Statements of Cash Flows present the changes in SAIF's cash and cash equivalents during the year. These statements are prepared using the direct method of cash flows. The statements break out the sources and uses of SAIF's cash and cash equivalents into the following categories: operating activities, investing activities, and capital and related financing activities.

Condensed Financial Information
(In thousands)

Condensed Balance Sheet Information

	December 31, 2011	December 31, 2010	December 31, 2009	2010 to 2011 Increase (Decrease)	2009 to 2010 Increase (Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 43,883	$ 41,742	$ 33,065	$ 2,141	$ 8,677
Investments	4,083,247	4,037,034	3,878,263	46,213	158,771
Securities lending cash collateral	199,303	228,043	375,964	(28,740)	(147,921)
Accounts and interest receivable, net	350,574	334,200	338,905	16,374	(4,705)
Other assets	9,238	7,142	7,150	2,096	(8)
Total current assets	4,686,245	4,648,161	4,633,347	38,084	14,814
NONCURRENT ASSETS—Capital assets, net	16,515	17,541	18,247	(1,026)	(706)
TOTAL ASSETS	$4,702,760	$4,665,702	$4,651,594	$ 37,058	$ 14,108
LIABILITIES AND FUND EQUITY					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	$ 225,388	$ 209,117	$ 206,333	$ 16,271	$ 2,784
Unearned premiums	184,117	168,288	172,180	15,829	(3,892)
Policyholders' dividends payable	-	-	100,566	-	(100,566)
Accounts payable	57,886	51,159	50,982	6,727	177
Obligations under securities lending	199,315	228,042	376,400	(28,727)	(148,358)
Other liabilities and deposits	49,770	45,163	46,073	4,607	(910)
Total current liabilities	716,476	701,769	952,534	14,707	(250,765)
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,794,005	2,795,522	2,752,578	(1,517)	42,944
Other noncurrent liabilities	1,640	1,260	893	380	367
Total noncurrent liabilities	2,795,645	2,796,782	2,753,471	(1,137)	43,311
Total liabilities	3,512,121	3,498,551	3,706,005	13,570	(207,454)
FUND EQUITY:					
Invested in capital assets	16,515	17,541	18,247	(1,026)	(706)
Unrestricted	1,174,124	1,149,610	927,342	24,514	222,268
Total fund equity	1,190,639	1,167,151	945,589	23,488	221,562
TOTAL LIABILITIES AND FUND EQUITY	$4,702,760	$4,665,702	$4,651,594	$ 37,058	$ 14,108

Condensed Revenues, Expenses, and Changes in Fund Equity Information

	Years Ended December 31, 2011	2010	2009	2010 to 2011 Increase (Decrease)	2009 to 2010 Increase (Decrease)
OPERATING REVENUES:					
Net premiums earned	$ 357,475	$ 333,323	$ 339,494	$ 24,152	$ (6,171)
Other income	23,574	16,859	17,690	6,715	(831)
Total operating revenues	381,049	350,182	357,184	30,867	(7,002)
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	328,879	365,150	377,118	(36,271)	(11,968)
Policyholders' dividends	150,043	99,975	100,566	50,068	(591)
Underwriting expenses	93,530	80,963	82,961	12,567	(1,998)
Bad debt provision	815	1,239	2,652	(424)	(1,413)
Total operating expenses	573,267	547,327	563,297	25,940	(15,970)
OPERATING LOSS	(192,218)	(197,145)	(206,113)	4,927	8,968
NONOPERATING REVENUES:					
Net investment income	215,706	418,707	557,370	(203,001)	(138,663)
INCREASE IN FUND EQUITY	$ 23,488	$ 221,562	$ 351,257	$ (198,074)	$ (129,695)
FUND EQUITY—Beginning of year	1,167,151	945,589	594,332	221,562	351,257
FUND EQUITY—End of year	$ 1,190,639	$ 1,167,151	$ 945,589	$ 23,488	$ 221,562

Financial Position as of December 31, 2011

At the end of 2011, total assets increased $37.1 million from the prior year. Total liabilities increased $13.6 million for the year, and fund equity increased $23.5 million.

Significant changes include:

Cash and Cash Equivalents—The majority of SAIF's cash accounts consist of short-term investments and funds utilized by external investment managers. Cash and cash equivalents increased $2.1 million or 5.1 percent from December 31, 2010 to December 31, 2011.

Investments—At the end of 2011, investments were $46.2 million or 1.1 percent higher than at the end of 2010. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2011. Investment holdings (principal and cost) increased $73.7 million for bonds and decreased $52.3 million for equities. Bond holdings increased due to the reinvestment of investment income offset somewhat by the withdrawal of bond principal to fund the policyholder dividend payment. The decrease in equities was due to a decline in market value and to withdrawals to fund both the policyholder dividend and operations. Market values increased $61.8 million for bonds and decreased $36.8 million for equities. The BlackRock MSCI ACWI fund had a negative return of 7.6 percent for 2011.

Securities Lending Cash Collateral—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Accounts and Interest Receivable—The balance in this line is comprised of investment income receivable, net premiums receivable, accrued retrospective premiums receivable, and other accounts receivable. This balance increased $16.4 million or 4.9 percent from December 31, 2010 to December 31, 2011.

Accrued investment income decreased $3.5 million or 8.7 percent from December 31, 2010 to December 31, 2011, primarily due to the low interest rate environment.

Premiums receivable increased $23.6 million or 10.0 percent in 2011, primarily due to the growth in premiums. Net written premiums increased 13.3 percent from 2010 to 2011.

Accrued retrospective premiums receivable decreased $5.3 million or 11.6 percent due to favorable loss development, primarily for the State of Oregon's retrospectively rated policies.

Other accounts receivable increased $1.6 million or 11.3 percent, primarily due to a $1.5 million increase in premium assessment receivables. This was due to the growth in premiums as noted above.

Other Assets—This balance increased $2.1 million from the prior year, primarily due to a $1.3 million increase in amounts due from brokers for securities sold, and a $0.8 million increase in deferred acquisition costs as a result of an increase in commissions associated with the premium growth.

Reserve for Losses and Loss Adjustment Expenses—The total (current and non-current) reserve for losses and loss adjustment expenses (LAE) increased $14.7 million or 0.5 percent from the prior year. Loss reserves decreased $21.0 million or 0.8 percent and

LAE reserves increased $35.7 million or 11.3 percent during 2011. Loss reserves for the 2011 accident year were offset by favorable loss reserve development of $126.7 million related to prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years which had lower loss development than was expected. Indemnity loss reserves were virtually unchanged. The unfavorable LAE development was largely attributed to an increase in selected LAE severity for the current year.

Unearned Premiums—The amount of unearned premium for 2011 increased $15.8 million or 9.4 percent due to the increase in premium.

