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Secretary of State

State of Oregon

**SAIF CORPORATION**

**Statutory Basis Financial Statements**

**Salem, Oregon**

For the Years Ended December 31, 2001



**Audits Division**

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Contract Auditor: Deloitte & Touche LLP



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**Audits Division**

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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 as reported in conformity with statutory accounting practices and in compliance with HB3980 (e). This audit was performed by Deloitte & Touche LLP for the Audits Division, and encompasses the year ended December 31, 2001.

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 statutory accounting practices, as set forth in this report, and financial statements prepared in conformity with generally accepted accounting principles, 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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## **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 prepared the accompanying 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 also prepares 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 accompanying statutory statements which SAIF prepares for regulatory and management purposes and the GAAP 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 GAAP financial 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 GAAP 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.



## INDEPENDENT AUDITORS' REPORT

Board of Directors of  
SAIF Corporation

The Secretary of State Audits Division,  
State of Oregon

We have audited the accompanying statement of admitted assets, liabilities, capital and surplus – statutory basis of SAIF Corporation (the “Company”) as of December 31, 2001, and the related statements of revenues, expenses, capital and surplus – statutory basis and cash flows – statutory-basis for the year then ended. These statutory-basis financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these statutory-basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis 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 statutory-basis financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the statutory-basis financial statements, these statutory-basis financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division (the “Insurance Division”), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of SAIF Corporation as of December 31, 2001, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 3 to the statutory-basis financial statements, the Company has changed certain accounting practices as a result of the adoption by the Insurance Division of the National Association of Insurance Commissioners’ Accounting Practices and Procedures Manual – Version effective March 2001.

Our audit was conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The supplemental schedule of investment risk interrogatories and the supplemental summary investment schedule as of and for the year ended December 31, 2001 are

presented for complying with the National Association of Insurance Commissioner's instructions to Annual Audited Financial Reports and are not a required part of the basic statutory-basis financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic statutory-basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management of SAIF Corporation, the Secretary of the State Audits Division, and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

August 1, 2002

# **SAIF CORPORATION**

**Statutory-Basis Financial Statements and  
Supplemental Schedules as of and for the  
Year Ended December 31, 2001**



<b>SAIF CORPORATION</b>	
<b>STATEMENT OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS - STATUTORY BASIS</b>	
<b>DECEMBER 31, 2001 (In Thousands)</b>	
<b>ADMITTED ASSETS</b>	
CASH AND INVESTED ASSETS:	
Bonds	\$2,087,476
Preferred stocks	44,276
Common stocks	390,809
Mortgage loans on real estate, first liens	1,646
Real estate, net of accumulated depreciation of \$6,807:	
Properties occupied by the Company	20,520
Properties held for the production of income	1,039
Cash and short-term investments	187,044
Other invested assets	42,392
Receivable for securities sold	<u>9,385</u>
Total cash and invested assets	2,784,587
Premiums in course of collection	7,880
Premiums and installments booked but deferred and not yet due	51,990
Accrued retrospective premiums receivable	25,270
Reinsurance recoverables	101
Electronic data processing (EDP) equipment and software, net	1,834
Interest, dividends and real estate income due and accrued	19,342
Equities and deposits in pools and associations	2,688
Due from Workers' Compensation Division	12,930
Other assets	<u>4,939</u>
TOTAL ADMITTED ASSETS	<u>\$2,911,561</u>
<b>LIABILITIES, CAPITAL AND SURPLUS</b>	
LIABILITIES:	
Losses	\$1,799,533
Loss adjustment expenses	334,387
Other expenses	12,220
Taxes, licenses and fees	13,731
Unearned premiums	35,666
Ceded reinsurance premiums payable	2,493
Amounts withheld or retained for account of others	12,604
Payable for securities	301,612
Advance premiums	14,015
Accrued retrospective premiums payable	<u>10,622</u>
Total liabilities	2,536,883
CAPITAL AND SURPLUS - Unassigned funds	<u>374,678</u>
TOTAL LIABILITIES, CAPITAL AND SURPLUS	<u>\$2,911,561</u>
See notes to financial statements - statutory basis.	

# SAIF CORPORATION

## STATEMENT OF REVENUES, EXPENSES, CAPITAL AND SURPLUS - STATUTORY BASIS FOR THE YEAR ENDED DECEMBER 31, 2001 (In Thousands)

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UNDERWRITING REVENUES:	
Premiums earned	\$ 248,297
UNDERWRITING EXPENSES:	
Losses incurred	229,511
Loss adjustment expenses incurred	26,510
Other underwriting expenses incurred	<u>70,686</u>
Total underwriting expenses	<u>326,707</u>
NET UNDERWRITING LOSS	(78,410)
NET INVESTMENT INCOME:	
Net investment income earned	105,328
Net realized capital losses	<u>(7,649)</u>
Net investment income	97,679
OTHER INCOME (EXPENSE):	
Net loss from premium balances charged off	(1,270)
Premium assessment income	18,375
Other income	852
Total other income, net	<u>17,957</u>
NET INCOME	<u>\$ 37,226</u>
CAPITAL AND SURPLUS:	
Unassigned funds, January 1, 2001	<u>\$ 404,283</u>
Net income	37,226
Net unrealized capital losses	(73,653)
Change in nonadmitted assets	(1,376)
Cumulative effect of changes in accounting principles	<u>8,198</u>
Net change in capital and surplus	<u>(29,605)</u>
Unassigned funds, December 31, 2001	<u>\$ 374,678</u>

See notes to financial statements - statutory basis.

