SAIF Corporation

Financial Statements (as restated) as of and for the Year Ended December 31, 2003, and Independent Auditors' Report

SAIF CORPORATION

Management Discussion and Analysis
Unaudited

Management of SAIF Corporation provides Management's Discussion and Analysis for readers of the Company's financial statements and for inclusion in the State of Oregon Comprehensive Annual Financial Report. This narrative overview and analysis of the financial activities of SAIF Corporation is for the calendar year ended December 31, 2003. Readers are encouraged to consider this information in conjunction with the Company's financial statements and footnote disclosures that follow.

Overview

SAIF Corporation 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 authorized to write workers' compensation and surety coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services to service accounts in the assigned risk pool.

SAIF Corporation prepares financial statements in conformity with statutory accounting practices, which are prescribed for use in reporting accounting transactions for insurance companies. At the request of the Oregon Secretary of State's Audits Division, SAIF has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. As a component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board. Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as an enterprise fund.

The Corporation's Board of Directors is appointed by the Governor of the State and consists of prominent Oregonians, three of which represent SAIF policyholders, not otherwise in the employ of the Company. The mission of SAIF Corporation is "to make insurance available to as many Oregon employers as inexpensively as may be consistent with the overall integrity of the Industrial Accident Fund . . . and sound principles of insurance." ORS 656.752.

SAIF fulfills its mission by continuing to make workers' compensation insurance available to a greater number of policyholders at a lower premium rate. The Company's market share, based on direct earned premium in the State of Oregon, increased from 40.8% for 2002 to 41.9% for 2003. In addition, SAIF's claims management practices and loss prevention efforts helped lower the frequency of job related accidents that occurred during the year. Rising medical cost continued to be a challenge faced during the year.

Condensed Financial Information
(In thousands)
(Unaudited)

ASSETS	Restated 12/31/2003	Restated 12/31/2002	Increase (Decrease)
Current Assets			
Cash and Cash Equivalents	$116,227	$380,442	($264,215)
Investments	2,645,915	2,179,928	465,987
Securities Lending Cash Collateral	471,338	151,132	320,206
Accounts and Interest Receivable	166,092	143,492	22,600
Receivable for Securities Sold	130,617	30,073	100,544
Other Assets	987	956	31
Total Current Assets	3,531,176	2,886,023	645,153
Noncurrent Assets			
Land, Buildings, Property and Equipment	23,630	25,185	(1,555)
Total Assets	$3,554,806	$2,911,208	$643,598

LIABILITIES AND FUND EQUITY

Current Liabilities			
Reserve for Loss and Loss Adjustment Expenses	$167,328	$166,692	$636
Unearned Premiums	53,778	45,781	7,997
Accounts and Interest Payable	34,969	28,898	6,071
Due to Brokers for Security Purchases	51,952	35,876	16,076
Obligations Under Securities Lending	471,338	151,132	320,206
Other Liabilities and Deposits	46,256	29,842	16,414
Total Current Liabilities	825,621	458,221	367,400
Noncurrent Liabilities			
Reserve for Loss and Loss Adjustment Expenses	2,171,470	2,039,074	132,396
Total Liabilities	2,997,091	2,497,295	499,796
Fund Equity	557,715	413,913	143,802
Total Liabilities and Fund Equity	$3,554,806	$2,911,208	$643,598

Operating Revenues			
Net Premiums Earned	$312,051	$290,036	$22,015
Net Investment Income	268,064	71,495	196,569
Other Income	26,754	23,103	3,651
Total Operating Revenues	606,869	384,634	222,235
Operating Expenses			
Loss and Loss Adjustment Expenses Incurred	375,725	362,619	13,106
Policyholders' Dividends	1,890	(736)	2,626
Underwriting Expenses	83,814	77,898	5,916
Other Expenses	1,639	1,753	(114)
Total Operating Expenses	463,068	441,534	21,534
Operating Gain (Loss)	$143,801	($56,900)	$200,701

The unaudited condensed financial information shown above is derived from the audited financial statements for the years ended December 31, 2003, included herein, and 2002, not included herein. As discussed in Note 11 of the accompanying financial statements, we have restated the 2003 financial statements. We have revised the 2002 financial statements to conform with current year presentation and to adjust for amounts assumed from and ceded to the assigned risk pool.

Management's Discussion and Analysis

Financial Position

At the end of 2003, total assets were $643.6 million greater than the prior year. Total liabilities increased $499.8 million for the year, while fund equity increased $143.8 million.

