SAIF Corporation

(A Component Unit of the State of Oregon)

Financial Statements as of and for the Years Ended December 31, 2009 and 2008, and Independent Auditor's Report

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.

- Cash collateral and collateral due to borrowers for securities lending activity are reflected on the accompanying balance sheet. Statutory accounting does not require the reporting of such items as assets and liabilities if the collateral received is not available for the general use of the transferor.

- 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.

INDEPENDENT AUDITOR'S REPORT

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 year ended December 31, 2009, as listed in the table of contents. 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. The financial statements of SAIF as of December 31, 2008 were audited by other auditors whose report dated August 18, 2009 expressed an unqualified opinion on those statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SAIF Corporation as of December 31, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and postemployment healthcare benefit plan schedule of funding progress on pages 4 through 11 and page 34, respectively, are not a required part of the basic financial statements but are supplementary information required by generally accepted accounting principles in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Eugene, Oregon
July 29, 2010

SAIF CORPORATION
Management's Discussion and Analysis
December 31, 2009 and 2008

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, 2009 and 2008. 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 Sheet; the Statement of Revenues, Expenses, and Changes in Fund Equity; and the Statement of Cash Flows. The financial statements are designed to provide the readers with an overview of SAIF's financial position and activities.

The Balance Sheet presents 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 Statement of Revenues, Expenses, and Changes in Fund Equity is SAIF's income statement. Revenues earned and expenses incurred during the year are classified as either operating or nonoperating.

The Statement of Cash Flows presents the changes in SAIF's cash and cash equivalents during the year. This statement is prepared using the direct method of cash flows. The statement breaks 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,			2008 to 2009 Increase	2007 to 2008 Increase
	2009	2008	2007	(Decrease)	(Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 33,065	$ 39,478	$ 39,862	$ (6,413)	$ (384)
Investments	3,878,263	3,398,861	3,597,781	479,402	(198,920)
Securities lending cash collateral	375,964	439,181	570,060	(63,217)	(130,879)
Accounts and interest receivable, net	338,905	371,001	377,502	(32,096)	(6,501)
Receivable for securities sold	135	132	280	3	(148)
Other assets	7,015	8,354	8,246	(1,339)	108
Total current assets	4,633,347	4,257,007	4,593,731	376,340	(336,724)
NONCURRENT ASSETS—Capital assets	18,247	19,345	19,666	(1,098)	(321)
TOTAL ASSETS	$4,651,594	$4,276,352	$4,613,397	$ 375,242	$ (337,045)
LIABILITIES AND FUND EQUITY					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	$ 206,333	$ 209,139	$ 213,498	$ (2,806)	$ (4,359)
Unearned premiums	172,180	198,736	207,800	(26,556)	(9,064)
Policyholders' dividends payable	100,566	-	-	100,566	-
Accounts payable	50,982	52,090	58,024	(1,108)	(5,934)
Due to brokers for security purchases	3	5	5	(2)	-
Obligations under securities lending	376,400	465,208	570,060	(88,808)	(104,852)
Other liabilities and deposits	46,070	54,200	46,802	(8,130)	7,398
Total current liabilities	952,534	979,378	1,096,189	(26,844)	(116,811)
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,752,578	2,702,170	2,591,867	50,408	110,303
Other noncurrent liabilities	893	472	244	421	228
Total noncurrent liabilities	2,753,471	2,702,642	2,592,111	50,829	110,531
Total liabilities	3,706,005	3,682,020	3,688,300	23,985	(6,280)
FUND EQUITY:					
Invested in capital assets	18,247	19,345	19,666	(1,098)	(321)
Unrestricted	927,342	574,987	905,431	352,355	(330,444)
Total fund equity	945,589	594,332	925,097	351,257	(330,765)
TOTAL LIABILITIES AND FUND EQUITY	$4,651,594	$4,276,352	$4,613,397	$ 375,242	$ (337,045)

Condensed Revenues, Expenses, and Changes in Fund Equity Information

	Years Ended December 31, 2009	2008	2007	2008 to 2009 Increase (Decrease)	2007 to 2008 Increase (Decrease)
OPERATING REVENUES:					
Net premiums earned	$ 339,494	$ 416,016	$ 459,977	$ (76,522)	$ (43,961)
Other income	17,690	23,553	20,267	(5,863)	3,286
Total operating revenues	357,184	439,569	480,244	(82,385)	(40,675)
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	377,118	436,079	435,297	(58,961)	782
Policyholders' dividends	100,566	-	59,979	100,566	(59,979)
Underwriting expenses	82,961	89,459	88,972	(6,498)	487
Other expenses	2,652	2,300	-	352	2,300
Total operating expenses	563,297	527,838	584,248	35,459	(56,410)
OPERATING LOSS	(206,113)	(88,269)	(104,004)	(117,844)	15,735
NONOPERATING REVENUES:					
Net investment income (loss)	557,370	(242,496)	178,251	799,866	(420,747)
INCREASE (DECREASE) IN FUND EQUITY	$ 351,257	$ (330,765)	$ 74,247	$ 682,022	$ (405,012)
FUND EQUITY—Beginning of year	594,332	925,097	850,850	(330,765)	74,247
FUND EQUITY—End of year	$ 945,589	$ 594,332	$ 925,097	$ 351,257	$ (330,765)