# SAIF CORPORATION

## STATEMENT OF CASH FLOWS - STATUTORY BASIS FOR THE YEAR ENDED DECEMBER 31, 2001 (In Thousands)

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### CASH FROM OPERATIONS:

Cash from underwriting:	
Premiums collected net of reinsurance	\$ 232,567
Loss and loss adjustment expenses paid	(214,674)
Underwriting expenses paid	(60,072)
Total cash from underwriting	(42,179)
Net investment income	115,987
Premium assessment income	18,375
Other expenses	<u>(5,214)</u>
Net cash from operations	<u>86,969</u>

### CASH FROM INVESTMENTS:

Proceeds from investments sold, matured or repaid:	
Bonds	5,395,953
Common and preferred stocks	175,682
Mortgage loans	583
Real estate	2,668
Other invested assets	5,600
Net gains on cash and short-term investments	9
Miscellaneous payments	<u>(9,385)</u>
Total proceeds from investments sold, matured or repaid	<u>5,571,110</u>
Cost of investments acquired:	
Bonds	5,559,195
Common and preferred stocks	153,454
Real estate	1,346
Other invested assets	6,302
Miscellaneous applications	<u>(156,293)</u>
Total cost of investments acquired	<u>5,564,004</u>
Net cash from investments	7,106

### CASH FROM FINANCING AND MISCELLANEOUS SOURCES:

Other cash provided	(162)
Other cash applied	<u>(240)</u>
Net cash from financing and miscellaneous sources	(402)

(Continued)

# SAIF CORPORATION

## STATEMENT OF CASH FLOWS - STATUTORY BASIS FOR THE YEAR ENDED DECEMBER 31, 2001 (In Thousands)

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### RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS:

Net increase in cash and short-term investments	\$ 93,673
Cash and short-term investments:	
Beginning of year	<u>93,371</u>
End of year	<u>\$ 187,044</u>

See notes to financial statements - statutory basis.

(Concluded)

# SAIF CORPORATION

## NOTES TO FINANCIAL STATEMENTS – STATUTORY-BASIS FOR THE YEAR ENDED DECEMBER 31, 2001

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### 1. NATURE OF OPERATIONS

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

The Company 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. The Company also provides incidental coverage governed by the Longshoremens’ and Harbor Workers’ Compensation Act, Jones Act, and Federal Employers Liability Law. The Company’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 the Company.

The Company writes business on a direct basis and through agents. During 2001, 34.8 percent of premiums were written on a direct basis.

The Department of Consumer and Business Services enforces workers’ compensation laws under Oregon Revised Statutes (“ORS”).

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***—The Company’s statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division (“Insurance Division”).

The Insurance Division has adopted the National Association of Insurance Commissioners’ (“NAIC”) statutory accounting practices (“SAP”) as the basis of its statutory accounting practices.

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance departments of the applicable states of domicile comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“GAAP”). The more significant differences are as follows:

- (a) Investments in bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company’s ability and intent to hold or trade the securities;
- (b) Investments in common stocks are valued as prescribed by the Securities Valuation Office (“SVO”) of the NAIC, while under GAAP, common stocks are reported at market value;
- (c) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP, they are deferred and amortized to income as premiums are earned or in relation to estimated gross profits; and

(d) Assets are reported under SAP at “admitted asset” value and “nonadmitted” assets are excluded through a charge against surplus, while under GAAP, “nonadmitted assets” are reinstated to the balance sheet, net of any valuation allowance.

**Use of Estimates**—The preparation of financial statements in accordance with SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Premiums in course of collection; premiums and installments booked but deferred and not yet due; accrued retrospective premiums receivable and payable; losses and loss adjustment expenses; unearned premiums; and advance premiums represent significant estimates. Actual results could differ significantly from those estimates.

**Cash and Short-Term Investments**—Cash includes cash and highly liquid investments with maturities of less than three months when acquired. Short-term investments include all investments whose maturities, at the time of acquisition, are one year or less and are stated at amortized cost, using the interest method, which approximates fair value.

**Investments**—Bonds not backed by other loans are generally stated at amortized cost using the interest method. Noninvestment grade bonds are stated at the lower of amortized cost or fair value. There were no bonds held by the Company that were in or near default as of December 31, 2001.

Mortgage-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Interest only securities and securities where the yield has become negative are valued using the prospective method. In 2001, there were no securities that changed from the retrospective to the prospective methodology due to negative yields.

Common stocks are carried at NAIC-designated market value. The change in the stated value is recorded as a change in net unrealized capital losses, a component of unassigned funds.

Preferred stocks are stated at cost, lower of cost or amortized cost, or NAIC-designated market values depending on the assigned credit rating and whether the preferred stock has mandatory sinking fund provisions.

