Secretary of State

State of Oregon

PROFESSIONAL LIABILITY FUND

For the Years Ended December 31, 2002, and 2001

Audits Division

Contract Auditor: Merina & Co., LLP

Secretary of State

State of Oregon

PROFESSIONAL LIABILITY FUND

For the Years Ended December 31, 2002, and 2001

Audits Division

No. 2003-22

July 1, 2003

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Bill Bradbury
Secretary of State

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This report of the Oregon State Bar's Professional Liability Fund contains audited financial statements and a report on the Fund's compliance with laws, regulations, and bylaws and on internal control over financial reporting. This audit was performed for the Audits Division by the accounting firm Merina & Co., LLP, and covers the years ended December 31, 2002, and 2001.

OREGON AUDITS DIVISION

Cathy Pollino
Director

CP:bk

April 14, 2003

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State of Oregon

OREGON STATE BAR PROFESSIONAL LIABILITY FUND

FINANCIAL STATEMENTS
with
Independent Auditors' Reports

For the Years Ended
December 31, 2002 and 2001

MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

State of Oregon
OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
PROPRIETARY FUNDS
For the Years Ended December 31, 2002 and 2001

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FINANCIAL SECTION

State of Oregon
OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
MANAGEMENT'S DISSCUSSION AND ANALYSIS
For the Years Ended December 31, 2002 and 2001

As management of the Oregon State Bar Professional Liability Fund (PLF), we offer readers of the PLF's financial statements this narrative overview and analysis of the financial activities for the calendar year ended December 31, 2002. Readers are encouraged to consider this information in conjunction with the basic financial statements, which begin on page three.

Background

The Oregon State Bar is a public corporation, and an instrumentality of the Judicial Department of the State of Oregon. The PLF was created in 1977 under the provisions of Oregon Revised Statutes (ORS) 9.080. This legislation authorized the Board of Governors (BOG) of the Oregon State Bar to establish a professional liability insurance program for all attorneys engaged in private practice whose principal office is in Oregon. The PLF is a separate but integral unit of the Oregon State Bar. The PLF is not subject to the Insurance Code of the State of Oregon and as a public body, it is also exempt from federal and state income taxes. The PLF operates a mandatory program and an optional underwritten plan to provide insurance coverage with policy limits in excess of the existing mandatory plan.

Financial Highlights

- Annual assessments increased by $2.7 million from 2001 to 2002 (22%).
- Lawyers covered by the mandatory program increased by approximately 1% per year from 2001 to 2002, with 6,722 attorneys at the end of 2002.
- Excess coverage increased to 558 firms with 1,808 attorneys in 2002 (0.4% and 8.5%) from 556 firms with 1,667 attorneys in 2001.
- Claims costs increased by $2.5 million from 2001 to 2002 (21%).
- PLF recognized investment losses of approximately $1.3 million in 2002 and $350,000 in 2001.
- Net assets decreased by $6.5 million from 2001 to 2002.

Description of Basic Financial Statements

As discussed in Note 1 of the Basic Financial Statements, beginning in 2002, the PLF changed its presentation of its financial statements in accordance with GASB 34. Since this is the first year under GASB 34, comparative data has not been restated for 2000. In future years, PLF will provide two years of comparative analysis in the Management Discussion and Analysis.

The PLF's basic financial statements consist of a Statement of Net Assets, Statements of Revenues, Expenses, and Changes in Fund Net Assets, Statements of Cash Flows, and notes to the financial statements.

Description of Basic Financial Statements (continued)

The Statement of Net Assets was formally called the Balance Sheet. It presents information on all of the PLF's assets and liabilities. The difference between the two is reported as net assets formally called retained earnings. This statement also details the current portion of assets and liabilities. Current assets are those that could be converted to cash within one year. The current portion of liabilities is expected to be paid within one year.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets was formally called the Income Statement and Changes in Fund Equity. Revenue and expenses are reported in this statement on the accrual basis. This means that revenue is recognized when it is earned rather than when cash is collected and expenses are recognized when financial obligations are incurred rather than when cash is paid.

The Statement of Cash Flows shows the sources and uses of cash. It details cash flows from operating activities, investment activities and capital financing.