Significant changes include:

Cash and Cash Equivalents – The majority of the Company's cash accounts are made up of short-term investments utilized by external investment managers. Cash may fluctuate significantly from period to period as the investment managers trade securities. At the end of 2002, there were significantly more pending security trades than there were at the end of 2003. Also, during 2002, the core bond managers invested in FNMA and GNMA TBA securities. These securities have monthly settlement dates, and offer investors the ability to finance these transactions rather than taking delivery on a monthly basis. These transactions are commonly referred to as "rolling" and are accomplished by simultaneously selling your position for one month's delivery and buying it for the next month's delivery. This basically postpones the settlement of the transaction until the following month, which explains the larger cash position at the end of 2002. Beginning in 2003, the investment managers were instructed to not roll TBA securities and now only acquire TBA securities which are settled at the earliest possible date.

Investments – At the end of 2003, investments were $466.0 million greater than the end of 2002. The increase was primarily due to an increase of $381.7 million in bond investments. As noted above, a significant amount of short-term investments were being held at the end of 2002, and much of those funds were reinvested in bond holding. Additionally, the bond market performed relatively well during 2003, so the market value adjustment made to the Company's bond holdings was $22.6 million greater than the amount recorded for 2002.

Improvements in the investment markets during 2003 increased the value of the company's equity holdings $130.8 million. The Company's BGI Russell 3000 index holdings had a positive return of 30.9% for the year. According to a plan adopted by the Oregon Investment Council in 2001, the Company's asset allocation target for equity securities is being lowered over a four year period. Approximately $50 million of equity investments were disposed during 2003 and invested in bonds. The reinvestment of investment income is directed toward bond holdings with no new contributions to equity securities.

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 our portfolio.

Accounts and Interest Receivable – The amount of premium due to SAIF increased in 2003 primarily because of an increase in our book of business and because of increased amounts due on retrospectively rated policies. During 2003, net earned premium for SAIF increased 7.6% as Oregon continues to experience a "hard" workers' compensation market. Premiums due on retrospectively rated policies increased approximately $7.5 million as claims costs increased the State of Oregon policy as well as individual retro accounts. Deferred premium grew as the number and amount of policies written on stipulated billing plans continued to grow during 2003. Also increasing premium due was an increase in the estimated amount due from premium audit adjustments.

Receivable for Securities Sold - The amount receivable for securities sold at the end of 2003 was $100.5 million higher than the prior year due to an increase in pending security trade settlements.

Reserve for Loss and Loss Adjustment Expenses – Loss reserves increased $132.3 million or 7.1% during 2003 and loss adjustment expense reserves increased $0.8 million or 0.2%. The increase in reserves was due to growth in the book of business.

Several loss reserve assumptions were refined which produced both favorable and unfavorable loss reserve development. Favorable frequency development on disabling claims allowed the frequency assumption for permanent total disability claims to be lowered from 0.16% to 0.10% of all disabling claims. This had a favorable impact of approximately $140 million. However, the severity of disabling claims continues to grow leading to a change in assumptions which increased reserves approximately $82 million. Medical cost escalation continued to remain high and led to a change in assumptions that added an additional $46 million to reserves.

Unearned Premiums – The amount of unearned premium for 2003 increased $8.0 million or 17.5% because of the increase in premium due and earned premium noted above.

Accounts and Interest Payable – The increase in this line item is due to growth in the amount of policyholder credits on accounts with stipulated billings and an increase in the estimated amount of premium assessment payable to policyholders on retrospectively rated policies. Also increasing this line is an accrual for approximately $2.0 million for unclaimed property payable to the Oregon Department of State Lands (see comments on Policyholders' Dividends below).

Due to Brokers for Security Purchases – The amount payable for pending settlement of investment purchases can fluctuate significantly from period to period depending on the amount of investment activity near the end of the period.

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 our portfolio.

Other Liabilities and Deposits – This line increased 74.6% primarily because of an increase in the estimated amount payable to policyholders on retrospectively rated policies. A large group retro plan had significantly better loss experience than estimated for the prior year.

Operations

Significant changes in revenues and expenses includes:

Net Premiums Earned – Premium earned for 2003 was $22.0 million or 7.6% greater than 2002. New sales were $25.2 million (standard premium) for the year compared to competitive losses of $3.5 million and non-renewals of $2.8 million (does not include mid-term cancellations). The retention rate for 2003 was 98.4%.

Investment Income – Investment income for 2003 was $196.6 million greater than the amount recorded for 2002 because of an increase in the market value adjustment for invested assets. Unrealized gains recorded for 2003 were $204.6 million greater than the unrealized losses recorded for 2002.

Other Income – Other income for 2003 was greater than the amount recorded for 2002 because of the growth in premium assessment income associated with the growth in premium receivable and premium income.

