Secretary of State

State of Oregon

SAIF CORPORATION

Salem, Oregon

For the Years Ended December 31, 2001 and 2000

Audits Division

Contract Auditor: Deloitte & Touche LLP

Secretary of State

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SAIF CORPORATION

Salem, Oregon

For the Years Ended December 31, 2001 and 2000

Audits Division

No. 2002-36 October 10, 2002

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Katherine Keene, President and CEO
SAIF Corporation
400 High Street SE
Salem, Oregon 97312

This report contains the State Accident Insurance Fund Corporation's (SAIF) audited financial statements and report on legal compliance and internal control over financial reporting in compliance with HB3980 (e). This audit was performed by Deloitte & Touche LLP for the Audits Division, and encompasses the years ended December 31, 2001 and 2000.

The *Overview of SAIF Corporation Financial Reporting* presented on page 1 was prepared by SAIF Corporation and is not part of the required financial statements. SAIF Corporation presents this information to explain the differences between financial statements presented in accordance with generally accepted accounting principles, as set forth in this report, and financial statements prepared in conformity with statutory accounting practices, as disclosed in a separate report. SAIF follows the statutory accounting practices in financial reports prepared for regulatory and management purposes. Other insurance companies also use statutory accounting practices for financial reporting purposes.

OREGON AUDITS DIVISION

Cathy Pollino
Director

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T A B L E   O F   C O N T E N T S

Overview of SAIF Corporation Financial Reporting
(Prepared by SAIF Corporation)

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. 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 dependants, whereas generally accepted accounting principles (GAAP) are based on the going-concern concept and place more emphasis on assigning income and disbursements to their proper period.

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. 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.

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. Generally accepted accounting principles require 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.

- 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 "non-admitted" and removed from the balance sheet. Those assets, such as property and equipment are included on the GAAP financial statements.

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, 2001. 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. During 2001, the company's market share, based on direct earned premium in the State of Oregon, increased from 34.4 percent to 38.4 percent. 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 inflation and a reduction in investment income were significant challenges faced during the year.

Condensed Financial Information

(In thousands)

Assets	**12/31/01**	**12/31/00**	**Increase (Decrease)**
Investments	$2,610,579	$2,592,744	$17,835
Cash and cash equivalents	182,730	59,398	123,332
Securities lending cash collateral	194,413	298,619	(104,206)
Other assets	157,457	134,490	22,967
Total assets	$3,145,179	$3,085,251	$59,928
Liabilities			
Reserve for loss and loss adjustment expenses	$2,119,801	$2,079,738	$40,063
Securities lending collateral due borrowers	194,413	298,619	(104,206)
Due to brokers for security purchases	306,666	145,319	161,347
Other Liabilities	102,321	94,910	7,411
Total liabilities	2,723,201	2,618,586	104,615
Policyholders' equity	421,978	466,665	(44,687)
Total liabilities and policyholders' equity	$3,145,179	$3,085,251	$59,928

Revenues			
Net premiums earned	$246,384	$206,735	$39,649
Net investment Income	18,162	163,987	(145,825)
Other Income	21,427	23,144	(1,717)
Total revenues	285,973	393,866	(107,893)
Expenses			
Loss and loss adjustment expenses incurred	254,576	360,136	(105,560)
Policyholders' dividends	(173)	84,652	(84,825)
Underwriting expenses	54,776	50,050	4,726
Other expenses	21,481	16,424	5,057
Total expenses	330,660	511,262	(180,602)
Net income (loss)	($44,687)	($117,396)	$72,709

Analytical Overview

<u>Financial Position</u>

At the end of 2001, total assets were $59.9 million greater than the prior year. Total liabilities also increased $104.6 million for the year, while policyholders' equity declined $44.7 million.

Significant changes include:

<u>Bonds</u> – Bond holdings increased $116.2 million during 2001. A change in the Company's asset allocation target will lower the allocation to equity securities over time and increase the allocation to bonds. Therefore, all of the Company's growth in investments, principally from the reinvestment of investment income, has been directed toward bond holdings with no new contributions to equity securities. Other items that influenced the increase in bonds were a growing book of business, increased loss reserves, and the absence of policyholder dividend payments. During 2001, the bond market performed relatively well, so the market value adjustment made to bond holdings was only $8.5 million less than the amount recorded for 2000.