CONDENSED BALANCE SHEET

Assets	**12/31/02**	**12/31/01**	**Increase (Decrease)**
Cash and Investments	$27,704,541	$32,124,357	($4,419,816)
Other Assets	444,198	978,332	(534,134)
Capital Assets (Net)	599,672	667,561	(67,889)
Total Assets	$28,748,411	$33,770,250	($5,021,839)
Liabilities			
Estimated Liabilities for Claims	$24,200,000	$24,100,000	$100,000
Deferred Revenues	7,267,094	5,930,627	1,336,467
Other Liabilities	376,001	286,546	89,455
Total Liabilities	$31,843,095	$30,317,173	$1,525,922
Net Assets (Deficit)	($3,094,684)	$3,453,077	($6,547,761)

Financial Position

At the end of 2002, total assets were $5.0 million less than the prior year. Total liabilities increased $1.5 million for the year and net assets declined $6.5 million.

Financial Position (continued)

Cash and Investments - Total cash and investments declined $4.4 million during 2002. Cash and investments were used for claim payments and administrative costs. Investments are stated at fair market value. The decline in total cash and investments is due to two major factors, increased claims payments and poor stock market performance for 2002. PLF investments are made in accordance with policy guidelines adopted by the Board of Directors. The guidelines require allocation of assets to different asset classes to balance risk and return and emphasize diversification. About 42 percent of non-operating assets are allocated to domestic and foreign equities. Approximately 52 percent of non-operating assets are allocated to intermediate-term bonds. The asset allocation mix was altered during 2002 to include two new asset classes – real estate and absolute return. Small allocations (3 percent each) were made to these new classes.

Other Assets – Other assets include receivables acquired during the course of claim handling and amounts due from reinsurers. Most of the decline came from a reduction in the amounts due from reinsurers.

Capital Assets (Net) – Capital assets represents fixed assets owned by the PLF less accumulated depreciation. There was a decline during 2002 because depreciation was greater than new asset purchases.

Estimated Liabilities for Claims – There was a slight increase in estimated claim liabilities for 2002. Estimated liabilities to settle and defend a claim are established when a claim is reported to the PLF. Consistent with standard insurance practices, these estimates are determined by PLF claims attorneys and are continually reevaluated and changed, as more information becomes available. The estimates are also reviewed by consulting actuaries every six months. In addition to claim liabilities, the PLF also includes estimated liabilities for the cost of future administration of pending claims (ULAE), extended reporting coverage, and suspense files. The ULAE liability ($1.3 million) will not be paid as long as the PLF is a going concern. None of the estimated liabilities are discounted for the time value of money. If the liabilities were discounted, management estimates that they would be reduced by $3.0 to $4.0 million.

Deferred Revenue – Deferred revenue represents prepayment of future PLF assessments (premiums). Since PLF assessments are due on January 1, many lawyers pay them during the proceeding December. The amount of deferred revenue increased $1.3 million for 2002 because both the Primary Fund and Excess Fund basic assessments were increased for 2003.

Other Liabilities – Other liabilities include liabilities for accrued vacation and accrued lease obligations.

Financial Position (continued)

Net Assets (Deficit) – In the financial statements that follow, the term "net assets" is used rather than retained earnings. In either case, the amount is the difference between assets and liabilities. The PLF has deficit net assets as of December 31, 2002 because of losses that occurred in 2002 and 2001.

Condensed Income Statement

	12 Months Ending 12/31/02	12 Months Ending 12/31/01	Increase (Decrease)
Revenues			
Net Assessments	$13,155,271	$10,640,174	$2,515,097
Investment Income (Loss)	(1,321,742)	(347,617)	(974,125)
Other Income	609,234	235,231	374,003
Total Revenues	$12,442,763	$10,527,788	$1,914,975
Expenses			
Indemnity & Claim Expense Incurred	$14,423,081	$11,894,040	$2,529,041
Administrative Expenses	4,567,443	$4,156,316	411,127
Total Expenses	$18,990,524	$16,050,356	$2,940,168
Net Income (Loss)	($6,547,761)	($5,522,568)	($1,025,193)

Operations

Total revenues for 2002 increased $1.9 million from 2001. Total expense for 2002 increased $2.9 million from 2001. The 2002 net loss of $6.5 million was a $1.0 million increase from 2001. The PLF had this loss because of poor investment results and larger than expected indemnity and claim expense.