Financial Position as of December 31, 2009

At the end of 2009, total assets increased $375.2 million from the prior year. Total liabilities increased $24.0 million for the year, and fund equity increased $351.3 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 decreased $6.4 million or 16.2 percent from December 31, 2008 to December 31, 2009, primarily due to a decrease in short-term investments.

Investments—At the end of 2009, investments were $479.4 million or 14.1 percent more than at the end of 2008. The increase was due to significant improvement in market values. Investment holdings (principal and cost) increased $35.9 million for bonds and $67.3 million for equities due to the reinvestment of investment income and the transfer of funds to equity holdings for asset allocation policy compliance. Market values increased $183.6 million for bonds and $192.6 million for equities. SAIF's Russell 3000 pooled equity fund investment had a positive return of 25.6 percent for 2009.

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 $32.1 million or 8.7 percent from December 31, 2008 to December 31, 2009.

Accrued investment income decreased $1.6 million or 4.1 percent from December 31, 2008 to December 31, 2009, due to declining interest rates and a reduction in securities lending income due.

Premiums receivable decreased $30.6 million or 11.4 percent in 2009, primarily due to the economic downturn.

Accrued retrospective premiums receivable decreased $0.2 million or 0.4 percent due to favorable loss development for certain retrospectively rated policies.

Other accounts receivable increased $0.3 million or 2.1 percent, primarily due to a $0.6 million increase in the amount due from the assigned risk pool. This balance was offset by a $0.3 million reduction in amounts due for premium assessment.

Other Assets—Other assets decreased $1.3 million or 16.0 percent from the prior year, due to a decline in deferred acquisition costs as a result of a reduction in commissions associated with the decline in premium.

Reserve for Losses and Loss Adjustment Expenses—The total (current and non-current) reserve for losses and loss adjustment expenses (LAE) increased $47.6 million or 1.6 percent from the prior year. Loss reserves increased $31.6 million or 1.2 percent and LAE reserves increased $16.0 million or 5.1 percent during 2009. Loss reserves for the 2009 accident year were offset somewhat by favorable loss reserve development of $42.9 million related to prior accident years.

The favorable development from prior years recognized in 2009 can be attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised, resulting in lower tail factors. Medical reserves on permanent total disability and permanent partial disability claims also experienced favorable development due to claims closures being higher than expected and loss development being lower than expected. The unfavorable LAE development was largely attributed to an increase in the proportion of claims costs allocated to disabling claims.

Unearned Premiums—The amount of unearned premium for 2009 decreased $26.6 million or 13.4 percent due to the decline in written premium.

Policyholders' Dividends Payable—The increase in this line is due to a $100.6 million policyholder dividend declared by SAIF's Board of Directors 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. A decline in written premium resulted in a $2.2 million decrease in commissions payable, and a $0.1 million decrease in premium assessment payable. This reduction is offset by a $0.6 million increase in reinsurance payable due to an increase in the liability for premiums ceded to the assigned risk pool, and a $0.6 million increase 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 other governments, and compensated absences payable. This balance decreased $8.1 million or 15.0 percent from the prior year due primarily to a $4.6 million decrease in the estimated amount of return premium payable on retrospectively rated policies, a result of the economic downturn. Premium deposits decreased $3.4 million and amounts due to other governments for federal premium assessment payable decreased $0.5 million, both primarily due to a reduction in written premium.

Operations - Year Ended December 31, 2009

Significant changes in revenues and expenses include:

Net Premiums Earned—Net premiums earned decreased $76.5 million or 18.4 percent compared to 2008 due to lower reported payrolls by policyholders and a pure premium rate reduction averaging 5.9 percent in 2009.

Other Income—Other income decreased $5.9 million or 24.9 percent from 2008 to 2009. This is primarily due to a decrease in earned but unbilled premium assessment income and a decrease in employer interest and penalties.

Net Losses and Loss Adjustment Expenses Incurred—Net losses incurred for 2009 decreased by $51.4 million from 2008 while net LAE incurred decreased $7.6 million for a total net decrease of $59.0 million. Incurred losses declined from the prior year as favorable loss reserve development for prior accident years offset a portion of losses incurred for the

current accident year. LAE incurred decreased $7.6 million due to less reserve development than the prior year. Despite the decrease in LAE incurred, there was unfavorable LAE development largely attributed to an increase in the proportion of claims costs allocated to disabling claims.