<u>Equity Securities</u> – The $92.1 million decline in the value of equity holdings was primarily due to the decline in market value of common stock and a reduction in preferred stock holdings. The Company's BGI Russell 3000 index holding had a -11.4 percent return for the year. Trading activity and market value declines reduced the value of other equity securities, which includes convertible preferred stocks and common stock converted from bonds. As noted above, the revised asset allocation calls for a lowering of equity holdings, so no additional contributions were made to equity holdings during 2001.

<u>Cash and Cash Equivalents</u> – The majority of the cash accounts are made up of short-term investment funds utilized by external investment managers. Cash may fluctuate significantly from period to period as the investment managers trade securities. At the end of 2001, there was a significant amount of pending security trades. Also, the core bond managers invest 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 a 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 inflates the cash position.

<u>Securities Lending Cash Collateral</u> – 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.

<u>Premiums Receivable</u> – The amount of premium due to SAIF increased $15.0 million compared to the prior year because of an increase in the book of business and an increase for amounts due on retrospectively rated policies. During 2001, net earned premium for SAIF increased 19.2 percent. Preliminary estimates from the Department of Consumer and

Business Services show that SAIF's share of direct earned premium increased from 34.4 percent in 2000 to 38.4 percent for 2001. Premiums due on retrospective rated policies increased approximately $7.0 million as claims costs have increased and lower pure premium rates reduced standard premium.

Reserve for Loss and Loss Adjustment Expenses – During 2001, Senate Bill 485 was signed into law, which overruled a 1999 Oregon Court of Appeals decision on Johansen v. SAIF Corporation. The 1999 decision allowed injured workers who develop "new medical conditions" after the original claims acceptance to be entitled to all of the benefits payable on an original claim. At that time, the Company established a supplemental reserve to fund these unanticipated costs. With the passage of Senate Bill 485, these claims are now subject to the "Own Motion" process and are reimbursed through the State's Worker Benefit Fund if accepted. The Company therefore reduced its supplemental reserve by $75 million during the year and this was the primary reason for the relatively small increase on loss reserves. Loss adjustment expense reserves also declined primarily because of a $12.6 million reduction in the supplemental reserve associated with "Johansen" claims.

Additional favorable loss reserve development occurred during the year as the frequency of permanent total disability claims was less than anticipated. As a result of this favorable development, the Company lowered its assumption of future permanent total disability claims, which had a favorable impact of $51.3 million on loss reserves.

Rising medical costs throughout the year offset the favorable development noted above. During the year, medical inflation was just over 13 percent, which exceeded the explicit inflation assumptions used in the loss reserve estimates. The Company believes higher levels of medical inflation will continue in the near future and adjusted the inflation assumptions accordingly. This refinement in the assumption increased loss reserves approximately $63 million. This, along with the addition of another accident year of loss reserves led to the increase in loss reserves.

Unearned Premiums – Unearned premiums at the end of 2001 were $7.6 million greater than the amount report at the end of 2000. The percentage increase is consistent with the increase in premium due and earned premium. Also influencing the amount of unearned premium reported is an increase in the number of policies that are billed and recorded in advance of the policy inception date as opposed to in arrears.

Reserve for Retrospective Rating Plans – The amount payable to employers on retrospectively rated plans is primarily influenced by our large group retro plans, namely Associated General Contractors (AGC) and the State of Oregon. The $6.1 million reduction in the liability for 2001 is due to increasing claims cost for retrospectively rated policies, which reduces the amount of premium returned to the policyholder.

Due to Brokers for Security Purchases – SAIF records investment transactions on trade date, so there are times when settlements are pending as of the date of the financial statements. The amount reported on this line can change significantly from period to period.