The PLF develops an annual operating budget for planning and control purposes. The Board of Directors and BOG approve it.

Net Assessments – Net assessments increased $2.5 million consistent with 2002 budget expectations. The reason for the increase was a $400 increase in the 2002 Primary Fund basic assessment (from $1,800 to $2,200).

Investment Income – Recognized investment losses for 2002 were $1.0 million higher than the already poor performance of 2001. The investment loss of $1.3 million was $3.9 million under the 2002 budget for investment income. Very poor 2002 stock performance more than offset the good performance of the PLF's investment in intermediate bonds funds.

Operations (continued)

Other Income – Other income increased nearly $400,000 mostly because of larger ceding and profit commissions earned by the Excess Fund.

Claim Results – Indemnity and claim expense incurred increased $2.5 million from 2001 and was $2.8 million higher than the budget expectation. All of these costs come from the Primary Fund. All liability for any excess claims has been passed to other insurance companies through reinsurance. The $14.4 million expense figure includes the cost of new 2002 claims plus adjustments for the claims pending at the start of 2002. There were increases from continued adverse development of claims from 1999 and 2000. These two claim years were the most expensive experienced by the PLF. The cost of the 2001 claim year appears to be much lower. There was an increase in the number of claims for 2002. It is still difficult to predict the 2002 average cost per claim.

Administrative Expenses – Administrative expenses increased $411,000 from 2001. Most of the increase occurred in the claims and loss prevention departments. Total administrative expenses for 2002 were about $160,000 (3.6%) under budget.

Capital Asset and Debt Administration

Net capital assets for the PLF are approximately $600,000 or about two percent of total assets. They consist of data processing equipment, furniture and equipment, and leasehold improvement. There were no significant purchases or disposals during 2002. There are no commitments outstanding for capital assets.

The only long-term liabilities for the PLF are lease obligations and estimated liabilities for claims. The PLF has no plans to issue debt.

Currently known facts and conditions that may have a significant effect on financial position

The Primary Fund increased the 2003 basic assessment $400 (22%) from the 2002 amount. This should increase net assessments by about $2.5 million for 2003.

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

INDEPENDENT AUDITORS' REPORT

To:

Cathy Pollino
Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Board of Directors
Professional Liability Fund
5335 SW Meadows Road
PO Box 1600
Lake Oswego, Oregon 97035

We have audited the accompanying financial statements of the Oregon State Bar Professional Liability Fund (PLF), as listed in the accompanying table of contents, as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the PLF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the transactions and balances attributable to the activities of the Professional Liability Fund and are not intended to present fairly the financial position of the Oregon State Bar, or the state of Oregon, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PLF, an enterprise fund of the state of Oregon, Oregon State Bar as of December 31, 2002 and 2001, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2003, on our consideration of the PLF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and bylaws. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* should be read in conjunction with this report in considering the results of our audit. That report is separately presented in the other reports as listed in the table of contents.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
April 14, 2003