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. No policyholder dividends were declared or paid in 2009. A $100.6 million dividend was declared and paid during 2010.

Underwriting Expense—This line decreased by $6.5 million or 7.3 percent in 2009, due to a reduction in commissions associated with the decline in premium.

Net Investment Income—Investment income for 2009 was $799.9 million higher than the amount recorded for 2008, primarily due to significant increases in both bond and equity market values. The change in fair value of investments recorded for 2009 was a positive $401.8 million compared to a negative $368.0 million for 2008. Interest income on bonds decreased $1.1 million from the prior year due to lower yields, the transfer of $106 million in bonds to rebalance the equity holdings, and the transfer of $50 million in bonds to fund operations.

Financial Position as of December 31, 2008

At the end of 2008, total assets decreased $337.1 million from the prior year. Total liabilities decreased $6.3 million for the year, and fund equity decreased $330.8 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 decreased $0.4 million from December 31, 2007 to December 31, 2008.

Investments—At the end of 2008, investments were $198.9 million or 5.5 percent less than at the end of 2007. The decrease was due to significant declines in market values. While investment holdings (principal and cost) increased $125.1 million for bonds and $17.9 million for equities due to positive cash flow from operations and the reinvestment of investment income, this was offset by declines in market values of $127.1 million for bonds and $214.8 million for equities. SAIF's Russell 3000 pooled equity fund investment had a negative return of 37.1 percent for the year.

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 $6.5 million or 1.7 percent from December 31, 2007 to December 31, 2008.

Accrued investment income increased $3.3 million or 9.3 percent from December 31, 2007 to December 31, 2008, due to growth in principal and increasing bond yields.

Premiums receivable increased $16.2 million or 6.5 percent in 2008, primarily due to the completion of the migration of accounts from the installment method to the annualized method during 2007. This increase was partially offset by a decline in written premium during the current year. The migration resulted in a $28.8 million increase in the earned but unbilled premiums receivable balance in 2008 primarily related to retrospectively rated policies. The current year was the first year all policies were accounted for using the annualized method. The annualized method records written premium up front (at policy inception) for the entire policy term. Under the annualized method, the entire premium is recorded as premiums receivable – deferred and not yet due (asset) and unearned premium (liability) at policy inception.

Accrued retrospective premiums receivable decreased $23.0 million or 30.7 percent due to favorable loss development for certain retrospectively rated policies.

Other accounts receivable decreased $3.0 million or 18.5 percent, primarily due to a $2.2 million reduction in the amount 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 $105.9 million or 3.8 percent from the prior year. Loss reserves increased $81.6 million or 3.2 percent and LAE reserves increased $24.3 million or 8.5 percent during 2008. Loss reserves for the 2008 accident year were offset somewhat by favorable loss reserve development of $37.3 million related to prior accident years.

The favorable development from prior years recognized in 2008 can be attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised, resulting in lower tail factors. Prior year development for indemnity reserves was unfavorable due to case reserve strengthening, partially offsetting the favorable loss development. This was offset by unfavorable LAE development largely attributed to an update of SAIF's internal expense allocation in 2008. Additional resources have been allocated to the loss adjustment function, resulting in a reserve increase.

Unearned Premiums—The amount of unearned premium for 2008 decreased $9.1 million or 4.4 percent due to the decline in written premium.

Accounts Payable—The balance in this line is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payables. The $5.9 million decrease in this line item is due primarily to a $4.6 million reduction in reinsurance payable. The decrease is the result of a reduction in the liability for premiums ceded to the assigned risk pool. A decline in written premium resulted in a $660 thousand decrease in commissions payable, and a $2.7 million or 18.0 percent decrease in premium assessment payable. This reduction is offset by a $2.1 million increase 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 other governments, and compensated absences payable. This balance increased $7.4 million or 15.8 percent from the prior year due primarily to a $9.8 million increase in the estimated amount of return

premium payable on retrospectively rated policies, because of favorable loss development experience for certain retrospectively rated policies. This increase was partially offset by a $2.2 million decrease in premium deposits.

Operations - Year Ended December 31, 2008

Significant changes in revenues and expenses include:

Net Premiums Earned—Net premiums earned decreased $44.0 million or 9.6 percent compared to 2007 as a result of the faltering economy and a pure premium rate reduction averaging 2.3 percent in 2008. For the first time in at least 15 years, the amount of payroll reported by policyholders declined from the prior year.

Other Income—Other income increased $3.3 million or 16.2 percent from 2007 to 2008. This is primarily due to an increase in earned but unbilled premium assessment income and an increase in employer interest and penalties.