Loss and Loss Adjustment Expenses Incurred – Losses incurred for 2003 increased over 2002 due to an increase in paid claim cost, primarily medical expense payments. Incurred loss adjustment expenses for 2003 were less than 2002 because of a larger increase in loss adjustment expense reserves in 2002.

Policyholders' Dividends – In 1995, SAIF received and relied on an advisory letter from the Oregon Department of Justice that indicated ownership of policyholder dividends did not transfer to recipients if they could not be located and any unclaimed amounts were credited back to the Company's dividend account after two years of making a reasonable effort to locate the recipients. In May of 2004, the Oregon Department of Justice provided an updated advisory memo indicating that unclaimed policyholder dividend payments are subject to escheatment laws and payable to the Oregon Department of State Lands. Approximately $2.0 million has been accrued as a liability payable to the Department of State Lands with the corresponding expense charged to policyholders' dividends.

Underwriting Expense – This line increased $5.9 million because of an increase in commission assumed from the assigned risk pool, growth in premium assessment expense associated with the growth in premium income, and general operating expense increases.

Other Required Supplementary Information

At less than 1% of total assets, SAIF's capital assets are minimal, consisting of office buildings primarily occupied by the Company and computer and office equipment. There were no significant changes in capital assets during the year. There are no significant commitments outstanding for capital assets.

Other than accounts payable and amounts due for investment purchases, SAIF has no debt and there are no plans to issue debt.

SAIF develops an annual operating budget for planning and control purposes. It is approved by the Board of Directors and monitored closely by management and the Board.

INDEPENDENT AUDITORS' REPORT

Board of Directors
SAIF Corporation

Secretary of State Audits Division
State of Oregon

We have audited the accompanying balance sheet of SAIF Corporation ("SAIF"), a component of the State of Oregon, as of December 31, 2003, and the related statements of revenues, expenses and changes in fund equity and of cash flows for the year then ended. These financial statements are the responsibility of SAIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of SAIF as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis that precedes the financial statements is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of SAIF's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

As discussed in Note 11, the accompanying financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004 on our consideration of SAIF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 17, 2004 (December 28, 2004 as to Notes 4, 11, and 12)

SAIF CORPORATION

BALANCE SHEET
DECEMBER 31, 2003 (In Thousands)

	As Restated (see Note 11)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 116,227
Investments	2,645,915
Securities lending cash collateral	471,338
Accounts and interest receivable	166,092
Receivable for securities sold	130,617
Other assets	987
Total current assets	3,531,176
NONCURRENT ASSETS:	
Land	2,922
Buildings, property and equipment	47,732
Less accumulated depreciation and amortization	(27,024)
Total noncurrent assets	23,630
TOTAL ASSETS	$ 3,554,806
LIABILITIES AND FUND EQUITY	
CURRENT LIABILITIES:	
Reserve for loss and loss adjustment expenses	$ 167,328
Unearned premiums	53,778
Accounts and interest payable	34,969
Due to brokers for security purchases	51,952
Obligations under securities lending	471,338
Due to other governments	4,789
Other liabilities and deposits	38,309
Compensated absences payable	3,158
Total current liabilities	825,621
NONCURRENT LIABILITIES—Reserve for loss and loss adjustment expenses	2,171,470
Total liabilities	2,997,091
FUND EQUITY:	
Invested in capital assets	23,630
Restricted for workers' compensation	534,085
Total fund equity	557,715
TOTAL LIABILITIES AND FUND EQUITY	$ 3,554,806

See notes to financial statements.

SAIF CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY YEAR ENDED DECEMBER 31, 2003 (In Thousands)

	As Restated (see Note 11)
OPERATING REVENUES:	
Net premiums earned	$ 312,051
Net investment income	268,064
Other income	26,754
Total operating revenues	606,869
OPERATING EXPENSES:	
Loss and loss adjustment expenses incurred	375,725
Policyholders' dividends	1,890
Underwriting expenses	83,814
Other expenses	1,639
Total operating expenses	463,068
OPERATING GAIN	$ 143,801
OPERATING GAIN	$ 143,801
FUND EQUITY—Beginning of year (as previously reported and restated)	355,525
PRIOR-PERIOD ADJUSTMENTS	58,389
FUND EQUITY—Beginning of year—as restated	413,914
FUND EQUITY—End of year	$ 557,715

See notes to financial statements.