BASIC FINANCIAL STATEMENTS

State of Oregon

OREGON STATE BAR

PROFESSIONAL LIABILITY FUND

Statement of Net Assets

Proprietary Funds

December 31, 2002 and 2001

	Business-type Activities - Enterprise Funds					
	Primary Fund		Excess Fund		Totals	
Assets	2002	2001	2002	2001	2002	2001
Current Assets						
Cash and Equivalents	$ 1,027,642	$ 895,837	$ 236,274	$ 88,926	$ 1,263,916	$ 984,763
Investments at Fair Market Value	21,362,992	25,716,325	5,077,633	5,423,269	26,440,625	31,139,594
Miscellaneous Receivables	3,893	2,203	-	-	3,893	2,203
Due from Excess Fund		1,527	-	-	-	1,527
Due from Reinsurer	-	-	247,229	704,062	247,229	704,062
Deposits and Prepayments	63,159	40,750	-	-	63,159	40,750
Total Current Assets	22,457,686	26,656,642	5,561,136	6,216,257	28,018,822	32,872,899
Noncurrent Assets						
Claims Receivable	129,917	229,790	-	-	129,917	229,790
Capital Assets, Net	599,672	667,561	-	-	599,672	667,561
Total Noncurrent Assets	729,589	897,351	-	-	729,589	897,351
Total Assets	$ 23,187,275	$ 27,553,993	$ 5,561,136	$ 6,216,257	$ 28,748,411	$ 33,770,250
Liabilities						
Current Liabilities						
Accounts Payable	$ 34,494	$ 39,920	$ 4,539	$ 2,631	$ 39,033	$ 42,551
Accrued Vacation Payable	219,884	202,800	-	-	219,884	202,800
Due to Primary Fund	-	-	-	1,527	-	1,527
Estimated Liabilities for Claims:						
Indemnity Settlements	6,329,924	6,292,450	-	-	6,329,924	6,292,450
Loss Adjustment Expenses	3,891,472	3,778,968	-	-	3,891,472	3,778,968
Deferred Revenues	6,759,458	5,626,524	507,636	304,103	7,267,094	5,930,627
Total current Liabilities	17,235,232	15,940,662	512,175	308,261	17,747,407	16,248,923
Noncurrent Liabilities						
Accrued Rental Liability	117,084	39,668	-	-	117,084	39,668
Estimated Liabilities for Claims:						
Indemnity Settlements	7,216,076	6,725,550	-	-	7,216,076	6,725,550
Loss Adjustment Expenses	6,762,528	7,303,032	-	-	6,762,528	7,303,032
Total Noncurrent Liabilities	14,095,688	14,068,250	-	-	14,095,688	14,068,250
Total Liabilities	31,330,920	30,008,912	512,175	308,261	31,843,095	30,317,173
Net Assets	$ (8,143,645)	$ (2,454,919)	$ 5,048,961	$ 5,907,996	$ (3,094,684)	$ 3,453,077

The accompanying notes are an integral part of these financial statements.

State of Oregon

OREGON STATE BAR

PROFESSIONAL LIABILITY FUND

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

December 31, 2002 and 2001

	Enterprise Funds					
	Primary Fund		Excess Fund		Totals	
Operating Revenues	2002	2001	2002	2001	2002	2001
Annual Assessments	$ 13,408,938	$ 10,857,791	$ 1,335,181	$ 1,207,138	$ 14,744,119	$ 12,064,929
Assessments Paid to Reinsurers	-	-	(1,588,848)	(1,424,755)	(1,588,848)	(1,424,755)
Net Assessments	13,408,938	10,857,791	(253,667)	(217,617)	13,155,271	10,640,174
Investment Income (Loss)	(1,076,949)	(291,880)	(244,793)	(55,737)	(1,321,742)	(347,617)
Ceding Commission	-	-	221,337	199,754	221,337	199,754
Other Income (Loss)	207,110	165,352	180,787	(129,875)	387,897	35,477
Total Revenues	12,539,099	10,731,263	(96,336)	(203,475)	12,442,763	10,527,788
Operating Expenses						
Liability Claims:						
Provision for Indemnity	9,060,935	6,002,986	-	-	9,060,935	6,002,986
Provision for Claim Expenses	5,362,146	5,891,054	-	-	5,362,146	5,891,054
Total Claims Expenses	14,423,081	11,894,040	-	-	14,423,081	11,894,040
Administrative Expense:						
Salaries and Benefits	2,545,163	2,410,968	448,102	300,381	2,993,265	2,711,349
Services and Supplies	1,122,700	1,111,287	314,597	218,057	1,437,297	1,329,344
Depreciation	136,881	115,623	-	-	136,881	115,623
Total Administrative Expenses	3,804,744	3,637,878	762,699	518,438	4,567,443	4,156,316
Total Expenses	18,227,825	15,531,918	762,699	518,438	18,990,524	16,050,356
Operating Income	(5,688,726)	(4,800,655)	(859,035)	(721,913)	(6,547,761)	(5,522,568)
Change in Net Assets	(5,688,726)	(4,800,655)	(859,035)	(721,913)	(6,547,761)	(5,522,568)
Total Net Assets - beginning	(2,454,919)	2,345,736	5,907,996	6,629,909	3,453,077	8,975,645
Total Net Assets - ending	$ (8,143,645)	$ (2,454,919)	$ 5,048,961	$ 5,907,996	$ (3,094,684)	$ 3,453,077

The accompanying notes are an integral part of these financial statements.