Mortgage loans on real estate are stated at the unpaid principle balance.

The Company has minority ownership interests in joint ventures. The Company carries these interests based on the underlying unaudited GAAP equity of the investee, as of September 30, 2001, adjusted for distributions or disposals. Prior to January 1, 2001, the Company’s investment in joint ventures was carried at cost adjusted to reflect statutory operating results. See Note 3 for a description of the change in accounting principle.

Net investment income earned consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and

mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined on a specific identification basis.

Accrued interest more than 180 days past due deemed collectible on mortgage loans in default is nonadmitted. All other investment income due and accrued with amounts over 90 days past due is nonadmitted. As of December 31, 2001, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

***Concentrations of Credit Risk***—Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and short-term investments, and stocks and bonds. The Company 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.

***Premiums and Related Commissions***—Premiums are earned over the terms of the related insurance policies and reinsurance contracts. A liability for unearned premiums is established to cover the unexpired portion of premiums written. Such liability is computed by pro rata methods for direct business and is based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to expense as incurred.

Premiums and installments booked but deferred and not yet due primarily represent an estimate of the difference between amounts earned ratably on installment-billed policies and the amount to be billed on the policy. Premiums and installments booked but deferred and not yet due also include estimated billings on payroll reporting policies which were earned but not billed prior to year end. The Company uses its historical experience to estimate earned but not billed amounts. These unbilled amounts are estimates, and while the Company 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 amounts can be affected by general changes in the economy and the regulatory environment due to the increased time required to determine the billable amount. The Company considers these factors when estimating the premiums and installments booked but deferred and not yet due.

Certain policyholders are required to remit deposits which represent premium expected to be payable to the Company 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 amounts withheld or retained by the Company for account of others. However, policyholders may pledge surety bonds and securities in lieu of cash deposits. As of December 31, 2001, there were no pledged bonds and securities.

In addition to its regular premium plans, the Company 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. These amounts are included in the accompanying statement of admitted assets, liabilities, capital and surplus as accrued retrospective premiums receivable and payable.

**Retrospectively Rated Contracts**—The Company 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 for 2001 on retrospective workers compensation policies were \$75.5 million, or 32 percent of total premiums written.

The Company has nonadmitted 10 percent of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as follows (in thousands):

Total accrued retrospective premiums receivable	\$ 28,078
Less nonadmitted amount (10%)	<u>2,808</u>
Admitted accrued retrospective premiums receivable	<u>\$ 25,270</u>

**Losses and Loss Adjustment Expenses** include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported (IBNR). 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 losses and expense for administering losses is necessarily based on estimates. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Currently, the Company discounts the reserve for losses for known unpaid fatal and permanent total disability losses. The Company does not discount the reserve for losses for unpaid fatal and permanent total disability loss adjustment expenses. Oregon Attorney General Opinion Number 6176 requires the Company 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 the Company is 3.5 percent as of December 31, 2001. Annually, the Board of Directors reviews the actuarial assumptions and discount rates utilized in determining the liability for such losses. The discount reflected in the reserve for losses was \$91.9 million as of December 31, 2001.

**Managed Care Organization Fees**—The Company 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, policies covered by contracts with MCOs were approximately 64 percent of total policies.

**Fixed Assets** are carried at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The Company provides for depreciation of fixed assets using the straight-line method over the estimated useful lives of the assets as follows:

Real estate	30 to 40 years
Furniture, equipment, and automobiles	3 to 7 years

Depreciation expense was approximately \$3.7 million for the year ended December 31, 2001.

Management reviews fixed assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value.

**Taxes and Assessments**—The Oregon Department of Justice has determined that the Company 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.

The Company is subject to levies by the Oregon Workers' Compensation Division of the Department of Consumer and Business Services. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were \$18.4 million for the year ended December 31, 2001.

**Pending Accounting Standards**—In March 2001, the NAIC adopted Statement of Statutory Accounting Principle ("SSAP") No. 82, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use and Web Site Development Costs*. This statement requires that internal and external costs incurred to develop internal-use computer software and web sites during the application development stage and infrastructure stage should be capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage should be expensed as incurred. Amortization guidelines outlined in SAP are applicable for all operating and nonoperating software. This statement is effective for years beginning January 1, 2002 and was adopted by the Company in the first quarter of 2002. The threshold for capitalization of internally developed software was set at \$500,000 upon implementation. The adoption of this standard had no effect on the Company's results of operations, financial position, or cash flows.

### 3. ACCOUNTING CHANGES

The Company prepares its statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Insurance Division. Effective January 1, 2001, the Insurance Division required that insurance companies domiciled in the State of Oregon prepare their statutory-basis financial statements in accordance with the NAIC *Accounting Practices and Procedures Manual*—Version effective March 2001, subject to any deviations prescribed or permitted by the Insurance Division. Accordingly, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2001 and the results of its operations and its cash flows for the year then ended, have been determined in accordance with the new accounting principles.

Accounting changes adopted to conform to these provisions are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company reported a change of accounting principle, as an adjustment that increased

unassigned funds, of \$8,198,000 as of January 1, 2001. This adjustment results from restating the Company's investment in joint ventures.