Operations

Compared to 2000, revenues declined $107.9 million during 2001. Expenses for 2001 were $180.6 million less than the amount reported for 2000 and net loss was $72.7 million less.

Significant changes in revenues and expenses include:

Net Premiums Earned – Net earned premium for 2001 was $39.6 million greater than the prior year because new sales and policyholder payroll growth outpaced premium rate reductions of 3.7 percent for 2001 and 2.2 percent for 2000. New sales were $30.4 million for the year compared to losses of $3.3 million. The retention rate for 2001 was 98.6 percent and the number of policyholders grew over 4 percent during the year. Premium growth continues as the number of insurers providing workers' compensation in the state has declined.

Net Investment Income – The reduction in investment income for 2001 was due primarily to realized and unrealized losses recorded for the year. Realized and unrealized losses totaled $89.8 million for 2001 compared to a net gain of $46.9 million for 2000, for a difference of $136.7 million. Any significant improvement in investment income is not expected until the equity markets post positive gains.

Loss and Loss Adjustment Expenses Incurred – The $105.6 million reduction for 2001 compared to 2000 is primarily due to the reduction in loss reserves for the Johansen case. Increased medical inflation has adversely affected loss expenses and a continuation of it will have a significant impact on operating results. See loss reserve comments above.

Policyholder Dividends – In the fourth quarter of 2000, SAIF's Board declared and paid a policyholder dividend of $85 million. The Board did not declare dividends during 2001 due to increasing loss reserves and poor investment market conditions, which lessen the Company's ability to pay such dividends.

Underwriting Expense – Underwriting expenses for 2001 increased $4.7 million because of an increase in agent commissions related to premium growth. Salary level and employee benefit adjustments also increased underwriting expenses.

Other Required Supplementary Information

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

Other than accounts payable and amounts due for investment activities, 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.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
SAIF Corporation

The Secretary of State Audits Division,
State of Oregon

We have audited the accompanying balance sheets of SAIF Corporation ("SAIF") as of December 31, 2001 and 2000, and the related statements of operations, changes in policyholders' equity, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of SAIF as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years 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 the Company'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2002, 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

August 1, 2002

Deloitte
Touche
Tohmatsu

SAIF CORPORATION

Balance Sheets

December 31, 2001 and 2000

(In thousands)

	2001	2000
Assets		
Investments		
Bonds	$ 2,163,004	$ 2,046,778
Equity securities	434,354	526,433
Other invested assets	11,572	17,301
Mortgage loans on real estate	1,649	2,232
Total investments	2,610,579	2,592,744
Cash and cash equivalents	182,730	59,398
Securities lending cash collateral	194,413	298,619
Accrued investment income	20,473	22,019
Premiums receivable, net of allowance for uncollectible Accounts of $1,582 and $1,336 in 2001 and 2000, respectively	92,426	77,377
Reinsurance recoverable on paid losses	101	72
Property and equipment, net	27,206	29,134
Receivable for securities sold	10,761	0
Other assets	6,490	5,888
Total assets	$ 3,145,179	$ 3,085,251
Liabilities and Policyholders' Equity		
Reserve for loss and loss adjustment expenses	$ 2,119,801	$ 2,079,738
Unearned premiums	49,843	42,240
Reserve for retrospective rating plans	10,622	16,771
Reinsurance payable	3,255	2,833
Policyholders' premium deposits	6,527	5,243
Dividends payable to policyholders	430	667
Securities lending collateral due borrowers	194,413	298,619
Premium taxes payable	15,584	14,882
Due to brokers for security purchases	306,666	145,319
Accounts payable and other liabilities	16,060	12,274
Total liabilities	2,723,201	2,618,586
Commitments and contingencies		
Policyholders' equity	421,978	466,665
Total liabilities and policyholders' equity	$ 3,145,179	$ 3,085,251

SAIF CORPORATION

Statements of Operations

For the Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Net premiums earned	$ 246,384	$ 206,735
Net investment income	18,162	163,987
Other income	21,427	23,144
Total revenues	285,973	393,866
Loss and loss adjustment expenses incurred	254,576	360,136
Policyholders' dividends	(173)	84,652
Underwriting expenses	54,776	50,050
Other expenses	21,481	16,424
Total expenses	330,660	511,262
Net loss	$ (44,687)	$ (117,396)