Accounts Payable—The balance in this line is comprised of commission payable, reinsurance payable, accrued premium assessment, and other accounts payables. The $4.5 million increase in premium assessment payable and the $1.1 million increase in commission payable are due to the growth in premium. Other accounts payable increased $1.8 million due to an increase in employee benefits payable, an increase in policyholder credit balances, and an increase in advance claim recovery due to a third-party settlement payment received in late 2011 for an injured worker. Reinsurance payable decreased $0.7 million due to a decrease in the liability for premiums ceded to the assigned risk pool.

Obligations Under Securities Lending—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Other Liabilities and Deposits—The balance in this line is comprised of accrued retrospective premiums payable, premium deposits, amounts due to brokers for security purchases, amounts due to other governments, and compensated absences payable. This balance increased $4.6 million or 10.2 percent from the prior year primarily due to a $4.8 million increase in the estimated amount of return premium payable on retrospectively rated policies. The increase was due to favorable loss experience for the majority of the retrospectively rated policies. Amounts due to other governments decreased $0.3 million due to a reduction in the federal premium assessment.

Operations - Year Ended December 31, 2011

Significant changes in revenues and expenses include:

Net Premiums Earned—Net premiums earned in prior years have been declining due to a weak economy and premium rate reductions. Pure premium rates declined an average of 5.9 percent in 2009, 1.3 percent in 2010, and 1.8 percent for 2011. For 2010, premiums earned were 1.8 percent lower than 2009. However, for 2011, net premiums earned increased $24.2 million or 7.3 percent compared to 2010. The increase is due to new sales and higher reported payrolls by policyholders.

Other Income—This line increased $6.7 million or 39.8 percent in 2011, due to an increase in premium assessment income as a result of the growth in premium.

Net Losses and Loss Adjustment Expenses Incurred—Net losses incurred for 2011 decreased by $86.6 million from 2010, while net LAE incurred increased $50.3 million for a total net decrease of $36.3 million. The favorable loss reserve development for 2011 was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years which had lower loss development than was expected. Indemnity loss reserves were virtually unchanged. LAE incurred increased due to adverse reserve development. Unfavorable LAE development was largely attributable to an increase in selected LAE severity for the current year.

Policyholders' Dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, or loss reserve reductions. In 2011, policyholder dividends of $150.0 million were declared and paid to qualifying policyholders. In 2010, policyholder dividends of $200.5 million were declared and paid to qualifying policyholders, of which $100.6 million was accrued at December 31, 2009.

Underwriting Expense—This line increased by $12.6 million or 15.5 percent in 2011, due to an increase in commissions as a result of the growth in premium.

Net Investment Income—Investment income for 2011 was $203.0 million lower than the amount recorded for 2010, primarily because realized gains for 2011 were less than 2010. Net realized investment gains were $26.1 million for 2011, compared to gains of $223.8 million for 2010. The gains experienced in 2010 were primarily due to the need to dispose of a significant share of the equity portfolio to implement a new investment allocation policy. For 2011, realized gains from bonds were $18.0 million, and equity sales resulted in $7.9 million in gains. The change in fair value of investments recorded for 2011 was $24.9 million compared to $21.5 million for 2010. While investment principal has grown, investment income declined $10.9 million from 2010 to 2011, and has been adversely affected by relatively low yields on high quality securities. In addition, the payment of policyholder dividends during the past two years has reduced the opportunity for investment income.

Economic Outlook

It is anticipated that the economy and unemployment rates will continue to slowly improve, keeping premium levels low but slowly improving during 2012. The 1.9 percent pure premium rate increase approved for 2012 may increase premium collections.

Financial Position as of December 31, 2010

At the end of 2010, total assets increased $14.1 million from the prior year. Total liabilities decreased $207.5 million for the year, and fund equity increased $221.6 million.

Significant changes include:

Cash and Cash Equivalents—The majority of SAIF's cash accounts consist of short-term investments and funds utilized by external investment managers. Cash and cash equivalents increased $8.7 million or 26.2 percent from December 31, 2009 to December 31, 2010, primarily due to an increase in short-term investments.

Investments—At the end of 2010, investments were $158.8 million or 4.1 percent higher than at the end of 2009. SAIF's portfolio mix experienced significant changes during 2010, due to the implementation of a new investment policy. Effective January 27, 2010, the Oregon Investment Council approved a revised asset allocation policy for SAIF. The new allocation reduced the equity allocation from 15 percent to 10 percent, increased the fixed income allocation from 85 percent to 90 percent, reduced the fixed income duration target from 7 to 5 years, and permitted global equities. Investment holdings (principal and cost) increased $211.9 million for bonds and decreased $74.2 million for equities. Market values increased $119.6 million for bonds and decreased $98.5 million for equities. SAIF's Russell

3000 pooled equity fund was liquidated and replaced by BlackRock MSCI ACWI fund, a global equity index fund, as investment policy changes allow for international equity holdings. The BlackRock investment had a positive return of 17.6 percent for 2010.

Securities Lending Cash Collateral—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Accounts and Interest Receivable—The balance in this line is comprised of investment income receivable, net premiums receivable, accrued retrospective premiums receivable, and other accounts receivable. This balance decreased $4.7 million or 1.4 percent from December 31, 2009 to December 31, 2010.

Accrued investment income increased $3.3 million or 8.8 percent from December 31, 2009 to December 31, 2010, primarily due to the increase in bond holdings.

Premiums receivable decreased $2.1 million or 0.9 percent in 2010, primarily due to the economic downturn.

Accrued retrospective premiums receivable decreased $6.4 million or 12.4 percent due to favorable loss development, primarily for the State of Oregon's retrospectively rated policies.

Other accounts receivable increased $0.6 million or 4.2 percent, primarily due to a $2.1 million increase in premium assessment receivables. This was the result of an increase in the premium assessment rate from 4.6 percent to 6.4 percent effective January 1, 2011. This balance was offset by a $1.4 million reduction in amounts due from the assigned risk pool.

Reserve for Losses and Loss Adjustment Expenses—The total (current and non-current) reserve for losses and loss adjustment expenses (LAE) increased $45.7 million or 1.6 percent from the prior year. Loss reserves increased $57.5 million or 2.2 percent and LAE reserves decreased $11.8 million or 3.6 percent during 2010. Loss reserves for the 2010 accident year were offset somewhat by favorable loss reserve development of $45.0 million related to prior accident years.

The favorable development from prior years recognized in 2010 was attributed to the more recent accident years, as permanent total disability and permanent partial disability medical reserves had lower loss development than was expected. The favorable development was offset somewhat by unfavorable development for indemnity loss reserves, which may be due to fewer return-to-work opportunities. The favorable LAE development was largely attributed to a reduction in the long-term LAE escalation rate due to the average increase in salary and benefits trending downward.