#### 4. INVESTMENTS

Oregon's State Treasurer acts as the Company'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 the Company's investment policy.

Bond, mortgage-backed, and asset-backed security transactions are recorded on a trade 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. Receivables for securities not received within 15 days from the settlement date are nonadmitted. As of December 31, 2001, \$1.4 million of such receivables for securities were excluded from unassigned funds.

The cost or amortized cost and NAIC-designated fair value of the Company's investment securities were as follows as of December 31, 2001 (in thousands):

	Book Value/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost or Amortized Cost	NAIC- Designated Fair Value
Bonds:					
U.S. government	\$ 617,807	\$ -	\$ -	\$ 617,807	\$ 626,846
All other governments	30,145	-	-	30,145	32,251
States, territories and possessions	1,326	-	-	1,326	1,298
Special revenue	339,352	-	-	339,352	342,918
Public utilities	260,888	-	-	260,888	268,255
Industrial and miscellaneous	<u>837,958</u>	<u>-</u>	<u>3,305</u>	<u>841,263</u>	<u>847,382</u>
Total bonds	<u>\$2,087,476</u>	<u>\$ -</u>	<u>\$ 3,305</u>	<u>\$2,090,781</u>	<u>\$2,118,950</u>
Stocks:					
Preferred stocks	\$ 44,276	\$ 1,231	\$ 3,038	\$ 46,083	\$ 41,261
Common stocks	390,809	-	26,117	416,926	390,809

Proceeds from the sale and maturity of bonds and stocks were \$5,395,953,000 and \$175,682,000, respectively, during 2001.

The amortized cost and NAIC-designated fair value of bonds as of December 31, 2001, by contractual maturity, are shown below (in thousands). 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.

	<b>Book Value/ Adjusted Carrying Value</b>	<b>Amortized Cost</b>	<b>NAIC- Designated Fair Value</b>
Due in one year or less	\$ 72,996	\$ 72,996	\$ 74,273
Due after one year through five years	261,118	262,835	269,266
Due after five years through ten years	399,307	400,035	395,637
Due after ten years	413,961	414,821	426,630
	1,147,382	1,150,687	1,165,806
Collateralized mortgage obligations and mortgage-backed securities	940,094	940,094	953,144
<b>Total</b>	<b><u>\$2,087,476</u></b>	<b><u>\$2,090,781</u></b>	<b><u>\$2,118,950</u></b>

Gross realized gains and losses and the net realized gains (losses) from investment securities consist of the following for the year ended December 31, 2001 (in thousands):

	<b>Gross Realized Gains</b>	<b>Gross Realized Losses</b>	<b>Net Realized Gains (Losses)</b>
Bonds	\$65,424	\$76,700	\$ (11,276)
Common stocks	2,630	1,126	1,504
Preferred stocks	8,227	12,298	(4,071)
Real estate	1,707	-	1,707
Short-term investments	9	-	9
Other invested assets	4,478	-	4,478
<b>Total</b>	<b><u>\$82,475</u></b>	<b><u>\$90,124</u></b>	<b><u>\$ (7,649)</u></b>

## 5. SECURITIES LENDING

In accordance with State investment policies, the Company 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 the Company’s securities to broker-dealers and banks pursuant to a form of loan agreement. Both the Company and the borrowers maintain the right to terminate all securities lending transactions on demand.

During 2001, State Street lent the Company’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. The Company did not impose any restrictions during the year on the amount of the loans State Street made on its behalf. The Company 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. There were no restrictions on the collateral held by the Company as of December 31, 2001.

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 70.5 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, the Company had no credit risk exposure to borrowers. Under SAP, the collateral held and the fair value including accrued income of the Company's securities on loan as of December 31, 2001, of \$194 million and \$192 million, respectively, are not included in the Company's statutory-basis financial statements.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The statement value and NAIC-designated fair value of financial instruments as of December 31, 2001 are as follows (in thousands):

	<b>Statement Value</b>	<b>NAIC- Designated Fair Value</b>
Bonds	\$2,087,476	\$2,118,950
Preferred stocks	44,276	41,261
Common stocks	390,809	390,809
Mortgage loans on real estate	1,646	1,649
Short-term investments	4,314	4,324
Total	<u>\$2,528,521</u>	<u>\$2,556,993</u>

## 7. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in losses and loss adjustment expenses is summarized as follows (in thousands):

Balance at January 1, 2001	\$2,092,543
Less reinsurance recoverables	(71)
Net balance at January 1, 2001	<u>2,092,472</u>
Incurred related to:	
Current year	348,751
Prior year	<u>(92,730)</u>
Total incurred	256,021
Paid related to:	
Current year	70,689
Prior year	<u>143,985</u>
Total paid	<u>214,674</u>
Net balance at December 31, 2001	2,133,819
Plus reinsurance recoverables	101
Balance at December 31, 2001	<u>\$2,133,920</u>

Reserves for losses have been discounted on a tabular basis using the 1979-1981 U.S. Decennial Life Tables, the 1979 NCCI Remarriage Table and a discount rate of 3.5 percent. The Company does not discount any incurred but not reported reserves, medical unpaid losses or unpaid loss adjustment expenses. Discounted reserves include fatal and permanent total disability losses. As of December 31, 2001, gross reserves subject to tabular discounting were \$406.1 million which, after discount, were \$91.9 million.