SAIF CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003 (In Thousands)

	As Restated (see Note 11)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Premiums collected net of reinsurance	$ 313,109
Loss and loss adjustment expenses paid	(242,693)
Underwriting expenses paid	(85,189)
Policyholder dividends paid	(179)
Other receipts	38,179
Net cash provided by operating activities	23,227
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of investments	(4,311,254)
Proceeds from sales and maturities of investments	3,914,859
Interest received on investments and cash balances	110,168
Interest income received from securities lending	2,056
Interest expense paid for securities lending	(1,704)
Net cash used in investing activities	(285,875)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(1,653)
Proceeds from disposition of capital assets	89
Net cash used in capital and related financing activities	(1,564)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(264,212)
CASH AND CASH EQUIVALENTS—Beginning of year	380,439
CASH AND CASH EQUIVALENTS—End of year	$ 116,227

(Continued)

SAIF CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003 (In Thousands)

	As Restated (see Note 11)
RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating gain	$ 143,801
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation and amortization	3,129
Bad debt expense	1,931
Investment income reported as operating revenue	(268,064)
Net changes in assets and liabilities:	
Accounts and interest receivable—net	(21,255)
Other assets	(32)
Reserve for loss and loss adjustment expenses	133,032
Unearned premiums	7,997
Accounts and interest payable	6,275
Due to other governments	(88)
Other liabilities and deposits	16,369
Compensated absences payable	132
Total adjustments	(120,574)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 23,227

See notes to financial statements.

(Concluded)

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 certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. SAIF also provides coverage governed by the Longshoremen's and Harbor Workers' Compensation Act, Jones Act and Federal Employers Liability Law. SAIF's Board of Directors is appointed by the Governor of the State of Oregon (the "State") and consists of prominent Oregon business and community leaders, not otherwise in the employ of SAIF.

SAIF writes business on a direct basis and through agents. Premiums written on a direct basis were 30.7% of standard premium during 2003.

The Department of Consumer and Business Services ("DCBS") enforces workers' compensation laws under Oregon Revised Statutes ("ORS"). Under the reporting requirements of the State of Oregon, DCBS, Insurance Division, SAIF's calculated minimum surplus amount is $253.3 million. At December 31, 2003, the statutory surplus of SAIF exceeded the minimum requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—At the request of the Oregon Secretary of State's Audits Division, 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 component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board. Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as an enterprise fund. 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.

In accordance with Governmental Accounting Standards Board ("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 certain investments at fair value in 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 custodial agent determines the fair value of debt and equity securities, 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. A small percentage of debt securities cannot be priced in this manner, and for these, a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Investments in leveraged buyouts representing private securities are valued at cost, or at fair market value as estimated by a recognized pricing service if a significant event has occurred which affects the value of the investment and warrants an adjustment to cost. Investments in leveraged buyouts representing publicly traded securities are stated at the quoted market price adjusted for a reasonable illiquidity discount and are reported as Other Invested Assets in Note 3. Mortgage loans on real estate and state agency loans are stated at the unpaid principal balance.

Realized investment gains and losses are determined using the specific identification method and are included as a component of net income upon the maturity or disposition of the investment. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year may have been recognized as a change in the fair value of investments reported in prior years. The net change in the fair value of investments during 2003 was a $153.8 million gain. This takes into account all changes in fair value (including purchases and sales) that occurred during the year. The net unrealized gain on investments at December 31, 2003 was $104.3 million.

Cash and Cash Equivalents—SAIF places its temporary cash investments with the Oregon Short Term Fund. The Oregon Short Term Fund 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 Oregon Short Term Fund. By statute, the Oregon Short Term Fund may hold securities with maturities no greater than three years. The average maturity of the Oregon Short Term Fund as of December 31, 2003 was 174 days.

Oregon's State Treasurer employs the services of three external investment managers to manage SAIF's funds, one that manages a convertible bond portfolio and two that manage fixed income portfolios. The cash balances of the convertible bond manager are invested in the SSgA Money Market Fund, and the cash balances of the fixed income managers was invested in the State Street Short Term Investment Fund (STIF) through mid-September 2003 and the SSgA Prime Money Market Fund for the remainder of 2003. These funds seek 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 Money Market Fund as of December 31, 2003 was 58 days. The average maturity of the SSgA Prime Money Market Fund as of December 31, 2003 was 61 days.

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 high-credit quality financial institutions and limits the amounts 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 U.S. government bonds, many different industries and geographic regions.

Property and Equipment—Property and equipment are stated at 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 included as a component of net income. Property and equipment is 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 machinery	\$0–\$2,000	3–7 years
Data processing software	\$500,000	3 years

Land, property and equipment activity for the year ended December 31, 2003 was as follows (dollars in thousands):

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 2,922	\$ -	\$ -	\$ 2,922
Buildings and improvements	25,444	3		25,447
Equipment	14,426	1,063	(1,830)	13,659
Data processing software	8,645	587	(606)	8,626
Totals at historical cost	51,437	1,653	(2,436)	50,654
Less accumulated depreciation for:				
Buildings and improvements	(7,529)	(722)		(8,251)
Equipment	(11,611)	(1,643)	1,751	(11,503)
Data processing software	(7,112)	(764)	606	(7,270)
Total accumulated depreciation	(26,252)	(3,129)	2,357	(27,024)
Land, property and equipment—net	\$ 25,185	\$ (1,476)	\$ (79)	\$ 23,630

Depreciation and amortization expense for the year ended December 31, 2003 was \$3.1 million.