Unearned Premiums—The amount of unearned premium for 2010 decreased $3.9 million or 2.3 percent due to the decline in premium.

Policyholders' Dividends Payable—The decrease in this line is due to a $100.6 million policyholder dividend paid in March 2010, which was accrued at December 31, 2009.

Accounts Payable—The balance in this line is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payables. The increase in the premium assessment rate resulted in a $3.7 million increase in premium assessment payable. This increase is offset by a $0.6 million decrease in commissions payable due to a decline in net earned premium, a $0.7 million reduction in reinsurance payable due to a decrease in the liability for premiums ceded to the assigned risk pool, and a $2.2 million decrease in other accounts payable, primarily from policyholder credit balances.

Obligations Under Securities Lending—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Other Liabilities and Deposits—The balance in this line is comprised of accrued retrospective premiums payable, premium deposits, amounts due to brokers for security purchases, amounts due to other governments, and compensated absences payable. This balance decreased $0.9 million or 2.0 percent from the prior year primarily due to a $0.5 million decrease in the estimated amount of return premium payable on retrospectively rated policies, a result of the economic downturn. Premium deposits decreased $0.4 million due to the reduction in premiums leading to reduced security deposits.

Operations - Year Ended December 31, 2010

Significant changes in revenues and expenses include:

Net Premiums Earned—Net premiums earned decreased $6.2 million or 1.8 percent compared to 2009 due to lower reported payrolls by policyholders and a pure premium rate reduction averaging 1.3 percent in 2010.

Other Income—Other income decreased $0.8 million or 4.7 percent from 2009 to 2010. This is primarily due to a decrease in premium tax on retrospectively rated policies, and a decrease in employer interest and penalties.

Net Losses and Loss Adjustment Expenses Incurred—Net losses incurred for 2010 increased by $18.0 million from 2009, while net LAE incurred decreased $30.0 million for a total net decrease of $12.0 million. Incurred losses for 2010 were greater than 2009, because the amount of favorable development recorded in the current year was less than the favorable development recorded in the prior year. LAE incurred decreased due to less reserve development than the prior year. Favorable LAE development was largely attributed to a reduction in the long-term LAE escalation rate due to the average increase in salary and benefits trending downward.

Policyholders' Dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, or loss reserve reductions. In 2010, policyholder dividends of $200.5 million were declared and paid to qualifying policyholders, of which $100.6 million was accrued at December 31, 2009. In June 2011, SAIF's board of directors declared a $150.0 million policyholder dividend, which was paid to qualifying policyholders in July 2011.

Underwriting Expense—This line decreased by $2.0 million or 2.4 percent in 2010, due to a reduction in commissions associated with the decline in premium.

Net Investment Income—Investment income for 2010 was $138.7 million lower than the amount recorded for 2009, primarily because market value gains for 2010 were less than 2009. Net realized investment gains were $223.8 million for 2010, compared to losses of

$19.1 million for 2009. The disposal of a significant share of the equity portfolio to implement a new investment allocation policy resulted in $183.5 million in gains, and $40.3 million in gains were realized from bonds as managers repositioned the portfolio to the new policy. The $183.5 million realized gains in equities were offset, for the most part, by the reversal of the unrealized gains previously reported. The change in fair value of investments recorded for 2010 was $21.5 million compared to $401.8 million for 2009. While investment principal has grown, interest income on bonds decreased $1.2 million from the prior year due to relatively low yields on high quality securities. In addition, the payment of policyholder dividends reduced the opportunity for investment income.

SAIF CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 43,883	$ 41,742
Investments	4,083,247	4,037,034
Securities lending cash collateral	199,303	228,043
Investment income receivable	36,663	40,168
Premiums receivable, net	258,336	234,782
Accrued retrospective premiums receivable	39,977	45,241
Accounts receivable	15,598	14,009
Other assets	9,238	7,142
Total current assets	4,686,245	4,648,161
NONCURRENT ASSETS—Capital assets, net	16,515	17,541
TOTAL	$ 4,702,760	$ 4,665,702
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 225,388	$ 209,117
Unearned premiums	184,117	168,288
Accrued retrospective premiums payable	35,072	30,305
Commissions payable	9,046	7,912
Reinsurance payable	5,496	6,218
Accrued premium assessment payable	20,448	15,905
Premium deposits	8,698	8,668
Accounts payable	22,896	21,124
Obligations under securities lending	199,315	228,042
Other liabilities	6,000	6,190
Total current liabilities	716,476	701,769
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,794,005	2,795,522
Other postemployment benefits obligation	1,640	1,260
Total noncurrent liabilities	2,795,645	2,796,782
Total liabilities	3,512,121	3,498,551
FUND EQUITY:		
Invested in capital assets	16,515	17,541
Unrestricted	1,174,124	1,149,610
Total fund equity	1,190,639	1,167,151
TOTAL	$ 4,702,760	$ 4,665,702

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
OPERATING REVENUES:		
Net premiums earned	$ 357,475	$ 333,323
Other income	23,574	16,859
Total operating revenues	381,049	350,182
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	328,879	365,150
Policyholders' dividends	150,043	99,975
Underwriting expenses	93,530	80,963
Bad debt provision	815	1,239
Total operating expenses	573,267	547,327
OPERATING LOSS	(192,218)	(197,145)
NONOPERATING REVENUES:		
Investment income	220,827	426,055
Investment expenses	(5,121)	(7,348)
Net investment income	215,706	418,707
INCREASE IN FUND EQUITY	$ 23,488	$ 221,562
FUND EQUITY—Beginning of year	1,167,151	945,589
FUND EQUITY—End of year	$ 1,190,639	$ 1,167,151

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	$ 359,089	$ 336,400
Loss and loss adjustment expenses paid	(314,125)	(319,422)
Underwriting expenses paid	(93,530)	(80,963)
Policyholder dividends paid	(150,043)	(200,541)
Other receipts	29,281	17,655
Net cash used in operating activities	(169,328)	(246,871)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,126,905)	(2,666,921)
Proceeds from sales and maturities of investments	1,123,593	2,757,129
Interest received on investments and cash balances	174,537	165,415
Interest received from securities lending	805	1,629
Interest paid for securities lending	(310)	(1,012)
Net cash provided by investing activities	171,720	256,240
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(404)	(712)
Proceeds from disposition of capital assets	153	20
Net cash used in capital and related financing activities	(251)	(692)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,141	8,677
CASH AND CASH EQUIVALENTS—Beginning of year	41,742	33,065
CASH AND CASH EQUIVALENTS—End of year	$ 43,883	$ 41,742

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	**2010**
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (192,218)	$ (197,145)
Adjustments to reconcile operating loss to net cash provided by Operating activities:		
Depreciation and amortization	1,246	1,368
Bad debt provision	815	1,239
Net changes in assets and liabilities:		
Premiums receivable, net	(24,369)	864
Accrued retrospective premiums receivable	5,264	6,421
Accounts receivable	(1,588)	(560)
Other assets	(771)	35
Reserve for losses and loss adjustment expenses	14,754	45,728
Unearned premiums	15,830	(3,892)
Accrued retrospective premiums payable	4,767	(467)
Policyholders' dividends payable	-	(100,566)
Commissions payable	1,133	(599)
Reinsurance payable	(722)	(668)
Accrued premium assessment payable	4,543	3,652
Premium deposits	30	(420)
Accounts payable	1,772	(2,208)
Other liabilities	(194)	(20)
Other postemployment benefits obligation	380	367
Total adjustments	22,890	(49,726)
NET CASH USED IN OPERATING ACTIVITIES	$ (169,328)	$ (246,871)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through conversions and tax free exchange transactions	$ 43,995	$ 36,333

See notes to financial statements.