State of Oregon
OREGON STATE BAR
PROFESSIONAL LIABILITY FUND
Statements of Cash Flows
Proprietary Funds
December 31, 2002 and 2001

	Proprietary Fund Types					
	Primary Fund		Excess Fund		Totals	
Increase (Decrease) in Cash and Cash Equivalents	2002	2001	2002	2001	2002	2001
Cash Flows from Operating Activities:						
Cash Received for Assessments	$ 14,541,872	$ 11,388,275	$ 1,538,714	$ 1,110,760	$ 16,080,586	$ 12,499,035
Premiums Paid to Reinsurers	-	-	(1,588,848)	(1,424,755)	(1,588,848)	(1,424,755)
Dividends and Interest Received in Cash	858,357	1,383,411	211,359	308,603	1,069,716	1,692,014
Other Operating Revenues Received	205,533	164,940	402,124	70,400	607,657	235,340
Cash Payments for Liability Claims:						
Indemnity Settlements	(8,433,062)	(7,994,565)	-	-	(8,433,062)	(7,994,565)
Loss Adjustment Expenses	(5,790,146)	(6,591,054)	-	-	(5,790,146)	(6,591,054)
Refundable Reinsurance Claims	-	-	456,833	(704,062)	456,833	(704,062)
Cash Paid Employees for Salaries and Benefits	(2,528,079)	(2,394,160)	(448,102)	(300,381)	(2,976,181)	(2,694,541)
Cash Paid Vendors for Goods and Services	(1,071,592)	(1,211,678)	(314,216)	(220,809)	(1,385,808)	(1,432,487)
Net Cash Provided (Used) by Operations	(2,217,117)	(5,254,831)	257,864	(1,160,244)	(1,959,253)	(6,415,075)
Cash Flows from Investing Activities:						
Purchase of Investments	(9,231,404)	(5,241,355)	(1,911,085)	(1,798,912)	(11,142,489)	(7,040,267)
Proceeds from Investment Sales	11,649,431	10,719,713	1,800,569	2,830,287	13,450,000	13,550,000
Net Cash Provided (Used) in Investing Activities	2,418,027	5,478,358	(110,516)	1,031,375	2,307,511	6,509,733
Cash Flows from Capital Financing:						
Purchase of Equipment, Net	(69,105)	(557,414)	-	-	(69,105)	(557,414)
Net Cash Provided (Used) in Capital Financing	(69,105)	(557,414)	-	-	(69,105)	(557,414)
Net Increase (Decrease) in Cash and Cash Equivalents	131,805	(333,887)	147,348	(128,869)	279,153	(462,756)
Cash and Equivalents - January 1	895,837	1,229,724	88,926	217,795	984,763	1,447,519
Cash and Equivalents - December 31	$ 1,027,642	$ 895,837	$ 236,274	$ 88,926	$ 1,263,916	$ 984,763
Reconciliation of Net Income to Net Cash Provided by Operating Activities:						
Operating Income (Loss)	$ (5,688,726)	$ (4,800,655)	$ (859,035)	$ (721,913)	$ (6,547,761)	$ (5,522,568)
(Gain) Loss on Disposal of Assets	113	-	-	-	113	-
Depreciation Expense	136,881	115,623	-	-	136,881	115,623
(Increase) Decrease in Fair Value of Investments	1,935,306	1,675,291	456,152	364,340	2,391,458	2,039,631
Change in Receivables and Payables, Net	166,375	(175,574)	457,214	(706,293)	623,589	(881,867)
Increase (Decrease) in Estimated Claims Liabilities	100,000	(2,600,000)	-	-	100,000	(2,600,000)
Increase (Decrease) in Deferred Revenue	1,132,934	530,484	203,533	(96,378)	1,336,467	434,106
Net Cash Provided (Used) by Operations	$ (2,217,117)	$ (5,254,831)	$ 257,864	$ (1,160,244)	$ (1,959,253)	$ (6,415,075)

The accompanying notes are an integral part of these financial statements.