Premiums—Premiums are based on individual employers' reported payroll using predetermined insurance rates based on employee risk classifications and are recognized as income on a pro rata basis over the coverage period. Ceded premiums are recognized consistent with the underlying reinsurance agreement. 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. Premiums receivable consists of both billed and unbilled amounts. Unbilled premiums receivable primarily represent an estimate of the difference between amounts earned ratably on installment-billed policies and the amount to be 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 collectibility 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, 2003 were $63.5 million and are included in accounts and interest receivable.

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 in policyholders' premium deposits and included in other liabilities. However, policyholders may pledge surety bonds and securities in lieu of cash deposits.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 4-1/2 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 4-1/2 years. The estimate of the net accrued premiums receivable for retrospective rating plans as of December 31, 2003 is as follows (dollars in thousands):

Accrued retrospective premiums receivable	$ 61,589
Reserve for retrospective rating plans	(25,764)

These amounts are included in the accompanying balance sheet.

Reserve for Loss and Loss Adjustment Expenses—The reserve for loss and loss adjustment expenses is generally based on past experience, except for certain awarded claims which are determined on an individual case basis. 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 loss and loss adjustment expenses at December 31, 2003 is a reasonable estimate of the ultimate net costs of settling claims and claims expenses incurred. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and 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).

Currently, SAIF discounts the reserve for known unpaid fatal and permanent total disability losses. SAIF does not discount the reserve for unpaid fatal and permanent total disability loss adjustment expenses. The discount rate used by SAIF is 3.5% at December 31, 2003. Annually, the Board of Directors reviews the actuarial assumptions and discount rates utilized in determining the liability for such losses. The tabular discounts reflected in the reserve for loss and loss adjustment expenses were $100.4 million at December 31, 2003.

Managed Care Organization Fees—SAIF contracts with managed care organizations ("MCOs"). MCOs manage claims by arranging to provide medical and health care services under capitation agreements. The expense is based on the number of claims accepted and closed at a specific negotiated rate while managed by an MCO. During 2003, claims covered by contracts with MCOs were approximately 87% of total claims.

Premium Deficiency—At December 31, 2003, no reserve for premium deficiency was required to be recorded. 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.

Policyholders' Dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Estimated amounts to be returned to policyholders are accrued when the related premium is earned. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains or loss reserve reductions. No policyholder dividends were declared in 2003; however, a change in legal advice, as described in the following paragraph, resulted in a net incurred amount of $1.9 million.

The Uniform Disposition of Unclaimed Property Act, ORS 98.302 to 98.436 and 98.992, establishes the conditions under which holders of unclaimed property must transfer the same to the Department of State Lands. In 1995, SAIF Corporation received an advisory letter from the Oregon Department of Justice indicating that policyholder dividends were not subject to the provisions of ORS 98.302 to 98.436 if policyholders could not be located. Since that time, SAIF has made reasonable efforts to locate the potential recipients of unclaimed dividend checks, and if after two years they could not be located, those funds were credited back to SAIF's dividend account. The Oregon Department of Justice issued another advisory letter dated April 29, 2004 that reversed its earlier position and stated that unclaimed policyholder dividends are subject to the provisions of ORS 98.302 to 98.436 and 98.992. A $2.0 million retroactive liability was recorded at December 31, 2003 to account for the unclaimed policyholder dividends that will be turned over to the Department of State Lands.

Taxes and Assessments—The Oregon Department of Justice has determined that SAIF is exempt from federal 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 Department of Consumer and Business Services. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $24.5 million, including $9.7 million of accrued premium assessments, for the year ended December 31, 2003.

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

Current Accounting Pronouncements—Derivative reporting in previous years was directed by a Technical Bulletin issued by the GASB in 1994. In 2003, the GASB adopted a new standard, Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. Technical Bulletin 2003-1 is applicable as of June 30, 2003 and supercedes the prior standard. The new standard provides disclosure requirements for governmental units that hold derivatives that are not reported at fair value on the balance sheet. If all investments, including those with derivative characteristics, are reported at fair value in accordance with GASB Statement Nos. 25 and 31, no additional disclosures are required. All of the investments that SAIF held that were considered derivatives under Technical Bulletin 94-1, such as asset-backed securities and floating rate notes, are reported at fair value and therefore no longer considered derivatives.