1. DESCRIPTION OF BUSINESS & REGULATORY ENVIRONMENT

SAIF Corporation (SAIF) is a public corporation created by an act of the Oregon Legislature. It traces its origins to 1914 when its predecessor organization commenced business.

SAIF is an insurance company authorized to write workers' compensation coverage in Oregon and is a servicing carrier for accounts in the assigned risk pool. SAIF also provides coverage governed by the Longshore and Harbor Workers' Compensation Act, Jones Act, and Federal Employers Liability Law. SAIF has partnered with Zurich American Insurance Company and United States Insurance Services to provide other states coverage effective February 1, 2011. SAIF's board of directors is appointed by the governor of the State of Oregon and consists of Oregon business and community leaders not otherwise in the employ of SAIF. Certain members of SAIF's board of directors are SAIF policyholders or are employed by SAIF policyholders. The transactions between SAIF and these policyholders were within SAIF's standard terms and conditions.

SAIF writes business on a direct basis as well as through agents. Premiums written on a direct basis were 31.7 percent and 33.0 percent of standard premium during 2011 and 2010, respectively. SAIF issues workers' compensation insurance policies to individual Oregon employers including state agencies.

The Oregon Department of Consumer and Business Services (DCBS) enforces workers' compensation laws under the Oregon Revised Statutes (ORS). Under the reporting requirements of the DCBS, Insurance Division, SAIF is subject to Risk Based Capital (RBC) requirements of the National Association of Insurance Commissioners (NAIC), which establishes that certain amounts of capital and surplus be maintained. SAIF's RBC calculated minimum capital and surplus amount on the statutory basis of accounting was $276.2 million and $276.0 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the statutory capital and surplus of SAIF exceeded the minimum RBC requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—SAIF has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America for governmental entities. As a discretely presented component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as a special purpose government engaged solely in business-type activities. Accordingly, SAIF follows the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, SAIF only follows Statements of the Financial Accounting Standards Board issued prior to November 30, 1989.

Investments—SAIF reports investments at fair value on the balance sheet and recognizes the corresponding change in the fair value of investments in the year in which the change occurs as investment income. The fair value of debt and equity securities is determined using recognized pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and asked prices. For some debt securities, fair value cannot be determined in this manner. For these securities, a similar "benchmark" security is used. The benchmark security has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. As of December 31, 2011 and 2010, the percent of SAIF's debt securities priced using the benchmark method was 25.8 percent and 20.7 percent, respectively.

Cash and Cash Equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. SAIF places its temporary cash investments with the Oregon Short-Term Fund (OSTF), an external cash and investment pool. SAIF's participation in this fund is involuntary. This fund is not registered with the Securities and Exchange Commission and is not rated. The OSTF is a cash and investment pool that operates as a demand deposit account. As a result, SAIF's investment is not impacted by changes in the market value of the OSTF. By statute, the OSTF may hold securities with maturities no greater than three years. The average maturity of the OSTF as of December 31, 2011 and 2010, was 202 days and 178 days, respectively. As of December 31, 2011 and 2010, SAIF's balance in the OSTF was $28.4 million and $18.1 million, respectively.

Oregon's State Treasurer employs the services of two external investment managers to manage SAIF's fixed income portfolios. The cash balances of the fixed income managers are invested in the SSgA Prime Money Market Fund which had a fund credit quality rating of AAAm. This fund's stated objectives are to maximize current income while maintaining a stable $1.00 unit value by investing in high quality, short maturity securities. The average maturity of the SSgA Prime Money Market Fund as of December 31, 2011 and 2010, was 19 days and 32 days, respectively.

Concentrations of Credit Risk—Financial instruments, which potentially subject SAIF to concentrations of credit risk, consist principally of temporary cash investments and debt securities. SAIF places its investment securities with financial institutions approved by the State of Oregon and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to investments in debt securities are limited due to the large number of such investments and their distribution among many different industries and geographic regions.

Capital Assets—Capital assets are stated at historical cost, less accumulated depreciation. Maintenance, repairs, and minor renovations are charged to expense as costs are incurred. Upon retirement or sale, any resulting gain or loss is recorded as other income.

Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred.

Capital assets are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Capitalization Threshold	**Useful Life**
Buildings and improvements	All	30-40 years
Furniture, equipment, and automobiles	$0-$5,000	3-7 years
Data processing software	$500,000	3 years

Capital assets activity for the years ended December 31, 2011 and 2010, was as follows (dollars in thousands):

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	26,419	-	-	26,419
Equipment	6,765	404	(1,054)	6,115
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	42,227	404	(1,054)	41,577
Total	45,256	404	(1,054)	44,606
Less accumulated depreciation for:				
Buildings and improvements	(13,479)	(776)	-	(14,255)
Equipment	(5,193)	(501)	901	(4,793)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(27,715)	(1,277)	901	(28,091)
Capital assets—net	$ 17,541	$ (873)	$ (153)	$ 16,515

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	26,419	-	-	26,419
Equipment	7,812	712	(1,759)	6,765
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	43,274	712	(1,759)	42,227
Total	46,303	712	(1,759)	45,256
Less accumulated depreciation for:				
Buildings and improvements	(12,692)	(787)	-	(13,479)
Equipment	(6,321)	(612)	1,740	(5,193)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(28,056)	(1,399)	1,740	(27,715)
Capital assets—net	$ 18,247	$ (687)	$ (19)	$ 17,541

Premiums—Premiums are based on individual employers' reported payroll using predetermined, DCBS approved insurance rates based on employee risk classifications and are recognized as income on a pro rata basis over the coverage period, which is generally one year. Ceded premiums are recognized consistent with the underlying policies. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Policyholders' premiums due to SAIF are recorded as premiums receivable, net of the allowance for uncollectible accounts of $1.4 million and $1.5 million, at December 31, 2011 and 2010, respectively. Premiums receivable consists of both billed and unbilled amounts. Unbilled premiums receivable primarily represent premiums recorded as written at the policy inception date and not yet billed, as well as an estimate of the difference between amounts earned ratably on installment-billed policies and the amount billed on the policy. Unbilled premiums receivable also include estimated billings on payroll reporting policies which were earned but not billed prior to year-end. SAIF uses its' historical experience to estimate earned but unbilled amounts, which are recorded as premiums receivable. These unbilled amounts are estimates, and while SAIF believes such amounts are reasonable, there can be no assurance the amounts ultimately received will equal the recorded unbilled amounts. The ultimate collectability of the unbilled premiums receivable can be affected by general changes in the economy and the regulatory environment due to the increased time required to determine the billable amount. SAIF considers these factors when estimating the premium receivable for unbilled premiums. Unbilled premiums receivable at December 31, 2011 and 2010 were $253.9 million and $231.8 million, respectively.