Net Losses and Loss Adjustment Expenses Incurred—Net losses incurred for 2008 decreased by $36.8 million from 2007 while net LAE incurred increased $37.6 million for a total net increase of $0.8 million. Incurred losses declined from the prior year as favorable loss reserve development related to prior accident years partially offset losses incurred for the current accident year. LAE incurred increased $37.6 million due to unfavorable reserve development largely attributed to an update of SAIF's internal expense allocation in 2008. Additional resources were allocated to the loss adjustment function, resulting in an increase to both the reserve and paid loss adjustment expenses.

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. No policyholder dividends were declared or paid in 2008. A $60.0 million dividend was declared and paid during 2007.

Underwriting Expense—This line increased by $0.5 million or 0.6 percent in 2008.

Net Investment Income—Investment income for 2008 was $420.7 million less than the amount recorded for 2007, primarily due to significant declines in both bond and equity market values. The change in fair value of investments recorded for 2008 was a negative $368.0 million compared to a positive $14.1 million for 2007. Interest income from bonds increased $11.5 million from the prior year due to growth in principal and increasing yields.

SAIF CORPORATION

BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,065	$ 39,478
Investments	3,878,263	3,398,861
Securities lending cash collateral	375,964	439,181
Investment income receivable	36,908	38,485
Premiums receivable, net of allowance of $1,569 and $1,692	236,886	267,482
Accrued retrospective premiums receivable	51,662	51,867
Accounts receivable	13,449	13,167
Receivable for securities sold	135	132
Other assets	7,015	8,354
Total current assets	4,633,347	4,257,007
NONCURRENT ASSETS:		
Capital assets:		
Land	3,029	3,029
Buildings, property, and equipment	43,274	45,237
Less accumulated depreciation and amortization	(28,056)	(28,921)
Total noncurrent assets	18,247	19,345
TOTAL	$ 4,651,594	$ 4,276,352
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 206,333	$ 209,139
Unearned premiums	172,180	198,736
Accrued retrospective premiums payable	30,772	35,337
Policyholders' dividends payable	100,566	-
Commissions payable	8,511	10,687
Reinsurance payable	6,886	6,330
Accrued premium assessment payable	12,253	12,380
Premium deposits	9,088	12,495
Accounts payable	23,332	22,693
Due to brokers for security purchases	3	5
Obligations under securities lending	376,400	465,208
Due to other governments	2,773	3,256
Compensated absences payable	3,437	3,112
Total current liabilities	952,534	979,378
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,752,578	2,702,170
Other postemployment benefits obligation	893	472
Total noncurrent liabilities	2,753,471	2,702,642
Total liabilities	3,706,005	3,682,020
FUND EQUITY:		
Invested in capital assets	18,247	19,345
Unrestricted	927,342	574,987
Total fund equity	945,589	594,332
TOTAL	$ 4,651,594	$ 4,276,352

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008
OPERATING REVENUES:		
Net premiums earned	$ 339,494	$ 416,016
Other income	17,690	23,553
Total operating revenues	357,184	439,569
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	377,118	436,079
Policyholders' dividends	100,566	-
Underwriting expenses	82,961	89,459
Other expenses	2,652	2,300
Total operating expenses	563,297	527,838
OPERATING LOSS	(206,113)	(88,269)
NONOPERATING REVENUES:		
Investment income (loss)	565,223	(225,392)
Investment expenses	(7,853)	(17,104)
Net investment income (loss)	557,370	(242,496)
INCREASE (DECREASE) IN FUND EQUITY	$ 351,257	$ (330,765)
FUND EQUITY—Beginning of year	594,332	925,097
FUND EQUITY—End of year	$ 945,589	$ 594,332

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	$ 336,321	$ 416,703
Loss and loss adjustment expenses paid	(329,516)	(330,135)
Underwriting expenses paid	(82,960)	(89,459)
Other receipts	16,217	24,327
Net cash provided by (used in) operating activities	(59,938)	21,436
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,651,627)	(795,922)
Proceeds from sales and maturities of investments	1,535,197	596,928
Interest received on investments and cash balances	168,617	174,363
Interest received from securities lending	3,078	15,202
Interest paid for securities lending	(1,273)	(11,218)
Net cash provided by (used in) investing activities	53,992	(20,647)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(483)	(1,173)
Proceeds from disposition of capital assets	16	-
Net cash used in capital and related financing activities	(467)	(1,173)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,413)	(384)
CASH AND CASH EQUIVALENTS—Beginning of year	39,478	39,862
CASH AND CASH EQUIVALENTS—End of year	$ 33,065	$ 39,478

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands)