Anticipated salvage and subrogation of \$9.5 million is included as a reduction of the reserve for losses as of December 31, 2001.

Reserves for losses and loss adjustment expenses attributable to insured events of prior years has decreased by \$92.7 million in 2001. \$75 million of this decrease was due to Senate Bill 485 (SB 485) which was signed into law July 30, 2001. Among other changes to workers' compensation law, SB 485 changed the law in response to a previous court decision rendered in Johannsen v. SAIF Corporation. That decision had removed time limits for reopening claims for disability benefits. SB 485 makes claims filed more than five years after the date of the first claim closure reimbursable to the insurer from the Workers' Benefit Fund. The remaining decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

**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, the Company 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 year ended December 31, 2001 were \$306,000.

## **8. 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 employees wherein they may execute an individual agreement with the Company 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 the Company 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.

## 9. RETIREMENT PLAN

The Company'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. All 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 the Company has elected to do so. The Company 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 Company's contributions to the Plan were \$6.4 million for 2001.

## 10. CAPITAL AND SURPLUS

The portion of unassigned funds represented or reduced by each item below, is as follows at December 31, 2001 (in thousands):

Net unrealized capital losses	\$ (41,644)
Cumulative effect of change in accounting principles	8,198
Nonadmitted assets	(14,574)

The Company is subject to Risk Based Capital ("RBC") requirements of the NAIC, which establishes that certain required amounts of capital be maintained. As of December 31, 2001, the Company's RBC exceeded the required amount, in connection with its NAIC statutory filing. While the Company is not subject to the minimum capital requirements set forth in ORS, the Company uses various benchmarking and risk level techniques to monitor and maintain an adequate level of surplus.

## 11. COMMITMENTS AND CONTINGENCIES

The Company has entered into structured settlements wherein the Company has purchased annuities of which the claimant is payee, but for which the Company is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were \$4.8 million at December 31 2001.

From time to time the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

## 12. LEASE COMMITMENTS

The Company leases office space in several locations under noncancelable operating leases expiring during various years through 2005. Lease expense was \$1,615,000 for the year ended December 31, 2001. As of December 31, 2001, the minimum aggregate rental commitments are as follows (in thousands):

2002	\$ 599
2003	561
2004	387
2005	223
Total minimum lease payments	<u>\$1,770</u>

Certain rental commitments have renewal options extending through the year 2010. 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 \$478,000 on leases due in the future under noncancelable subleases.

## 13. WASH SALES

In the course of the Company's asset management, securities are sold and reacquired within 30 days of the sale date to enhance the Company's yield on its investment portfolio.

The aggregate detail of securities with NAIC designation of 3 or below sold during the year ended December 31, 2001 and reacquired within 30 days of the sale date is as follows (in thousands):

	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Loss
Bonds:				
NAIC 3	1	\$ 4,813	\$ 4,896	\$ (744)
NAIC 4	3	12,662	12,797	(2,290)
Total	<u>4</u>	<u>\$17,475</u>	<u>\$17,693</u>	<u>\$ (3,034)</u>

## 14. SECURITIES ON DEPOSIT

Securities with an amortized cost of \$3.1 million at December 31, 2001 were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshoremens' and Harbor Workers' Compensation Act.

## 15. REINSURANCE

In the ordinary course of business, the Company 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, the Company would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, the Company

regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

Throughout 2001, the Company maintained coverage for loss occurrences involving one person subject to a limit of \$5.0 million in excess of a \$5.0 million per claimant retention and \$155 million in excess of \$10 million per occurrence with a \$5 million maximum on any one life and a \$310 million aggregate limit.

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

Liability for losses and loss adjustment expenses	\$ 15,314
Premiums earned	1,093
Losses and loss adjustment expenses incurred	3,328

The Company is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the "Oregon Insurance Plan"), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool. The Oregon Insurance 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. The Company cedes such business to the Oregon Insurance Plan. In addition, the Company is also required to assume its share of premiums and losses from the Oregon Insurance Plan based on voluntary market share.

The following amounts are included in the accompanying statutory-basis financial statements as a result of participation in the Oregon Insurance Plan (in thousands):

Assumed:	
Liability for losses and loss adjustment expenses	\$ 19,799
Advance premiums	1,311
Premiums earned	10,055
Losses and loss adjustment expenses incurred	7,073
Ceded:	
Liability for losses and loss adjustment expenses	55,425
Advance premiums	2,245
Premiums earned	11,197
Losses and loss adjustment expenses incurred	10,967

## 16. EDP EQUIPMENT AND SOFTWARE

EDP equipment, operating and nonadmitted nonoperating software are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for nonadmitted nonoperating system software is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three to five years. There were no operating software assets admitted at December 31, 2001.