Certain policyholders are required to remit deposits which represent premium expected to be payable to SAIF at the end of the month following the reporting period (monthly and quarterly), plus one additional month. Deposits are generally in the form of cash and are recorded as policyholders' premium deposits. However, policyholders may pledge surety bonds and securities, as well as letters of credit, in lieu of cash deposits. Premium deposits at December 31, 2011 and 2010, were $8.7 million.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10½ years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 10½ years. The estimate of the net accrued premiums receivable for retrospective rating plans as of December 31, 2011 and 2010, is as follows (dollars in thousands):

	2011	**2010**
Accrued retrospective premiums receivable	$ 39,977	$ 45,241
Accrued retrospective premiums payable	(35,072)	(30,305)
Net	$ 4,905	$ 14,936

SAIF estimates accrued retrospective premiums receivable and payable by reviewing historical loss and premium development patterns at various stages of maturity and using these historical patterns to arrive at the best estimate of return and additional retrospective premiums on all open retrospectively rated policies. Premiums written on retrospective workers' compensation policies for 2011 and 2010 were $92.9 million and $88.1 million, respectively, or 24.9 percent and 26.7 percent of net premiums written, respectively.

Reserve for Losses and Loss Adjustment Expenses—The reserve for losses and loss adjustment expenses is generally based on past experience. The liability includes provisions for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will be reopened.

Management believes that the reserve for incurred but unpaid losses and loss adjustment expenses at December 31, 2011 and 2010, is a reasonable estimate of the ultimate net costs of settling claims and claim expenses incurred. Annually, the board of directors reviews the actuarial assumptions utilized in determining the liability for such losses. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. The amount ultimately paid may be more or less than such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur (see Note 4).

Premium Deficiency—Premium deficiency is based upon an estimate of the amount by which the sum of anticipated claims costs, claims adjustment expenses, and maintenance expenses exceeds expected premium income and earnings on investments. At December 31, 2011 and 2010, no reserve for premium deficiency was required to be recorded.

Policyholders' Dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, or loss reserve reductions. In 2011, policyholder dividends of $150.0 million were declared and paid to qualifying policyholders. In 2010, policyholder dividends of $200.5 million were declared and paid to qualifying policyholders, of which $100.6 million was accrued at December 31, 2009.

Taxes and Assessments—The Oregon Department of Justice has determined that SAIF is exempt from federal and state taxes, because it is an integral part of the State of Oregon and, alternatively, exempt under either or both Sections 501(c)(27)(B) and 115(1) of the Internal Revenue Code.

SAIF is subject to levies by the Oregon Workers' Compensation Division of the DCBS. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $22.0 million and $15.0 million, including $20.4 million and $15.9 million of accrued premium assessments, for the years ended December 31, 2011 and 2010, respectively.

Deferred Acquisition Costs—Acquisition costs, such as commissions and other costs related to acquiring new business, are deferred and amortized to income as premiums are earned. Deferred acquisition costs at December 31, 2011 and 2010 were $7.7 million and $6.9 million, respectively, and have been included within other assets on the balance sheet. Amortization expense for the years ended December 31, 2011 and 2010, was $15.0 million and $13.6 million, respectively, and is recorded as a component of underwriting expenses.

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

New Accounting Pronouncements—In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* This statement modifies certain requirements for inclusion of component units in the financial reporting entity. It also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. The requirements of this statement are effective for SAIF's 2012 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of this statement are effective for SAIF's 2012 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for SAIF's 2012 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

Reclassifications—Certain reclassifications have been made to prior year amounts in order to conform with current year presentation.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents—SAIF's cash and cash equivalents are held in demand accounts with the State Treasurer and invested in the OSTF. The OSTF is a cash and investment pool that is available for use by all state funds and eligible local governments.

SAIF's cash and cash equivalents totaled $43.9 million and $41.7 million as of December 31, 2011 and 2010, respectively, and are composed of the following (dollars in thousands):

Cash balances	**2011**	**2010**
Oregon Short-Term Fund	$ 28,368	$ 18,139
State Street Bank and Trust Company	106	(4)
U.S. Bank	4,847	4,828
	33,321	22,963
Cash equivalents		
State Street Bank (BlackRock money market fund)	1	-
State Street Bank (SSgA prime money market fund)	10,561	18,779
	10,562	18,779
Total cash and cash equivalents	$ 43,883	$ 41,742

Custodial Credit Risk for Cash and Cash Equivalents (Deposits)—Custodial credit risk for deposits is the risk that in the event of a bank failure, SAIF will not be able to recover the value of its deposits or collateral securities that are in possession of an outside party. State Treasurer demand deposit accounts and time certificates of deposit investments of the OSTF held in state banks are insured up to the Federal Deposit Insurance (FDIC) amount of $250 thousand. Where balances exceed the FDIC amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon State Treasury in the Public Funds Collateralization Program. The cash held by State Street Bank and Trust Company (State Street) and the cash in the SSgA Prime Money Market Fund is exposed to custodial credit risk since it is neither collateralized nor insured, but is backed by the full faith and credit of the custodian bank. The cash held in U.S. Bank is in a non-interest bearing account and is FDIC insured for the full amount.

Investments—SAIF's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with ORS 293.726, the investment funds are to be invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the monies contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 7 to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Bond, mortgage-backed, asset-backed, and equity security transactions are recorded on a trade-date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer, depending on the security. Due from brokers for security sales at December 31, 2011 and 2010, were $1.5 million and $162 thousand, respectively. Due to brokers for security purchases was $4 thousand as of December 31, 2011. There were no amounts due to brokers for security purchases as of December 31, 2010.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. SAIF's policy for fixed income investments effective January 27, 2010, provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2011, was 5.16 years, with an acceptable range of 4.13 to 6.19 years. As of that date, the fixed income portfolio's duration was 5.16 years.