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (206,113)	$ (88,269)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,522	1,464
Bad debt provision	2,652	2,300
Net changes in assets and liabilities:		
Premiums receivable, net	27,943	(18,517)
Accrued retrospective premiums receivable	205	23,015
Accounts receivable	(282)	2,979
Other assets	1,339	(107)
Reserve for losses and loss adjustment expenses	47,603	105,943
Unearned premiums	(26,556)	(9,064)
Accrued retrospective premiums payable	(4,564)	9,800
Policyholders' dividends payable	100,566	-
Commissions payable	(2,175)	(660)
Reinsurance payable	555	(4,645)
Accrued premium assessment payable	(127)	(2,708)
Premium deposits	(3,408)	(2,202)
Accounts payable	640	2,078
Due to other governments	(483)	(499)
Compensated absences payable	325	299
Other postemployment benefits obligation	420	229
Total adjustments	146,175	109,705
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (59,938)	$ 21,436
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through conversions and tax free exchange transactions	$ 75,398	$ 50,347

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's board of directors is appointed by the governor of the State of Oregon (the State) and consists of Oregon business and community leaders not otherwise in the employ of SAIF. Certain members of SAIF's board of directors are employed with policyholders of SAIF. 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 33.5 percent and 32.0 percent of standard premium during 2009 and 2008, 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 $261.1 million and $229.5 million at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the statutory capital and surplus of SAIF exceeded the minimum RBC 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 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 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 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, 2009 and 2008, the percent of SAIF's debt securities that were priced using the benchmark method, were 15.6 percent and 14.3 percent, respectively.

Cash and Cash Equivalents—SAIF places its temporary cash investments with the Oregon Short Term Fund, 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 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, 2009 and 2008, was 205 days and 160 days, respectively. As of December 31, 2009 and 2008, SAIF's balance in the Oregon Short Term Fund was $19.7 million and $17.4 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 an average credit quality rating of A1+/P1. 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, 2009 and 2008, was 42 days and 31 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 high-credit quality financial institutions 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 machinery	$0–$5,000	3–7 years
Data processing software	$500,000	3 years

Capital assets activity for the years ended December 31, 2009 and 2008, were as follows (dollars in thousands):

	2009			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	26,077	342	-	26,419
Equipment	10,117	141	(2,446)	7,812
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	45,237	483	(2,446)	43,274
Total	48,266	483	(2,446)	46,303
Less accumulated depreciation for:				
Buildings and improvements	(11,916)	(776)	-	(12,692)
Equipment	(7,962)	(777)	2,418	(6,321)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(28,921)	(1,553)	2,418	(28,056)
Capital assets—net	$ 19,345	$ (1,070)	$ (28)	$ 18,247

	2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	25,930	147	-	26,077
Equipment	11,287	1,026	(2,196)	10,117
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	46,260	1,173	(2,196)	45,237
Total	49,289	1,173	(2,196)	48,266
Less accumulated depreciation for:				
Buildings and improvements	(11,163)	(753)	-	(11,916)
Equipment	(9,417)	(741)	2,196	(7,962)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(29,623)	(1,494)	2,196	(28,921)
Capital assets—net	$ 19,666	$ (321)	$ -	$ 19,345

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, 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. 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 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, 2009 and 2008, were $232.4 million and $260.5 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 in lieu of cash deposits. Premium deposits were $9.1 million and $12.5 million as of December 31, 2009 and 2008, respectively.

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, 2009 and 2008, is as follows (dollars in thousands):

	2009	**2008**
Accrued retrospective premiums receivable	$ 51,662	$ 51,867
Reserve for retrospective rating plans	(30,772)	(35,337)
Net	$ 20,890	$ 16,530

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 2009 and 2008 were $105.6 million and $119.8 million, respectively, or 33.8 percent and 29.4 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, 2009 and 2008, are a reasonable estimate of the ultimate net costs of settling claims and claims 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, 2009 and 2008, 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. No policyholder dividends were declared or paid in 2009 or 2008. In March 2010, SAIF's Board of Directors declared a policyholder dividend, which was accrued at December 31, 2009. The $100.6 million dividend was paid to qualifying policyholders in April of 2010.

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 $15.3 million and $18.9 million, including $12.3 million and $12.4 million of accrued premium assessments, for the years ended December 31, 2009 and 2008, 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. As of December 31, 2009 and 2008, deferred acquisition costs were $6.9 million and $8.3 million, respectively, and were recorded as other assets on the balance sheet. Amortization expense for the years ended December 31, 2009 and 2008, was $14.5 million and $16.9 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 and 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 June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. This statement also provides guidance on recognizing internally generated computer software as an intangible asset. The requirements of this statement are effective for SAIF's 2010 financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments as defined in this statement. The requirements of this statement are effective for SAIF's 2010 financial statements.

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The requirements of this statement are effective for SAIF's 2010 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In March 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy). This statement applies to the financial statements of all state and local governments that are presented in conformity with GAAP. SAIF implemented this statement for the fiscal year ended December 31, 2009. There was no significant impact on the financial statements.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. This statement applies to all state and local governments. SAIF implemented this statement for the fiscal year ended December 31, 2009. There was no significant impact 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—Cash on deposit in state banks is covered by federal deposit insurance or is secured by the Oregon State Treasury (State Treasury) at a minimum of 25 percent as required by statute.