The GASB has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an Amendment of GASB Statement No. 14*. The impact from adopting this statement did not have a material effect on SAIF's financial position or operations. The requirements of this statement were effective for the fiscal year ended December 31, 2003.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3*. This statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The requirements of this statement are effective for SAIF's financial statements for periods beginning after June 15, 2004 (January 1, 2005). SAIF is in the process of determining the impact of this statement on its financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The requirements of this statement are effective for SAIF's financial statements for periods beginning after December 15, 2004 (January 1, 2005). SAIF is in the process of determining the impact of this statement on its financial statements.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents—Cash on deposit in state banks is covered by federal deposit insurance or is secured by the State Treasury at a minimum of 25% as required by statutes. Amounts held in the Oregon Short Term Fund are insured or secured by securities held by the State Treasurer or by its agent in the Treasurer's name. Deposits at the custodian bank are neither collateralized nor insured but are backed by the full faith and credit of the custodian bank.

Investments—Oregon's State Treasurer acts as SAIF's investment officer, investing in any instrument in which persons of prudence, discretion and intelligence would invest for their own accounts. The Oregon Investment Council establishes SAIF's investment policy.

SAIF adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, effective January 1, 1997. GASB Statement No. 31 requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Changes in the fair value of investments are recorded as investment income (loss) in the current year.

Cash collateral received in respect of securities loans is invested in the custodial agent's short-term 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. The fair value of SAIF's position in this fund is not the same as the value of the fund's shares, because unrealized gains and losses on the fund's investments included in fair value are not distributed to fund participants. No income from this fund was assigned to another fund by the custodial agent during the year.

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, 2003 was $130.6 million. Due to brokers for security purchases at December 31, 2003 was $52.0 million.

The majority of SAIF investments are classified in three categories of credit risk to give an indication of the level of risk assumed by SAIF at December 31, 2003. The three categories of credit risk are:

1. Insured or registered, or securities held by the State of Oregon or its agent in the State of Oregon's name for SAIF;

2. Uninsured and unregistered with securities held by the counterparty's trust department or agent in the State of Oregon's name for SAIF; and

3. Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the State of Oregon's name for SAIF.

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* investments in mutual funds are not categorized.

SAIF's investments by category at December 31, 2003 are as follows (dollars in thousands):

	Category I	Not Required to Be Categorized	Carrying Amount
Bonds:			
U.S. government	$ 118,588	$316,801	$ 435,389
Corporate bonds	644,742	37,845	682,587
International bonds	167,354	13,803	181,157
Asset backed securities	853,444	75,766	929,210
Total bonds	1,784,128	444,215	2,228,343
Equity securities:			
Russell 3000 Pooled Equity Fund		352,465	352,465
Other equity securities	41,769	12,972	54,741
Total equity securities	41,769	365,437	407,206
Other invested assets		9,764	9,764
Mortgage loans on real estate		602	602
Total investments	$1,825,897	$820,018	$2,645,915

There were no Category 2 or 3 investments at December 31, 2003.

The amortized cost and fair value of investments at December 31, 2003 are as follows (dollars in thousands):

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. government	$ 427,127	$ 9,434	$ (1,172)	$ 435,389
Corporate bonds	639,077	49,299	(5,789)	682,587
International bonds	160,124	21,425	(392)	181,157
Asset-backed securities	913,109	17,885	(1,784)	929,210
Total bonds	2,139,437	98,043	(9,137)	2,228,343
Equity securities:				
Russell 3000 Pooled Equity Fund	339,763	12,702		352,465
Other equity securities	50,915	5,802	(1,976)	54,741
Total equity securities	390,678	18,504	(1,976)	407,206
Other invested assets	10,946		(1,182)	9,764
Mortgage loans on real estate	602			602
Total investments	$2,541,663	$116,547	$(12,295)	$2,645,915

The amortized cost and fair value of debt securities at December 31, 2003, by contractual maturity, are shown below. 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).

	Amortized Cost	Fair Value
Due in one year or less	$ 316,210	$ 319,491
Due after one year through five years	708,642	725,794
Due after five years through ten years	476,447	504,390
Due after ten years	638,138	678,668
Total	$2,139,437	$2,228,343

Net investment income is comprised of the following for the year ended December 31, 2003 (dollars in thousands):

Interest income	$116,474
Change in fair value	141,031
Net realized gains	17,581
Investment income	275,086
Less investment expense	(7,022)
Net investment income	$268,064

Net realized gains and losses on sales of investments, which are included in net investment income, consist of the following for the year ended December 31, 2003 (dollars in thousands):

Gains:	
Bonds	$ 65,771
Equity securities	4,752
Other invested assets	70
Total	$ 70,593
Losses:	
Bonds	$ (21,916)
Equity securities	(31,096)
Other invested assets	-
Total	$ (53,012)
Net:	
Bonds	$ 43,855
Equity securities	(26,344)
Other invested assets	70
Total	$ 17,581

Proceeds from the sales of investments in debt securities for the year ended December 31, 2003 were $2,873.0 million.