SAIF CORPORATION

Statements of Changes in Policyholders' Equity

For the Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Policyholders' equity, beginning of year	$ 466,665	$ 584,061
Net loss	(44,687)	(117,396)
Policyholders' equity, end of year	$ 421,978	$ 466,665

SAIF CORPORATION

Statements of Cash Flows

For the Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Cash flows from operating activities		
Premiums collected net of reinsurance	$ 234,494	$ 220,761
Loss and loss adjustment expense paid	(214,542)	(194,649)
Underwriting expenses paid	(54,776)	(50,050)
Investment receipts	110,094	135,822
Policyholder dividends paid	(64)	(159,422)
Other expenses	3,728	8,713
Net cash provided by (used in) operating activities	78,934	(38,825)
Cash flows from Investing activities		
Proceeds from sale and maturities of investments:		
Bonds	5,430,858	3,087,793
Equity Securities	178,249	380,008
Other invested assets	0	166
Mortgage Loans on Real Estate	583	685
Proceeds from sale of property and equipment	6,912	1,830
Purchases of Investments:		
Bonds	(5,413,487)	(3,292,407)
Equity Securities	(153,454)	(183,914)
Other invested assets	(384)	0
Purchases of property and equipment	(4,879)	(4,626)
Net cash provided by (used in) investing activities	44,398	(10,465)
Cash flows from financing activities		
Deposit with reinsurer	0	45,989
Net cash used in financing activities	0	45,989
Increase (decrease) in cash and cash equivalents	123,332	(3,301)
Cash and cash equivalents, beginning of year	59,398	62,699
Cash and cash equivalents, end of year	$ 182,730	$ 59,398

(Continued)

SAIF CORPORATION

Statements of Cash Flows

For the Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Reconciliation of operating income to net cash provided (used) by operating activities:		
Net loss	$ (44,687)	$ (117,396)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net change in fair value of investments	86,578	(35,200)
Depreciation and amortization expense	3,703	3,563
Change in:		
Accrued investment income	1,546	7,036
Premiums receivable, net	(15,049)	(1,900)
Reinsurance recoverable on paid losses	(29)	(9)
Other assets	(602)	(301)
Reserve for loss and loss adjustment expenses	40,063	165,496
Unearned premiums	7,602	4,828
Reserve for retrospective rating plans	(6,149)	6,768
Reinsurance payable	422	2,536
Policyholders' premium deposits	1,284	1,793
Dividends payable to policyholders	(237)	(74,770)
Premium taxes payable	702	(911)
Accounts payable and other liabilities	3,787	(358)
Net cash provided by (used in) operating activities	$ 78,934	$ (38,825)

(Concluded)

SAIF CORPORATION

Notes to the Financial Statements
Years ended December 31, 2001 and 2000

(1) Description of Business and 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 incidental coverage governed by the Longshoremens' 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. During 2001 and 2000, 35 percent and 39 percent of gross premiums were written on a direct basis, respectively.

The Department of Consumer and Business Services enforces workers' compensation laws under *Oregon Revised Statutes* (ORS).

(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 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. 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 that affects the value of the investment. Investments in leveraged buyouts representing publicly traded securities are stated at the quoted market price adjusted for a reasonable illiquidity discount. Mortgage loans on real estate and state agency loans are stated at the amortized 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. During 2001 and 2000, SAIF realized a net loss of $9.4 million and a net gain $196.5 million from sales of investments, respectively. 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 2001 and 2000 was a $80.4 million loss and a $149.6 million loss, respectively. This takes into account all changes in fair value (including purchases and sales) that occurred during the year. The net unrealized gain on investments as of December 31, 2001 and 2000 was $1.4 and $77.2 million, respectively.

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 as of December 31, 2001 and 2000 was 71 days and 130 days, respectively.