EDP equipment consisted of the following at December 31, 2001 (in thousands):

EDP equipment	\$ 11,099
Accumulated depreciation	(9,265)
Balance, net	<u>\$ 1,834</u>

Depreciation expense related to EDP equipment and operating and nonadmitted nonoperating software totaled \$2.5 million for the year ended December 31, 2001.

**17. RECONCILIATION OF ANNUAL STATEMENT TO AUDITED STATUTORY-BASIS FINANCIAL STATEMENTS**

The following illustrates the differences between the annual statement as filed with the Insurance Division and the audited statutory-basis financial statements. The differences are the result of reclassifications made after the annual statement was filed and are as follows (in thousands):

<u>Statement of Admitted Assets, Liabilities, Capital and</u>	Filed	Audited	Difference
Due from Worker's Compensation Division	\$ -	\$12,930	\$12,930
Losses	(1,786,603)	(1,799,533)	(12,930)
 Statement of Cash Flows:	 Filed	 Audited	 Difference
Loss and loss adjustment expenses paid	\$(227,546)	\$(214,674)	\$12,872
Other cash provided	12,710	(162)	(12,872)



**SUPPLEMENTAL SCHEDULES**

**APPENDIX A—SUMMARY INVESTMENT SCHEDULE**

**APPENDIX B—SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**



**APPENDIX A:**  
**SUMMARY INVESTMENT SCHEDULE**

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	245,488,403	8.816	245,488,403	8.816
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	55,240,730	1.984	55,240,730	1.984
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	30,144,695	1.083	30,144,695	1.083
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	1,325,924	0.048	1,325,924	0.048
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	3,540,951	0.127	3,540,951	0.127
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (including residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	317,078,170	11.387	317,078,170	11.387
1.512 Issued by FNMA and FHLMC	335,810,947	12.060	335,810,947	12.060
1.513 Privately issued	57,210,705	2.055	57,210,705	2.055
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC				
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC				
1.523 All other privately issued	98,988,474	3.555	98,988,474	3.555
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	839,323,058	30.142	839,323,058	30.142
2.2 Unaffiliated foreign securities	136,139,657	4.889	136,139,657	4.889
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	390,808,776	14.035	390,808,776	14.035
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	44,276,189	1.590	44,276,189	1.590
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated	9,576,109	0.344	9,576,109	0.344
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties	772,393	0.028	772,393	0.028
4.4 Multifamily residential properties				
4.5 Commercial loans	873,385	0.031	873,385	0.031
5. Real estate investments:				
5.1 Property occupied by company	21,559,006	0.774	21,559,006	0.774
5.2 Property held for production of income (Includes \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	9,384,926	0.337	9,384,926	0.337
8. Cash and short-term investments	187,044,265	6.717	187,044,265	6.717
9. Other invested assets				
10. Total invested assets	2,784,586,773	100.000	2,784,586,773	100.000

**APPENDIX B:**  
**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1

For the year ended December 31, 2001

Of The SAIF Corporation Insurance Company  
 Address (City, State, Zip Code): 400 High St SE, Salem, Or 97312  
 NAIC Group Code 0000 NAIC Company Code 36196 Employer's ID Number 93-6001769

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by stating the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1, 2, 3, and, if applicable 20 through 24. Answer each of interrogatories 4 through 19 only if the reporting entity's aggregate holding in the gross investment category addressed in that interrogatory equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. State the reporting entity's total admitted assets as reported in Page 2 of this annual statement. \$ 2,898,630,803

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U. S. government agency securities and those U. S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.

	<u>1</u>	<u>2</u>	<u>3</u>
Investment Category		Amount	Percentage of Total Admitted Assets
2.01 90000RUS8 BGI RUSSELL 3000 INDEX FUND		\$ 390,808,776	13.483 %
2.02 38141GAZ7 GOLDMAN SACHS GROUP INC		\$ 30,498,021	1.052 %
2.03 52490BCT5 LEHMAN BROS HOLDINGS		\$ 25,489,078	0.879 %
2.04 617446GD5 MORGAN STANLEY DEAN WITTER		\$ 20,192,906	0.697 %
2.05 251526BF5 DEUTSCH BANK		\$ 20,088,750	0.693 %
2.06 89384*AP4 TRANSOK MTN		\$ 16,998,921	0.586 %
2.07 045424FG8 ASSET SECURITIZATION CORP		\$ 16,509,117	0.570 %
2.08 345397TY9 FORD MOTOR CREDIT CORP		\$ 16,288,320	0.562 %
2.09 61746WLR9 MORGAN STANLEY DEAN WITTER		\$ 15,804,456	0.545 %
2.10 33632*KY2 NORTH TELECOM		\$ 15,631,237	0.539 %

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	<u>1</u>	<u>2</u>	Preferred Stock	<u>3</u>	<u>4</u>
3.01 NAIC-1 \$	1,628,965,581	56.198 %	3.07 P/RP-1	\$ 10280174	0.355 %
3.02 NAIC-2 \$	366,676,409	12.650 %	3.08 P/RP-2	\$ 18521566	0.639 %
3.03 NAIC-3 \$	51,401,721	1.773 %	3.09 P/RP-3	\$ 13255949	0.457 %
3.04 NAIC-4 \$	25,350,375	0.875 %	3.10 P/RP-4	\$ 2218500	0.077 %
3.05 NAIC-5 \$	18,914,237	0.653 %	3.11 P/RP-5	\$ 0	%
3.06 NAIC-6 \$	481,814	0.017 %	3.12 P/RP-6	\$ 0	%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 - Derivative Instruments), including (4.01) foreign-currency-denominated investments of \$ 0 (4.02) supporting insurance liabilities denominated in that same foreign currency of \$ 0 and excluding (4.03) Canadian investments and currency exposure of \$ 0.

Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, detail not required.

5.	Aggregate foreign investment exposure categorized by NAIC sovereign rating:		
5.01	Countries rated NAIC-1	<u>1</u>	<u>2</u>
5.02	Countries rated NAIC-2	\$ .....	..... %
5.03	Countries rated NAIC-3 or below	\$ 16,116,265	0.556 %
		\$ 9,546,923	0.329 %
6.	Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:		
	Countries rated NAIC-1:	<u>1</u>	<u>2</u>
6.01	Country:	\$ .....	..... %
6.02	Country:	\$ .....	..... %
	Countries rated NAIC-2:		
6.03	Country: MEXICO	\$ 16,116,265	0.556 %
6.04	Country:	\$ .....	..... %
	Countries rated NAIC-3 or below:		
6.05	Country: PANAMA	\$ 3,250,279	0.112 %
6.06	Country: PHILLIPINES	\$ 2,236,128	0.077 %
7.	Aggregate unhedged foreign currency exposure	<u>1</u>	<u>2</u>
		\$ .....	..... %
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		
8.01	Countries rated NAIC-1	<u>1</u>	<u>2</u>
8.02	Countries rated NAIC-2	\$ .....	..... %
8.03	Countries rated NAIC-3 or below	\$ .....	..... %
9.	Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:		
	Countries rated NAIC-1:	<u>1</u>	<u>2</u>
9.01	Country:	\$ .....	..... %
9.02	Country:	\$ .....	..... %
	Countries rated NAIC-2:		
9.03	Country:	\$ .....	..... %
9.04	Country:	\$ .....	..... %
	Countries rated NAIC-3 or below:		
9.05	Country:	\$ .....	..... %
9.06	Country:	\$ .....	..... %
10.	List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:		
10.01	NAIC rating 2 284129AC7 ELAN FINANCE	<u>1</u>	<u>2</u>
10.02	NAIC rating 2PE 125148AB2 CE ELECTRIC UK FUNDING	\$ 9,120,659	0.315 %
10.03	NAIC rating 1Z 46621WAA9 JMH FINANCE	\$ 7,649,352	0.264 %
10.04	NAIC rating 1 904784AA3 UNILEVER NV	\$ 7,197,989	0.248 %
10.05	NAIC rating 2 88163XAA3 TEVA PHARMACEUTICAL	\$ 7,000,000	0.241 %
10.06	NAIC rating 1 879385AC6 TELEFONICA EUROPE	\$ 5,250,000	0.181 %
10.07	NAIC rating 1PE 35177PAD9 FRANCE TELECOM	\$ 5,155,677	0.178 %
10.08	NAIC rating 1 054536AA5 AXA	\$ 5,055,580	0.174 %
10.09	NAIC rating 2PE 500631AC0 KOREA ELECTRIC POWER	\$ 4,985,715	0.172 %
10.10	NAIC rating 2PE 656533AA4 NORSKE SKOGINDUSTNER	\$ 4,956,548	0.171 %
		\$ 3,975,325	0.137 %
11.	State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) \$ ..... 0 supporting Canadian-denominated insurance liabilities of (11.02) \$ ..... 0		
	Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, detail not required.		

12. Aggregate Canadian investment exposure.

	<u>1</u>	<u>2</u>	
12.01 Canadian investments	\$ .....	.....	%
12.02 Unhedged Canadian currency exposure	\$ .....	.....	%

13. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, detail not required.

	<u>1</u>	<u>2</u>	
13.01 Aggregate statement value of investments with contractual sales restrictions	\$ .....	.....	%
13.02 Largest 3 investments with contractual sales restrictions:			
13.03 .....	\$ .....	.....	%
13.04 .....	\$ .....	.....	%
13.05 .....	\$ .....	.....	%

14. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Assets held in equity interests less than 2.5% of the reporting entity's total; admitted assets, detail not required.