The following 2011 maturity distribution schedule includes $1.1 billion in interest-rate sensitive securities. As of December 31, 2011, SAIF held $566.1 million of U.S. Federal Agency mortgage-backed securities and $229.1 million of collateralized mortgage obligations (CMOs). These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2011, SAIF held $308.8 million of asset-backed securities which consisted primarily of utility, student loan, and equipment lease receivables. The value of these securities can be volatile as interest rates fluctuate. Additional risk inherent with these securities is the unpredictability of default on loans that are the collateral for the debt.

The following schedule represents the fixed income investments by maturity date as of December 31, 2011 and 2010, using the segmented time distribution method. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands):

2011	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ 19,995	$ 61,202	$ 98,366	$ -	$ 179,563
U.S. federal agency mortgage securities	105,428	214,722	119,295	126,684	566,129
U.S. federal agency debt	-	8,618	3,563	1,699	13,880
Corporate bonds	67,716	521,282	712,262	592,828	1,894,088
Municipal bonds	2,780	24,243	3,242	96,277	126,542
Collateralized mortgage obligations	25,843	125,456	25,282	52,501	229,082
Asset-backed securities	73,577	139,271	45,264	50,733	308,845
International debt securities	2,972	146,206	145,287	91,803	386,268
Total bonds	$ 298,311	$1,241,000	$1,152,561	$1,012,525	$3,704,397
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 378,850
Total equity securities					378,850
Other invested assets					-
Total investments					$4,083,247

2010	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ 7,610	$ 7,657	$ 7,792	$ 29,104	$ 52,163
U.S. federal agency mortgage securities	107,262	223,607	120,733	244,457	696,059
U.S. federal agency debt	-	8,406	65,005	31,847	105,258
Corporate bonds	26,786	389,290	698,265	739,972	1,854,313
Municipal bonds	-	12,391	2,752	82,490	97,633
Collateralized mortgage obligations	21,566	97,707	52,885	43,564	215,722
Asset-backed securities	14,646	111,044	19,125	-	144,815
International debt securities	1,816	116,274	172,645	112,191	402,926
Total bonds	$ 179,686	$ 966,376	$1,139,202	$1,283,625	$3,568,889
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 467,988
Total equity securities					467,988
Other invested assets					157
Total investments					$4,037,034

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SAIF's credit risk policy is to maintain a well-diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. The policy seeks to maintain an overall fixed income portfolio quality of at least "A" or higher.

The majority of SAIF's debt securities as of December 31, 2011 and 2010, were rated by Moody's and Standard & Poor's, which are acceptable rating organizations. The following schedule represents the ratings of debt securities by investment type as of December 31, 2011 and 2010, using the Standard & Poor's rating scale (dollars in thousands):

2011

	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	179,563	-	-	-	-	-	-	-	-	-	$ 179,563
U.S. federal agency mortgage securities	-	566,129	-	-	-	-	-	-	-	-	-	566,129
U.S. federal agency debt	-	10,317	-	-	-	-	-	-	-	-	3,563	13,880
Corporate bonds	13,297	158,191	764,153	737,138	161,588	39,352	4,869	3,397	-	-	12,103	1,894,088
Municipal bonds	2,126	59,458	43,661	8,188	-	-	-	-	-	-	13,109	126,542
Collateralized mortgage obligations	78,254	72,763	2,797	-	-	661	4,018	6,369	-	1,493	62,727	229,082
Asset-backed securities	141,696	80,410	2,803	-	-	-	439	-	-	-	83,497	308,845
International debt securities	8,156	30,968	134,081	181,417	16,048	10,810	-	-	483	-	4,305	386,268
Total bonds	$ 243,529	$1,157,799	$ 947,495	$ 926,743	$ 177,636	$50,823	$ 9,326	$ 9,766	$ 483	$ 1,493	$ 179,304	$3,704,397

2010

	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ 52,163	-	-	-	-	-	-	-	-	-	-	$ 52,163
U.S. federal agency mortgage securities	696,059	-	-	-	-	-	-	-	-	-	-	696,059
U.S. federal agency debt	105,258	-	-	-	-	-	-	-	-	-	-	105,258
Corporate bonds	12,766	216,134	854,340	557,367	161,278	36,078	1,562	2,166	-	-	12,622	1,854,313
Municipal bonds	1,813	57,863	20,646	7,275	-	-	-	-	-	-	10,036	97,633
Collateralized mortgage obligations	115,543	7,992	7,798	2,506	-	2,204	12,331	-	-	-	67,348	215,722
Asset-backed securities	74,092	14,828	4,781	-	-	-	511	-	-	-	50,603	144,815
International debt securities	10,263	62,855	138,859	171,061	10,472	7,917	901	-	598	-	-	402,926
Total bonds	$1,067,957	$ 359,672	$1,026,424	$ 738,209	$ 171,750	$46,199	$15,305	$ 2,166	$ 598	$ -	$ 140,609	$3,568,889

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. SAIF's investment policy places limitations on the amount that may be invested in any one issuer. The following specific limitations reflect, in part, the Oregon Investment Council's current investment philosophy regarding diversification.

- No fixed income investment in any one issue shall be in excess of 5 percent of the outstanding fixed income obligations of the issuer.

- Issuer level restrictions shall not apply to U.S. government and agency obligations, including agency backed mortgages (no limit) and private mortgage-backed and asset-backed securities, which shall be limited to 10 percent per issuer.

- Obligations of other national governments are limited to 10 percent per issuer.

As of December 31, 2011 and 2010, SAIF did not have a concentration of credit risk in any one issuer that exceeded the policy outlined above.

Securities on Deposit—U.S. Treasury obligations with a fair value of $7.7 million and $7.6 million at December 31, 2011 and 2010, respectively, were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act. In addition, certificates of deposit with a fair value of $571 thousand and $300 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2011 and 2010, respectively.

Securities Lending—In accordance with state investment policies, SAIF participates in securities lending transactions. The State Treasury has, through a Securities Lending Agreement, authorized State Street to lend SAIF's securities to broker/dealers and banks pursuant to a form of loan agreement. Both SAIF and the borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During 2011 and 2010, State Street loaned SAIF's fixed income securities and received cash and non-cash collateral denominated in U.S. dollars. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security. SAIF did not impose any restrictions on the amount of the loans State Street made on its behalf. SAIF was fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return loaned securities.

Cash collateral received for securities loaned is invested in the State Street Bank and Trust Company Oregon Short-Term Investment Fund (the Fund), an "external investment pool" for purposes of GASB Statement No. 31. SAIF's participation in this fund is voluntary. The fair value of investments held by this fund is based upon valuations provided by a recognized pricing service. This fund is not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. No income from the Fund was assigned to another fund by the custodial agent during 2011 and 2010. At December 31, 2011 and 2010, the Fund had an average-weighted maturity of 86 days and 119 days, respectively.