Concentrations of Credit Risk

Financial instruments that 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 depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 to 40 years
Furniture, equipment and machinery	3 to 7 years
Data processing software	3 to 5 years

As of December 31, 2001 and 2000 property and equipment are comprised of the following (dollars in thousands):

	2001	2000
Land	$ 2,922	$ 2,944
Buildings and improvements	25,444	26,058
Furniture, equipment and machinery	15,903	17,682
Data processing software	9,458	9,075
Total	53,727	55,759
Less accumulated depreciation and amortization	(26,521)	(26,625)
Property and equipment, net	$ 27,206	$ 29,134

Depreciation and amortization expense for the years ended December 31, 2001 and 2000 was $3.7 million and $3.6 million, respectively. This charge includes both depreciation of purchased assets and amortization of assets accounted for as fixed assets under capital leases.

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 that were earned but not billed prior to year-end. SAIF uses its historical experience to estimate earned but unbilled amounts that 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 unbille d amounts. The ultimate collectibility of the unbilled receivables 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 receivable for unbilled premiums. Unbilled premiums receivable as of December 31, 2001 and 2000 were $55.6 million and $48.8 million, respectively.

Certain policyholders are required to remit deposits that represent premium expected to be paya ble 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. However, policyholders may pledge surety bonds and securities in lieu of cash deposits. As of December 31, 2001 and 2000, there were no pledged bonds and securities.

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, 2001 and 2000 is as follows (dollars in thousands):

	2001	2000
Accrued retrospective premiums receivable	$ 28,077	$ 21,088
Reserve for retrospective ratings plans	(10,622)	(16,771)
Net accrued premiums receivable for retrospective rating plans	$ 17,455	$ 4,317

These amounts are included in the accompanying balance sheets.

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 that 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 as of December 31, 2001 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. Oregon Attorney General Opinion Number 6176 requires SAIF to use the discount rate that reflects the anticipated rate of return on investments taking into consideration the uncertainty inherent in long payout patterns. The discount rate used by SAIF is 3.5 percent at December 31, 2001 and 2000. The Board of Directors annually 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 $91.9 million and $92.1 million as of December 31, 2001 and 2000, respectively.

Managed Care Organization Fees

SAIF contracts with managed care organizations (MCOs). MCOs manage claims by arranging to provide medical and health care services. The expense is based on the number of claims accepted and closed while managed by an MCO. During 2001 and 2000 policies covered by contracts with MCOs were approximately 64 percent and 86 percent, respectively, of total policies.

Premium Deficiency

As of December 31, 2001 and 2000, 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. Dividends paid to policyholders totaled $64 thousand and $159.4 million in 2001 and 2000, respectively.

Taxes and Assessments

The Oregon Department of Justice has determined that SAIF Corporation 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. The assessments for 2001 and 2000 were $18.4 million and $15.3 million, respectively.

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

The GASB has issued Statements No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, and No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The impact from adopting these statements did not have a material effect on its financial position or operations. The requirements of these statements were effective for the fiscal year ended December 31, 2001.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform with current year presentation. Such reclassifications do not affect previously reported net income.

(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 percent 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. The difference between the carrying amount and bank balance consists primarily of deposits in transit and outstanding checks.

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 External Investment Pools"* (GASB 31) 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. No income from this fund was assigned to another fund by the custodial agent during the year.

Bond, mortgage-backed, and asset-backed 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 as of December 31, 2001 and 2000 was $10.8 million and $0, respectively. Due to brokers for security purchases as of December 31, 2001 and 2000 was $306.7 million and $145.3 million, respectively.