Investment Category

	<u>1</u>	<u>2</u>	
14.01 90000RUS8 BGI RUSSELL 3000 INDEX FUND	\$ 390,808,776	.....	13.481 %
14.02 018803205 ALLIANT ENERGY RES	\$ 7,422,316	.....	0.256 %
14.03 58155P501 MCKESSON FINANCING TRUST	\$ 6,214,574	.....	0.214 %
14.04 81211K209 SEALED AIR CORP	\$ 6,113,875	.....	0.211 %
14.05 826428203 SIERRA PACIFIC RESOURCES	\$ 6,045,500	.....	0.209 %
14.06 373296801 GEORGIA PACIFIC GROUP	\$ 5,053,750	.....	0.174 %
14.07 90262PAA6 UBS PFD FUNDING TRUST I	\$ 4,283,934	.....	0.148 %
14.08 744320201 PRUDENTIAL FINANCIAL	\$ 3,096,240	.....	0.107 %
14.09 498778208 KMART FINANCING I	\$ 2,218,500	.....	0.077 %
14.10 036748203 ANTHEM, INC	\$ 927,500	.....	0.032 %

15. State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, detail not required.

	<u>1</u>	<u>2</u>	
15.01 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$ .....	.....	%
15.02 Largest 3 investments held in nonaffiliated, privately placed equities:			
15.03 .....	\$ .....	.....	%
15.04 .....	\$ .....	.....	%
15.05 .....	\$ .....	.....	%

16. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities):

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, detail not required.

	<u>1</u>	<u>2</u>	
16.01 Aggregate statement value of investments held in general partnership interests	\$ .....	.....	%
16.02 Largest 3 investments with contractual sales restrictions:			
16.03 .....	\$ .....	.....	%
16.04 .....	\$ .....	.....	%
16.05 .....	\$ .....	.....	%

17. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held.

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, detail not required.

Each of the 10 largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties:

	<u>1</u>	<u>2</u>	
17.01 .....	\$ .....	.....	%
17.02 .....	\$ .....	.....	%
17.03 .....	\$ .....	.....	%
17.04 .....	\$ .....	.....	%
17.05 .....	\$ .....	.....	%
17.06 .....	\$ .....	.....	%
17.07 .....	\$ .....	.....	%
17.08 .....	\$ .....	.....	%
17.09 .....	\$ .....	.....	%
17.10 .....	\$ .....	.....	%

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
18.01 above 95%	\$ .....	.....%	\$ .....	.....%	\$ .....	.....%
18.02 91% to 95%	\$ .....	.....%	\$ .....	.....%	\$ .....	.....%
18.03 81% to 90%	\$ .....	.....%	\$ .....	.....%	\$ .....	.....%
18.04 71% to 80%	\$ .....	.....%	\$ .....	.....%	\$ .....	.....%
18.05 below 70%	\$ .....	.....%	\$ .....	.....%	\$ .....	.....%

	<u>1</u>	<u>2</u>	
18.06 Construction Loans	\$ .....	.....	%
18.07 Mortgage loans over 90 days past due	\$ .....	.....	%
18.08 Mortgage loans in the process of foreclosure	\$ .....	.....	%
18.09 Mortgage loans foreclosed	\$ .....	.....	%
18.10 Restructured mortgage loans	\$ .....	.....	%

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company.

Assets held in each of the five largest investment in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, detail not required.

	<u>1</u>	<u>2</u>	<u>3</u>	
19.01		\$		%
19.02		\$		%
19.03		\$		%
19.04		\$		%
19.05		\$		%

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		At End of Each Quarter		
	<u>1</u>	<u>2</u>	1st Qtr <u>3</u>	2nd Qtr <u>4</u>	3rd Qtr <u>5</u>
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$ 183,316,854	6.323 %	\$ 195,091,745	\$ 245,155,705	\$ 205,199,519
20.02 Repurchase agreements	\$	%	\$	\$	\$
20.03 Reverse repurchase agreements	\$	%	\$	\$	\$
20.04 Dollar repurchase agreements	\$	%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	\$	\$	\$

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
21.01 Hedging	\$	%	\$	%
21.02 Income generation	\$	%	\$	%
21.03 Other	\$	%	\$	%

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

	At Year-end		At End of Each Quarter		
	<u>1</u>	<u>2</u>	1st Qtr <u>3</u>	2nd Qtr <u>4</u>	3rd Qtr <u>5</u>
22.01 Hedging	\$	%	\$	\$	\$
22.02 Income generation	\$	%	\$	\$	\$
22.03 Replications	\$	%	\$	\$	\$
22.04 Other	\$	%	\$	\$	\$

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for future contracts:

	At Year-end		At End of Each Quarter		
	<u>1</u>	<u>2</u>	1st Qtr <u>3</u>	2nd Qtr <u>4</u>	3rd Qtr <u>5</u>
23.01 Hedging	\$	%	\$	\$	\$
23.02 Income generation	\$	%	\$	\$	\$
23.03 Replications	\$	%	\$	\$	\$
23.04 Other	\$	%	\$	\$	\$

24: State the amounts and percentages of 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule.

	<u>1</u>	<u>2</u>	<u>3</u>	
24.01	NONE	\$		%
24.02	.....	\$	.....	%
24.03	.....	\$	.....	%
24.04	.....	\$	.....	%
24.05	.....	\$	.....	%
24.06	.....	\$	.....	%
24.07	.....	\$	.....	%
24.08	.....	\$	.....	%
24.09	.....	\$	.....	%
24.10	.....	\$	.....	%



## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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.

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<i>Director</i>	Cathy Pollino
<i>Deputy Director</i>	Charles Hibner, CPA
<i>Deputy Director</i>	Mary E. Wenger, CPA

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