At December 31, 2011 and 2010, the collateral held was $199.3 million and $228.0 million, respectively. At December 31, 2011 and 2010, the fair value, including accrued investment income related to the securities on loan, was $195.3 million and $225.0 million, respectively.

For 2011 and 2010, securities lending income was $0.8 million and $1.6 million, and securities lending expense was $0.3 million and $1.0 million, respectively.

4. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related loss adjustment expenses (LAE). In estimating the reserve for losses and LAE, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF.

The following table provides a reconciliation of the beginning and ending reserve for losses and LAE at December 31, 2011 and 2010, as follows (dollars in thousands):

	2011	**2010**
Gross reserve for losses and loss adjustment expenses—beginning of year	$3,152,189	$3,110,112
Less reinsurance recoverable—beginning of year	(147,550)	(151,201)
Net reserve for losses and loss adjustment expenses—beginning of year	3,004,639	2,958,911
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	455,593	410,197
Provision for insured events of prior years	(126,714)	(45,047)
Total incurred losses	328,879	365,150
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	103,973	102,155
Insured events of prior years	210,152	217,267
Total payments	314,125	319,422
Net reserve for losses and loss adjustment expenses—end of year	3,019,393	3,004,639
Plus reinsurance recoverable—end of year	137,922	147,550
Gross reserve for losses and loss adjustment expenses—end of year	$3,157,315	$3,152,189

The reserve for losses and LAE increased $14.7 million in 2011, which was net of favorable development of $126.7 million. Loss reserves decreased $21.0 million as compared to the prior year. Loss reserves for the 2011 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years which had lower loss development than was expected. Indemnity loss reserves were virtually unchanged.

LAE reserves increased $35.7 million. The unfavorable LAE development was largely attributable to an increase in selected LAE severity for the current year.

The reserve for losses and LAE increased $45.7 million in 2010, which was net of favorable development of $45.0 million. The favorable development is attributed to the more recent accident years, as permanent total disability and permanent partial disability medical reserves had lower loss development than was expected. The favorable development was offset somewhat by unfavorable development for indemnity loss reserves, which may be due to fewer return-to-work opportunities. Loss adjustment expense reserves decreased $11.8 million. The favorable LAE development was largely attributed to a reduction in the long-term LAE escalation rate due to the average increase in salary and benefits trending downward.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis using the 1999 United States Life Tables, the 1980 United States of America Railroad Retirement Board Remarriage Table, and a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid LAE. Gross reserves subject to tabular discounting were $260.3 million and $269.3 million for 2011 and 2010, respectively. The discounts were $90.0 million and $93.8 million as of December 31, 2011 and 2010, respectively.

Anticipated salvage and subrogation of $29.6 million and $25.7 million was included as a reduction of the reserve for losses and LAE at December 31, 2011 and 2010, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $27.6 million and $29.0 million for losses and LAE are related to asbestos claims as of December 31, 2011 and 2010, respectively. Amounts paid for asbestos-related claims were $0.8 million and $1.0 million for the years ended December 31, 2011 and 2010, respectively.

5. REINSURANCE

In the ordinary course of business, SAIF cedes premiums for purposes of risk diversification and limiting maximum loss exposure from catastrophic events through contractual agreements with reinsurers. If such assuming reinsurers are unable to meet the obligations assumed under these reinsurance agreements, SAIF would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, SAIF evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

SAIF maintains reinsurance protection providing limits of $60 million excess of $35 million per occurrence with a $10 million maximum on any one life and a $120 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2011, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2010 direct written premium for acts of foreign and domestic terrorism through the Terrorism Risk Insurance Program Reauthorization Act.

The following amounts have been deducted (added) in the accompanying financial statements as a result of reinsurance ceded for 2011 and 2010 (dollars in thousands):

	2011	**2010**
Reserve for losses and loss adjustment expenses	$ 47,148	$ 50,919
Premiums earned	1,002	997
Losses and loss adjustment expenses incurred	(3,344)	(208)

Of the $47.1 and $50.9 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of $18.7 million and $23.0 million, respectively as of December 31, 2011 and 2010.

In November 2010, SAIF received formal approval from the DCBS for implementation of its other states coverage program. Beginning February 1, 2011, SAIF partnered with Zurich American Insurance Company and United States Insurance Services (USIS) to provide other states coverage. Zurich issues policies covering the non-Oregon operation of SAIF's customers and manages claims arising from those policies. SAIF reinsures those policies in full. USIS, a broker licensed in all fifty states, provides marketing and administrative services.

The following amounts are included in the accompanying financial statements as a result of participation in other states coverage in 2011 and 2010 (dollars in thousands):

Other States Coverage	**2011**	**2010**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 1,281	$ -
Unearned premiums	2,395	-
Premiums written	3,954	-
Premiums earned	1,559	-
Losses and loss adjustment expenses incurred	1,372	-
Commission expense	581	-

SAIF is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the Plan), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool (NWCRP). The Plan provides a guaranteed source of workers' compensation insurance for employers unable to obtain coverage because of unstable financial conditions, poor loss experience, or the inherently dangerous nature of the work. SAIF cedes such business to the Plan. In addition, SAIF is required to assume its share of premiums and losses from the Plan based on SAIF's voluntary market share.

The following amounts are included in the accompanying financial statements as a result of participation in the Plan in 2011 and 2010 (dollars in thousands):

NWCRP	**2011**	**2010**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 70,800	$ 72,875
Unearned premiums	2,527	2,175
Premiums written	14,280	12,331
Premiums earned	13,927	12,671
Losses and loss adjustment expenses incurred	8,182	6,022
Commission expense	5,626	4,800
Ceded:		
Reserve for losses and loss adjustment expenses	$ 90,774	$ 96,630
Unearned premiums	4,002	4,168
Premiums written	8,794	9,367
Premiums earned	8,960	10,025
Losses and loss adjustment expenses incurred	1,251	4,355
Commission expense	2,615	2,651

6. LEASE COMMITMENTS

SAIF leases office space in several locations under non-cancelable operating leases expiring during various years through 2019. Lease expense was $1.2 million and $1.1 million for the years ended December 31, 2011 and 2010, respectively.

SAIF's future minimum lease payments under operating leases at December 31, 2011, are as follows (dollars in thousands):

2012	$ 1,205
2013	1,226
2014	1,145
2015	1,176
2016	1,195
2017-2019	2,490
Total minimum payments	$ 8,437

Certain rental commitments have renewal options extending through the year 2028. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $525 thousand on leases due in the future under non-cancelable subleases as of December 31, 2011.

7. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering state government agencies through its Insurance Fund, an internal service fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $400 million and a blanket commercial excess bond with limits of $20 million.

SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each participating state entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance of the Insurance Fund from the prior biennium. SAIF's assessment was $255 thousand and $321 thousand as of December 31, 2011 and 2010, respectively.

SAIF's employees do not participate in the State of Oregon's health insurance plans.

8. CONTINGENCIES

SAIF has entered into structured settlements wherein SAIF has purchased annuities for which the claimant is payee, but for which SAIF is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were $4.0 million and $4.3 million at December 31, 2011 and 2010, respectively.

During the normal course of business, SAIF becomes involved in litigation arising out of matters incident to the conduct of its insurance operations. SAIF is represented in these actions by the Oregon Department of Justice. Some of these potential liabilities become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability would be recorded on SAIF's financial statements. Management believes that these matters do not materially impact the financial statements.

9. DEFERRED COMPENSATION PLAN

A deferred compensation plan was authorized under Internal Revenue Code Section 457(b) and ORS 243.400 to 243.495. The plan is a benefit available to all SAIF employees wherein they may execute an individual agreement with SAIF to defer a portion of their current income until future years so as to shelter such funds from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds withheld from employees and remitted to the plan have been invested with various financial institutions and insurance companies. Plan assets are held in a custodial account or an annuity contract by the plan provider for the exclusive benefit of the participants or beneficiary. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. SAIF does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the financial statements.

10. RETIREMENT PLAN

The majority of SAIF's employees participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from multiple retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees' Retirement System annual financial report may be obtained by writing to PERS, Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700.

Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.0 percent of their salary to the Individual Account Program (IAP), a defined contribution plan. Current law permits employers to pay employees' contributions to PERS, which SAIF has elected to do. Additionally, SAIF is required by statute to contribute a percentage of each covered employee's salary to fund the PERS program. For the year ended December 31, 2011, SAIF's contribution rate of each covered employee's salary was 9.55 percent. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF employees hired on or after August 29, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) after completing six months of service. OPSRP is a hybrid pension plan (cost sharing multiple-employer plan) administered by the PERS Board of Trustees under the guidelines of ORS Chapter 238A with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). SAIF currently contributes 8.05 percent of each covered employee's salary to the Pension Program and 6.0 percent to the Individual Account Program. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF participates, along with other State of Oregon agencies, in paying the debt service for State of Oregon general obligation bonds issued in October 2003 to reduce an unfunded PERS liability. The bonds are scheduled to mature 25 years after the date of issuance. Currently, the repayment rate is 6.33 percent of payroll each month. The payment rate is recalculated each state fiscal biennium.

The total amount contributed by SAIF for all plans for the years ended December 31, 2011, 2010, and 2009, consist of the following (dollars in thousands):

	2011	**2010**	**2009**
Employer contributions:			
Debt service	$ 3,370	$ 3,338	$ 3,358
PERS-Pension Program	2,361	883	1,909
OPSRP-Pension Program	793	377	692
Total employer contributions	6,524	4,598	5,959
Employee contributions paid by SAIF:			
PERS-IAP	2,496	2,571	2,626
OPSRP-IAP	867	796	769
Total employee contributions	3,363	3,367	3,395
Total contributions	$ 9,887	$ 7,965	$ 9,354

For the years ended December 31, 2011, 2010, and 2009, SAIF's employer contributions were equal to the annual required contributions.

11. OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan Description—SAIF administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for self and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. Benefit provisions are established by SAIF.

Funding Policy—SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. For the years ended December 31, 2011 and 2010, respectively, retired plan members contributed $851 thousand and $645 thousand through their required contributions, and the required contribution rate per retired member was an average of $717 and $572 per month.

Annual OPEB Cost and Net OPEB Obligation—SAIF's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of SAIF's annual OPEB cost for the years ended December 31, 2011, 2010, and 2009, the amount actually contributed, and changes in SAIF's net OPEB obligation to the plan (dollars in thousands):

	2011	2010	2009
Annual required contribution	$ 875	$ 762	$ 730
Interest on net OPEB obligation	69	49	26
Adjustment to ARC	(96)	(68)	(36)
Annual OPEB cost (expense)	848	743	720
Contributions made	468	376	299
Increase in net OPEB obligation	380	367	421
Net OPEB obligation - beginning of year	1,260	893	472
Net OPEB obligation - end of year	$ 1,640	$ 1,260	$ 893
Percent of annual OPEB cost contributed	55.2%	50.6%	41.5%

Actuarial Methods and Assumptions—Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress shown as required supplementary information presents multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and participating members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2011, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.5 percent investment rate of return. The annual medical healthcare cost trend rate will increase 6.75 percent in the first year, 6.5 percent in the second year, 6.0 percent in the third year, 5.75 percent for the fourth through twenty-fifth year, 5.5 percent for the twenty-sixth through thirtieth year, and 5.25 percent thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis for 15 years. As GASB Statement No. 45 was implemented prospectively, there was no net OPEB liability at transition on January 1, 2007.

Funding Progress Information—The funded status as of the most recent actuarial valuation date is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
01/01/2007	$0	$2,973	$2,973	0.0%	$50,229	5.9%
01/01/2009	$0	$5,701	$5,701	0.0%	$57,228	10.0%
01/01/2011	$0	$6,980	$6,980	0.0%	$56,948	12.3%

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

For the years ended December 31, 2011 and 2010
(In thousands)

The Schedule of Funding Progress and the Schedule of Employer Contributions present multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability, and the actual contributions to the annual required contributions.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
01/01/2007	$0	$2,973	$2,973	0.0%	$50,229	5.9%
01/01/2009	$0	$5,701	$5,701	0.0%	$57,228	10.0%
01/01/2011	$0	$6,980	$6,980	0.0%	$56,948	12.3%

Schedule of Employer Contributions

	2011	2010	2009
Annual required contribution	$ 875	$ 762	$ 730
Interest on net OPEB obligation	69	49	26
Adjustment to ARC	(96)	(68)	(36)
Annual OPEB cost (expense)	848	743	720
Contributions made	468	376	299
Increase in net OPEB obligation	380	367	421
Net OPEB obligation - beginning of year	1,260	893	472
Net OPEB obligation - end of year	$ 1,640	$ 1,260	$ 893
Percent of annual OPEB cost contributed	55.2%	50.6%	41.5%

Summary of Key Actuarial Methods and Assumptions

Actuarial valuation date	As of January 1, 2011
Actuarial cost method	Projected Unit Credit Cost Method
Amortization	15 years
Discount rate	5.50%
Projected payroll growth rate	3.75%
Health care cost trend rate	The annual medical healthcare cost trend rate will increase 6.75 percent in the first year, 6.5 percent in the second year, 6.0 percent in the third year, 5.75 percent for the fourth through twenty-fifth year, 5.5 percent for the twenty-sixth through thirtieth year, and 5.25 percent thereafter.

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