SAIF's investments are classified in three categories of credit risk to give an indication of the level of risk assumed by SAIF as of December 31, 2001 and 2000. 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 counter party's trust department or agent in the State of Oregon's name for SAIF; and

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

SAIF's investments by category as of December 31, 2001 are as follows (dollars in thousands):

	Category I	Not Required to be Categorized	Carrying Amount
Bonds:			
U.S. Government	$ 125,570	$ 184,776	$ 310,346
Corporate Bonds	733,894	713	734,607
International Bonds	157,659	5,005	162,664
Asset backed securities	955,387	-	955,387
Total Bonds	1,972,510	190,494	2,163,004
Equity Securities:			
Russell 3000 Pooled Equity Fund	-	390,808	390,808
Other Equity Securities	43,546	-	43,546
Total Equity Securities	43,546	390,808	434,354
Other Invested Assets	-	11,572	11,572
Mortgage Loans on Real Estate	-	1,649	1,649
TOTAL	$ 2,016,056	$ 594,523	$ 2,610,579

SAIF's investments by category as of December 31, 2000 are as follows (dollars in thousands):

Bonds:			
U.S. Government	$ 155,913	$ 270,897	$ 426,810
Corporate Bonds	798,044	5,711	803,755
International Bonds	170,090	4,412	174,502
Asset backed securities	641,711	-	641,711
Total Bonds	1,765,758	281,020	2,046,778
Equity Securities:			
Russell 3000 Pooled Equity Fund	-	441,020	441,020
Other Equity Securities	77,116	8,297	85,413
Total Equity Securities	77,116	449,317	526,433
Other Invested Assets	-	17,301	17,301
Mortgage Loans on Real Estate	-	2,232	2,232
Total	$ 1,842,874	$ 749,870	$ 2,592,744

There were no Category 2 or 3 investments as of December 31, 2001 or 2000.

The amortized cost and fair value of debt and equity securities as of December 31, 2001 is as follows (dollars in thousands):

Bonds:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 304,586	$ 7,940	$ (2,181)	$ 310,345
Corporate bonds	725,607	23,893	(14,893)	734,607
International Bonds	157,577	6,410	(1,323)	162,664
Asset Backed Securities	942,410	16,680	(3,702)	955,388
Total Bonds	2,130,180	54,923	(22,099)	2,163,004
Equity Securities:				
Russell 3000 Pooled Equity Fund	416,926	0	(26,117)	390,809
Other equity securities	48,836	1,761	(7,052)	43,545
Total equity securities	465,762	1,761	(33,169)	434,354
TOTAL	$ 2,595,942	$ 56,684	$ (55,268)	$ 2,597,358

The amortized cost and fair value of debt and equity securities as of December 31, 2000 is as follows (dollars in thousands):

Bonds:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 418,708	$ 9,645	$ (1,544)	$ 426,809
Corporate bonds	784,439	38,162	(18,846)	803,755
International Bonds	172,443	4,452	(2,392)	174,503
Asset Backed Securities	632,593	9,840	(722)	641,711
Total Bonds	2,008,183	62,099	(23,504)	2,046,778
Equity Securities:				
Russell 3000 Pooled Equity Fund	416,060	24,960	-	441,020
Other equity securities	71,743	14,169	(499)	85,413
Total equity securities	487,803	39,129	(499)	526,433
TOTAL	$ 2,495,986	$ 101,228	$ (24,003)	$ 2,573,211

The amortized cost and fair value of debt securities as of December 31, 2001, 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	$ 77,310	$ 78,579
Due after one year through five years	308,314	315,968
Due after five years through ten years	513,719	514,377
Due after ten years	1,230,837	1,254,080
TOTAL	$ 2,130,180	$ 2,163,004

Net investment income (loss) is comprised of the following for the years ended December 31, 2001 and 2000 (dollars in thousands):

	2001	2000
Bonds	$ 75,897	$ 163,743
Equity securities	(64,146)	(5,521)
Mortgage loans on real estate	174	113
Other	18,679	25,161
Investment income	30,604	183,496
Less investment expenses	12,442	19,509
Net investment income	$ 18,162	$ 163,987

Net realized gains and losses on sales of investments, which are included in net investment income, consist of the following for the years ended December 31, 2001 and 2000 (dollars in thousands):

	2001	2000
Gains:		
Bonds	$ 65,432	$ 172,874
Equity securities	10,857	100,858
Other invested assets	4,478	-
Total	$ 80,767	$ 273,732
Losses:		
Bonds	$ (76,699)	$ (56,359)
Equity securities	(13,424)	(20,001)
Other invested assets	-	(907)
Total	$ (90,123)	$ (77,267)
Net:		
Bonds	$ (11,267)	$ 116,515
Equity securities	(2,567)	80,857
Other invested assets	4,478	(907)
Total	$ (9,356)	$ 196,465

Proceeds from sales of investments in debt securities for the years ended December 31, 2001 and 2000 were $5,127.6 million and $2,892.9 million, respectively.