SAIF's cash and cash equivalents totaled $33.1 million and $39.5 million as of December 31, 2009 and 2008, respectively, and are composed of the following (dollars in thousands):

	2009	2008
Cash balances	$ 26,552	$ 23,373
SSgA prime money market fund	6,513	16,105
Total cash and cash equivalents	$ 33,065	$ 39,478

As of December 31, 2009 and 2008, the cash balances are on deposit in the Oregon Short Term Fund ($19.7 million and $17.4 million, respectively), U.S. Bank ($4.9 million and $4.8 million, respectively), and in State Street Bank and Trust Company (State Street) ($2.0 million and $1.2 million, respectively).

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. The deposits in the Oregon Short Term Fund are secured by investments held by the Oregon State Treasury's custodian bank in the Treasury's name. The cash held by 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. As of December 31, 2009, the cash held in U.S. Bank is FDIC insured for up to $250 thousand.

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 10 to 20 percent of the market value of invested assets with a target allocation of 15 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, 2009 and 2008, were $135 thousand and $132 thousand, respectively. Due to brokers for security purchases were $3 thousand and $5 thousand as of December 31, 2009 and 2008, respectively.

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 1, 2005, 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, 2009, was 7.78 years, with an acceptable range of 6.22 to 9.34 years. As of that date, the fixed income portfolio's duration was 7.85 years.

The following 2009 maturity distribution schedule includes $601.1 million in interest-rate sensitive securities. As of December 31, 2009, SAIF held $374.7 million of U.S. Federal Agency mortgage-backed securities and $170.7 million of commercial 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, 2009, SAIF held $55.7 million of asset-backed securities which consist primarily of sequential-pay tranches of utility, student loan, and equipment lease receivables, and callable pass-through certificates issued by airlines and railroads. 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, 2009 and 2008, 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):

2009	**Less Than 1 Year**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**	**Fair Value**
Bonds:					
U.S. Treasury obligations	$ 1,847	$ 108,813	$ 1,952	$ 80,546	$ 193,158
U.S. Treasury obligations—STRIPS	-	-	44,396	194,038	238,434
U.S. federal agency mortgage securities	65,098	163,288	80,559	65,781	374,726
U.S. federal agency debt	31,987	7,939	72,094	48,851	160,871
Corporate bonds	32,186	312,025	453,866	798,992	1,597,069
Municipal bonds	-	-	3,926	57,175	61,101
Collateralized mortgage obligations	21,699	79,968	64,027	5,039	170,733
Asset-backed securities	6,404	38,337	10,913	-	55,654
International debt securities	16,717	87,463	111,438	170,050	385,668
Total bonds	$ 175,938	$ 797,833	$ 843,171	$ 1,420,472	$ 3,237,414
Equity securities:					
Domestic equity securities					$ 229
Russell 3000 pooled equity fund					640,483
Total equity securities					640,712
Other invested assets					137
Mortgage loans on real estate					-
Total investments					$ 3,878,263

2008	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ -	$ 8,176	$ -	$ 287,689	$ 295,865
U.S. Treasury obligations—STRIPS	-	-	-	80,362	80,362
U.S. federal agency mortgage securities	80,458	191,570	132,187	187,432	591,647
U.S. federal agency debt	47,335	-	59,176	57,660	164,171
Corporate bonds	35,649	296,876	460,519	600,370	1,393,414
Municipal bonds	-	-	1,269	17,897	19,166
Collateralized mortgage obligations	23,631	44,858	85,591	7,050	161,130
Asset-backed securities	6,806	18,310	8,358	1,005	34,479
International debt securities	70	62,193	46,801	168,671	277,735
Total bonds	$ 193,949	$ 621,983	$ 793,901	$ 1,408,136	$ 3,017,969
Equity securities:					
Domestic equity securities					$ 212
Russell 3000 pooled equity fund					380,588
Total equity securities					380,800
Other invested assets					86
Mortgage loans on real estate					6
Total investments					$ 3,398,861

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 "AA-" or higher.