Securities with an amortized cost of $3.1 million at December 31, 2003 were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshoremen's and Harbor Workers' Compensation Act.

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

During the year, State Street loaned SAIF's fixed income and equity securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the loaned security, or 105% in the case of international equity securities. SAIF did not impose any restrictions during the year 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.

State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loans in the State Street Bank and Trust Company Oregon Short-Term Investment Fund (the "Fund"). The fair value of SAIF's position in this fund is not the same as the value of the Fund's shares, because unrealized gains and losses on the Fund's investments included in its fair value are not distributed to fund participants. At December 31, 2003, the Fund had an average weighted maturity of

325 days. Since the securities loans are callable on demand by either the lender or borrower, the life of the loans at December 31, 2003 is effectively one day and consequently does not generally match the life of the investments in the Fund. On December 31, 2003, SAIF had no credit risk exposure to borrowers. The collateral held and the fair value including accrued income of the SAIF securities on loan at December 31, 2003 were $471.3 million and $461.8 million, respectively. For 2003, security lending income was $2.1 million and security lending expense was $1.7 million.

4. RESERVE FOR LOSS 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. In estimating the reserve for loss and loss adjustment expenses, 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 loss and loss adjustment expenses for the year ended December 31, 2003 (dollars in thousands):

	As Restated (see Note 11)
Gross reserve for loss and loss adjustment expenses—beginning of year	$ 2,281,540
Less reinsurance recoverable—beginning of year	(75,774)
Net reserve for loss and loss adjustment expenses—beginning of year	2,205,766
Incurred losses:	
Provision for insured events of the current year	381,226
Provision for insured events of the prior year	(5,501)
Total incurred losses	375,725
Loss payments attributable to:	
Insured events of the current year	81,539
Insured events of the prior year	161,154
Total payments	242,693
Net reserve for loss and loss adjustment expenses—end of year	2,338,798
Plus reinsurance recoverable—end of year	74,128
Gross reserve for loss and loss adjustment expenses—end of year	$ 2,412,926

The favorable prior year loss reserve development noted above was the result of fewer permanent total disability claims than expected.

Anticipated salvage and subrogation of $11.4 million is included as a reduction of the reserve for losses at December 31, 2003.

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 $70 million excess of $30 million per occurrence with a $2 million maximum on any one life and a $140 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological or chemical terrorist attacks. During 2003, SAIF had reinsurance protection for 90% of losses in excess of 7% of 2002 direct-earned premiums for acts of foreign terrorism through the Federal Terrorism Reinsurance Act.

The following amounts have been deducted in the accompanying financial statements as a result of reinsurance ceded for 2003 (dollars in thousands):

Reserved for loss and loss adjustment expenses	$ 74,128
Premiums written and earned	2,988
Loss and loss adjustment expenses incurred	1,393

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 condition, poor loss experience or the inherently dangerous nature of the work. SAIF cedes such business to the Plan. In addition, SAIF is also required to assume its share of premiums and losses from the Plan based on voluntary market share.

The following amounts are included in the accompanying financial statements as a result of participation in the Plan in 2003 (dollars in thousands):

Assumed:	
Reserve for loss and loss adjustment expenses	$ 62,594
Unearned premiums	2,541
Premiums written	30,680
Premiums earned	29,976
Loss and loss adjustment expenses incurred	27,880
Ceded:	
Reserve for loss and loss adjustment expenses	$ 75,240
Unearned premiums	3,985
Premiums written	29,788
Premiums earned	29,623
Loss and loss adjustment expenses incurred	21,485

6. LEASE COMMITMENTS

SAIF leases office space in several locations under noncancelable operating leases expiring during various years through 2010. Lease expense was $587 thousand for the year ended December 31, 2003.

SAIF's future minimum lease payments under operating leases at December 31, 2003 are as follows (dollars in thousands):

2004	$ 557
2005	556
2006	499
2007	399
2008	412
Thereafter	812
Total minimum payments	$3,235

Certain rental commitments have renewal options extending through the year 2018. 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 $421 thousand on leases due in the future under noncancelable subleases as of December 31, 2003.

7. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering State government agencies through its Insurance 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 honesty and faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $375 million and a blanket commercial excess bond with limits of $10 million.

As a state agency, SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each 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 carryforward or equity in the Insurance Fund. Assessments for the year ended December 31, 2003 were $242 thousand.