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 lent 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, or 105 percent 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 ("Fund"). As of December 31, 2001, the Fund had an average weighted maturity of 338 days. Since the securities loans are callable on demand by either the lender or borrower, the life of the loans as of December 31, 2001 is effectively one day and consequently does not generally match the life of the investments in the Fund. On December 31, 2001 SAIF had no credit risk exposure to borrowers. The collateral held and the fair value including accrued income of the SAIF securities on loan as of December 31, 2001 were $194.4 million and $192.6 million, respectively.

Derivatives

In accordance with the investment policies of the State of Oregon, the Oregon State Treasury has invested through its outside investment managers on behalf of SAIF Corporation in asset-backed securities, including collateralized mortgage obligations, and floating-rate instruments. Such investments are generally used to enhance the return while managing the overall risk of investment portfolios. The Oregon State Treasury's direct investments in fixed income securities are not subject to any policies or rules that explicitly prohibit such investments.

Below is a summary of these investments held by SAIF Corporation as of December 31, 2001. The credit risk, market risk, and legal risk for these investments were not above and beyond those risks that are apparent in the financial statements or otherwise disclosed in the notes to the financial statements. (Information regarding specific holdings in mutual funds, which may be held by certain investment management firms as a component of their portfolios, is not available.)

Asset-backed securities. The fair values of SAIF's holdings of asset-backed securities as of December 31, 2001 are: mortgage-backed securities issued by agencies of the U.S. government, $661.5 million; collateralized mortgage obligations, $113.7 million; securities collateralized by the revenue streams from auto loan portfolios, $30.8 million; and other asset-backed securities, $149.4 million.

SAIF participates in a short-term investment fund maintained by the custodial agent in which the cash collateral received from securities loans is invested. As of December 31, 2001, SAIF's balance in the fund totals $196.2 million at fair value. Investments in asset-backed securities collateralized by the revenue streams from credit card and auto loan portfolios account for 22.8 percent of the total fair value of the fund as of December 31, 2001.

Floating rate bonds. SAIF holds $100.0 million in corporate bonds with floating interest rates as of December 31, 2001. The coupon rates on these bonds are reset either monthly or quarterly with reference to the LIBOR (London Interbank Offered Rate).

(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 years ended December 31, 2001 and 2000 (dollars in thousands):

	2001	Restated 2000
Reserve for loss and loss adjustment expenses, beginning of year, discounted	$ 2,079,738	$ 1,927,165
Add: Discount of reserve for loss and loss adjustment expenses	92,072	94,394
Reserve for loss and loss adjustment expenses, beginning of year, undiscounted	2,171,810	2,021,559
Incurred losses:		
Provision for insured events of the current year	345,495	351,298
Provision for insured events of prior year	(92,066)	5,597
Total incurred losses	253,429	356,895
Loss payments attributable to:		
Insured events of the current year	(70,623)	(65,148)
Insured events of prior year	(142,946)	(141,496)
Total payments	(213,569)	(206,644)
Reserve for loss and loss adjustment expenses, end of year, undiscounted	2,211,670	2,171,810
Less: Discount of reserve for loss and loss adjustment expenses	91,869	92,072
Reserve for loss and loss adjustment expenses, end of year, discounted	$ 2,119,801	$ 2,079,738

During 2001, Senate Bill 485 was signed into law, which overruled a 1999 Oregon Court of Appeals decision on Johansen v. SAIF Corporation. With the passage of Senate Bill 485, certain claims are now subject to the “Own Motion” process and are reimbursed through the State’s Worker Benefit Fund if accepted. The Company therefore reduced its loss and loss adjustment expense reserves by $87.6 million during the year.