The majority of SAIF's debt securities as of December 31, 2009 and 2008, were rated by Moody's and Standard & Poor's, which are nationally recognized statistical rating organizations. The following schedule represents the ratings of debt securities by investment type as of December 31, 2009 and 2008, using the Standard & Poor's rating scale (dollars in thousands):

2009

	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ 193,158	-	-	-	-	-	-	-	-	-	-	$ 193,158
U.S. Treasury obligations - STRIPS	238,434	-	-	-	-	-	-	-	-	-	-	238,434
U.S. federal agency mortgage securities	374,726	-	-	-	-	-	-	-	-	-	-	374,726
U.S. federal agency debt	160,871	-	-	-	-	-	-	-	-	-	-	160,871
Corporate bonds	15,032	210,855	822,324	457,767	57,688	16,068	9,053	-	-	769	7,513	1,597,069
Municipal bonds	1,979	31,780	16,587	7,602	-	-	-	-	-	-	3,153	61,101
Collateralized mortgage obligations	73,380	4,304	7,122	1,538	2,576	1,727	10,961	-	-	-	69,125	170,733
Asset-backed securities	26,111	2,257	-	-	-	333	-	-	-	-	26,953	55,654
International debt securities	30,390	46,604	104,513	188,300	7,964	1,052	-	486	-	-	6,359	385,668
Total bonds	$1,114,081	$ 295,800	$ 950,546	$ 655,207	$ 68,228	$19,180	$20,014	$ 486	$ -	$ 769	$ 113,103	$3,237,414

2008

	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ 295,865	-	-	-	-	-	-	-	-	-	-	$ 295,865
U.S. Treasury obligations - STRIPS	80,362	-	-	-	-	-	-	-	-	-	-	80,362
U.S. federal agency mortgage securities	472,584	7,153	58,178	27,390	8,019	13,292	3,690	1,094	-	26	221	591,647
U.S. federal agency debt	89,614	7,852	5,235	-	-	-	-	39,066	18,862	-	3,542	164,171
Corporate bonds	75,835	158,688	670,545	408,249	39,728	13,776	18,179	3,486	669	-	4,259	1,393,414
Municipal bonds	376	13,090	-	5,700	-	-	-	-	-	-	-	19,166
Collateralized mortgage obligations	111,205	3,768	4,558	93	-	-	161	-	-	-	41,345	161,130
Asset-backed securities	24,044	1,227	1,550	-	-	-	-	-	-	-	7,658	34,479
International debt securities	2,988	12,476	76,537	182,678	3,014	-	42	-	-	-	-	277,735
Total bonds	$1,152,873	$ 204,254	$ 816,603	$ 624,110	$ 50,761	$27,068	$22,072	$43,646	$19,531	$ 26	$ 57,025	$3,017,969

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.

- Not more than 3 percent of the total fair value of SAIF's fixed income portfolio shall be invested in fixed income securities of any one issuer, except U.S. government and agency obligations (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, 2009 and 2008, 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 $7.9 million and $8.2 million at December 31, 2009 and 2008, 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, U.S. Bank certificates of deposit with a fair value of $300 thousand and $200 thousand at December 31, 2009 and 2008, respectively, were on deposit at U.S. Bank as required by the DCBS.

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 2009 and 2008, 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 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 in respect to 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 2009 and 2008. At December 31, 2009 and 2008, the Fund had an average-weighted maturity of 140 days and 339 days, respectively.

At December 31, 2009 and 2008, the collateral held was $376.0 million and $439.2 million, respectively. At December 31, 2009 and 2008, the fair value, including accrued investment income related to the securities on loan, was $367.1 million and $448.7 million, respectively. For 2009 and 2008, securities lending income was $2.6 million and $15.2 million and securities lending expense was $1.2 million and $11.2 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 loss 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 (dollars in thousands):

	2009	2008
Gross reserve for losses and loss adjustment expenses—beginning of year	$3,070,136	$2,960,635
Less reinsurance recoverable—beginning of year	(158,827)	(155,270)
Net reserve for losses and loss adjustment expenses—beginning of year	2,911,309	2,805,365
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	420,051	473,348
Provision for insured events of prior years	(42,933)	(37,269)
Total incurred losses	377,118	436,079
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	98,901	106,974
Insured events of prior years	230,615	223,161
Total payments	329,516	330,135
Net reserve for losses and loss adjustment expenses—end of year	2,958,911	2,911,309
Plus reinsurance recoverable—end of year	151,201	158,827
Gross reserve for losses and loss adjustment expenses—end of year	$3,110,112	$3,070,136

The reserve for losses and LAE increased $47.6 million in 2009, which was offset by favorable loss reserve development related to prior accident years. The favorable development of $42.9 million is attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised in 2008, resulting in lower tail factors. The impact of this change carried over into 2009. Medical reserves on permanent total disability and permanent partial disability claims also experienced favorable development due to claims closures being higher than expected and loss development being lower than expected. The unfavorable LAE development was largely attributed to an increase in the proportion of claims costs allocated to disabling claims.

For 2008, the increase in the reserve for losses and LAE was somewhat offset by favorable loss reserve development related to prior accident years. There was favorable development of $37.3 million related to prior accident years, which is attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised, resulting in lower tail factors. Prior year development for indemnity reserves was unfavorable due to case reserve strengthening, partially offsetting the overall favorable loss development. The unfavorable LAE development was largely attributed to an update of SAIF's internal expense allocation in 2008. Additional resources had been allocated to the loss adjustment function, which resulted in a reserve increase.