8. CONTINGENCIES

The Company has entered into structured settlements wherein the Company has purchased annuities of which the claimant is payee but for which the Company 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 $5.2 million at December 31, 2003.

During the ordinary 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 Attorney General of the State of Oregon. In the opinion of management, based upon information furnished by counsel, the ultimate disposition of these actions will not have a material adverse effect on SAIF's financial position or results of operations.

9. DEFERRED COMPENSATION PLAN

A deferred compensation plan was authorized under Internal Revenue Code Section 457 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.

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. PERS is administered by the Public Employees Retirement Board under the guidelines of ORS Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67% 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 from PERS, P.O. Box 23700, Tigard, Oregon 97281–3700.

Most SAIF employees are eligible to participate in PERS after completing six months of service. Covered employees are required by state statutes to contribute 6.0% of their salary to the plan. Current law permits employers to pay employee contributions to PERS and SAIF elects to do so. SAIF is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. At December 31, 2003, the rate was 4.71% of each covered employee's salary. The amounts contributed by SAIF for the years ended December 31, 2003, 2002 and 2001 were \$6.7 million, \$6.6 million and \$6.4 million, respectively. SAIF employer contributions for the years ended December 31, 2003, 2002 and 2001 were \$4.1 million, \$4.1 million and \$3.9 million, respectively, which are equal to the required contributions for the year. Employee contributions paid by SAIF for the years ended December 31, 2003, 2002 and 2001 were \$2.6 million, \$2.5 million and \$2.5 million, respectively. In accordance with GASB Statement No. 27, no pension liability existed at December 31, 2003.

SAIF employees hired after August 29, 2003 are eligible to participate in the Oregon Public Service Retirement Plan ("OPSRP") after completing six months of service. OPSRP is a hybrid pension plan administered by the Public Employees Retirement Board with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). At December 31, 2003, there were no SAIF employees eligible to participate in the OPSRP.

The system does not make separate measurements of assets and pension benefit obligations for individual employers. Therefore, the present value of accrued benefits, the amount of vested benefits, and the fair value and market value of the plan assets as of the most recent actuarial valuation date are not available.

11. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of SAIF's financial statements for the year ended December 31, 2002, SAIF's management determined that the estimates of premiums, losses and reserves associated with policies ceded to and assumed from the National Workers' Compensation Reinsurance Pool as of December 31, 2002 were not properly recorded. As a result, fund equity as of December 31, 2002, and net loss for the year ended December 31, 2002, were restated from amounts previously reported as described in the table below. Those restated financial statements were issued on September 17, 2004.

Subsequent to the issuance of SAIF's restated financial statements for the year ended December 31, 2003, SAIF's management determined that estimated recoverables under reinsurance agreements were improperly recorded at discounted amounts in anticipation of entering into commutation agreements with reinsurers. Generally Accepted Accounting Principals require that reinsurance recoverables be stated at their undiscounted amounts. Any impact from commutation agreements should not be recorded prior to such commutation. As a result, fund equity, reserves for loss and loss adjustment expenses, and loss and loss adjustment expenses incurred have been restated from amounts previously reported as described in the tables below:

The effect of the restatements on SAIF's fund equity and operating loss is as follows, as of, and for the year ended December 31, 2002:

	As Previously Reported	As Previously Restated	As Restated
Total fund equity	$ 363,188	$355,525	$413,914
Operating loss	58,790	66,453	56,900

The effect of the restatement on SAIF's financial statements is as follows, as of, and for the year ended December 31, 2003:

	As Previously Reported	As Restated
Reserve for loss and loss adjustment expense (noncurrent)	$2,228,502	$2,171,470
Total fund equity	477,053	534,085
Loss and loss adjustment expenses incurred	374,368	375,725
Operating gain	145,158	143,801

12. SUBSEQUENT EVENT

In June 2001, the Marion County Circuit Court of the State of Oregon issued a Stay Order, which required SAIF to conduct a fair and faithful review of SAIF's records to identify all documents responsive to a public records request. On August 25, 2004, SAIF was found to be in contempt of the Court's Stay Order. The fine imposed on SAIF included the plaintiff's legal expenses and an amount equal to the full amount of the compensation provided to two former executives during the period of time the contemptuous conduct began until September 13, 2004. SAIF approximates these fines to be between $2 and $3 million. On September 13, 2004 the Court requested briefing from both parties on whether the court had the authority to issue a sanction retroactively or punitively. A court date has been set for January 11, 2005. Since the amount of fines that may be imposed and the period to which they apply is uncertain, no amount has been recorded in these financial statements. Management believes the amount of fine imposed by the Court will not have a material effect on the financial position, results of operations, or cash flows of the Company.

* * * * * *