Additional favorable loss reserve development occurred during the year as the frequency of permanent total disability claims was less than anticipated. As a result of this favorable development, the Company lowered its assumption of future permanent total disability claims, which had a favorable impact of $51.3 million on loss reserves.

Rising medical costs throughout the year offset the favorable development noted above. During the year, medical inflation was just over 13 percent, which exceeded the explicit inflation assumptions used in the loss reserve estimates. The Company believes that higher levels of medical inflation will continue in the near future and adjusted the inflation assumptions accordingly. This refinement in the assumption increased loss reserves approximately $63 million.

(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.

Throughout 2001 and 2000, SAIF maintained coverage for loss occurrences involving one person subject to a limit of $5.0 million in excess of a $5.0 million retention. Reinsurance for 2001 loss occurrences involving two or more persons is subject to a limit of $155.0 million in excess of a $10.0-million retention and $310.0 million in excess of a $10-million retention, respectively. Reinsurance for 2000 loss occurrences involving two or more persons is subject to a limit of $190.0 million in excess of a $10.0-million retention and $140.0 million in excess of a $10-million retention, respectively.

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

	2001	2000
Reserve for loss and loss adjustment expenses	$15,314	$12,312
Premiums written and earned	1,093	1,618
Loss and loss adjustment expenses incurred	3,328	4,083

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. 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 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 (dollars in thousands):

	2001	2000
Assumed:		
Reserve for loss and loss adjustment expenses	$ 19,799	$ 29,562
Unearned premiums	1,311	859
Premiums written	11,066	7,068
Premiums earned	10,565	7,631
Loss and loss adjustment expenses incurred	7,432	3,578
Ceded:		
Reserve for loss and loss adjustment expenses	$ 55,425	$ 48,350
Unearned premiums	2,245	1,579
Premiums written	12,737	8,898
Premiums earned	12,070	8,027
Loss and loss adjustment expenses incurred	11,494	8,966

(6) Lease Commitments

SAIF leases office space in several locations under operating leases expiring during various years through 2005. SAIF's future minimum lease payments under operating leases as of December 31, 2001 is as follows (dollars in thousands):

2002	$ 560
2003	522
2004	387
2005	223
Total minimum lease payments	$1,692

Lease expenses were $653 thousand and $607 thousand for the years ended December 31, 2001 and 2000, respectively.

(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 $400 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 carry-forward or equity in the Insurance Fund. Assessments for the years ended December 31, 2001 and 2000 were $306 thousand and $317 thousand, respectively.

(8) Contingencies

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 (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 accumulated by SAIF under 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

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 twelve 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, P.O. Box 23700, Tigard, Oregon 97281-3700.

All 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 percent 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. Currently, the rate is 9.49 percent of each covered employee's salary. The amounts contributed by SAIF for the years ended December 31, 2001, 2000, and 1999 were $6.4 million, $6.2 million, and $5.7 million, respectively. SAIF employer contributions for the years ended December 31, 2001, 2000 and 1999 were $3.9 million, $3.8 million, and $3.5 million, respectively, which is equal to the required contributions for each year. Employee contributions paid by SAIF for the years ended December 31, 2001, 2000, and 1999 were $2.5 million, $2.4 million, and $2.2 million, respectively. In accordance with GASB Statement No. 27, no pension liability existed as of December 31, 2001, or 2000.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors of
SAIF Corporation

The Secretary of State Audits Division,
State of Oregon

We have audited the financial statements of SAIF Corporation, as of and for the year ended December 31, 2001, and have issued our report thereon dated August 1, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether SAIF Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SAIF Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Deloitte
Touche
Tohmatsu

This report is intended solely for the information and use of the Governor of the State of Oregon, the Oregon Legislative Assembly, the board of directors, management, and the Secretary of State Audits Division and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

August 1, 2002

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Cathy Pollino
Deputy Director	Charles Hibner, CPA
Deputy Director	Mary E. Wenger, CPA

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