SAIF discounts its case unpaid 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. Discounted reserves include known unpaid fatal and permanent total disability losses. Gross reserves subject to tabular discounting were $278.0 million and $277.2 million for 2009 and 2008, respectively. The discounts were $100.7 million and $97.0 million as of December 31, 2009 and 2008, respectively.

Anticipated salvage and subrogation of $24.6 million and $21.5 million was included as a reduction of the reserve for losses and LAE at December 31, 2009 and 2008, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $29.9 million and $24.5 million for losses and LAE are related to asbestos claims as of December 31, 2009 and 2008, respectively. Amounts paid for asbestos related claims were $785 thousand and $527 thousand for the years ended December 31, 2009 and 2008, 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 2009, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2008 direct written premium for acts of 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 2009 and 2008 (dollars in thousands):

	2009	**2008**
Reserve for losses and loss adjustment expenses	$ 51,190	$ 56,397
Premiums earned	979	1,234
Losses and loss adjustment expenses incurred	(4,868)	2,640

Of the $51.2 and $56.4 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of $26.0 million and $29.4 million, respectively as of December 31, 2009 and 2008.

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 voluntary market share.

The following amounts are included in the accompanying financial statements as a result of participation in the Plan in 2009 and 2008 (dollars in thousands):

	2009	**2008**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 76,904	$ 76,875
Unearned premiums	2,515	2,871
Premiums written	12,635	24,942
Premiums earned	12,990	25,588
Losses and loss adjustment expenses incurred	13,298	18,218
Commission expense	5,007	8,008
Ceded:		
Reserve for losses and loss adjustment expenses	$ 100,010	$ 102,430
Unearned premiums	4,825	7,409
Premiums written	11,638	19,177
Premiums earned	14,222	23,022
Losses and loss adjustment expenses incurred	9,954	16,797
Commission expense	3,387	6,115

6. LEASE COMMITMENTS

SAIF leases office space in several locations under non-cancellable operating leases expiring during various years through 2019. Lease expense was $902 thousand and $730 thousand for the years ended December 31, 2009 and 2008, respectively.

SAIF's future minimum lease payments under operating leases at December 31, 2009, are as follows (dollars in thousands):

2010	$ 1,096
2011	898
2012	907
2013	932
2014	945
2015-2019	4,249
Total minimum payments	$ 9,027

Certain rental commitments have renewal options extending through the year 2024. 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 $911 thousand and $204 thousand on leases due in the future under non-cancellable subleases as of December 31, 2009 and 2008, respectively.

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 $321 thousand and $260 thousand as of December 31, 2009 and 2008, 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 $7.1 million and $6.5 million at December 31, 2009 and 2008, 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 from PERS, Fiscal Services, 11410 SW 68th Parkway, Tigard, Oregon 97223.

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, 2009, SAIF's contribution rate of each covered employee's salary was 2.06 percent. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF employees hired 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 2.84 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 5.95 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, 2009, 2008, and 2007, consist of the following (dollars in thousands):

	2009	2008	2007
Employer contributions:			
Debt service	$ 3,358	$ 3,211	$ 3,114
PERS-Pension Program	1,909	2,785	3,072
OPSRP-Pension Program	692	904	501
Total employer contributions	5,959	6,900	6,687
Employee contributions paid by SAIF:			
PERS-IAP	2,626	2,555	2,517
OPSRP-IAP	769	676	497
Total employee contributions	3,395	3,231	3,014
Total contributions	$ 9,354	$10,131	$ 9,701

For the years ended December 31, 2009, 2008, and 2007, 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, 2009 and 2008, respectively, retired plan members contributed $531 thousand and $541 thousand through their required contributions, and the required contribution rate per member is an average of $546 and $586 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 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, 2009, 2008, and 2007, the amount actually contributed, and changes in SAIF's net OPEB obligation to the plan (dollars in thousands):

	2009	2008	2007
Annual required contribution	$ 730	$ 408	$ 391
Interest on net OPEB obligation	26	13	-
Adjustment to ARC	(36)	(19)	-
Annual OPEB cost (expense)	720	402	391
Contributions made	299	174	147
Increase in net OPEB obligation	421	228	244
Net OPEB obligation - beginning of year	472	244	-
Net OPEB obligation - end of year	$ 893	$ 472	$ 244
Percent of annual OPEB cost contributed	41.5%	43.3%	37.6%

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, 2009, 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 7.5 percent in the first year, 6.5 percent in the second year, 6.0 percent in the third through seventh year, 5.5 percent for the eighth through twenty-seventh year, and 5.0 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 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%

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION

POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN

SCHEDULE OF FUNDING PROGRESS

(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%

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