(1)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Oregon State Bar is comprised of the Oregon State Bar Fund and the Professional Liability Fund (PLF). The financial statements and accompanying notes presented herein are for the PLF only. The accounts of the Oregon State Bar Fund are not included in this presentation.

The PLF was created in 1977 under the provisions of Oregon Revised Statutes (ORS) 9.080. This legislation authorized the Board of Governors of the Oregon State Bar to establish a professional liability (legal malpractice) insurance program for all attorneys engaged in private practice whose principal office is in Oregon. Coverage is mandatory for all attorneys subject to the law. In 2002, approximately 6,722 attorneys were required to have coverage for at least a portion of the year. Any such attorney who fails to pay the annual assessment fee (premium) is suspended from membership in the Bar and is therefore ineligible to practice law in Oregon.

The PLF is a separate but integral unit of the Oregon State Bar. It is administered by a nine-member Board of Directors appointed by the Board of Governors. The Board of Directors appoints a Chief Executive Officer to supervise and administer the PLF. The PLF is not subject to the Insurance Code of the State of Oregon. As a public body, it is also exempt from federal and state income taxes.

The basic financial statements and notes presenter herein include on the proprietary fund activity of the PLF, namely the insurance programs. The PLF operates another program, which has no material impact on the proprietary fund activity of PLF. The financial activity of this non-proprietary program is presented in the Other Supplemental Section.

B. Basis of Presentation

These statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). In accordance with GASB Statement No. 20, the PLF does not to apply FASB pronouncements issued after November 30, 1989, unless GASB amends its pronouncements to specifically adopt FASB pronouncements after that date. Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(1) Continued

B. (Continued)

PLF is accounted for as Proprietary Funds. The Proprietary Fund Types used are Enterprise funds. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing goods and services be financed or recovered primarily through user charges.

In 1990, the PLF established an optional underwritten plan to provide insurance coverage with policy limits in excess of the existing mandatory plan. The plan was effective on January 1, 1991. All assets, liabilities, revenues, and expenses of the excess program are accounted for as a separate fund. The excess program reimburses the primary fund for services so that the cost of the excess program is not subsidized by the primary fund. A portion of salary, benefit, and occupancy costs are allocated to the excess fund. The excess program offers coverage to legal firms, including sole practitioners, as opposed to individual members of a legal entity. Underwriting decisions are based upon the firm as a whole.

For financial reporting purposes, operating activities of the PLF are segregated between the mandatory plan ("Primary Fund") and the optional excess coverage plan ("Excess Fund"). Investments, investment income (Note 3) and Administrative expenses have been allocated to the Excess Fund.

GASB Statement 34, Basic Financial Statements and *Management's Discussion and Analysis for State and Local Governments*, was effective with this reporting period. As a result, the presentation of financial position and cash flows has been changed to comply with the new requirements. The traditional balance sheet approach in presenting the financial position of the entity has changed. Retained earnings are no longer presented as fund equity. The new statement is titled the Statement of Net Assets with the term "net assets" used instead of retained earnings. Net assets is, simply stated, the difference between assets and liabilities. Net assets are required to be shown as either restricted or unrestricted on the face of the statement and the investment in capital assets must be presented net of related debt. The term restricted is defined as net assets with restrictions imposed by constitutional provisions or other laws, debt covenants, grantors, donors and any other legally imposed restrictions. Net assets are not allowed to be restricted administratively. Net assets not meeting the test for restrictions are to be presented as unrestricted.

The statement of cash flows is now required to be presented using the direct cash flow method based on the provisions of GASB Statement 9. This includes the presentation of a reconciliation of operating cash flows to operating income.

(1) Continued

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Proprietary Fund Types are accounted for on a flow of economic resources focus. With this measurement focus, all assets and all liabilities associated with the operation of these Fund Types are included on the Statement of Net Assets. Proprietary Fund Type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Proprietary Fund Types utilize the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary Fund Types distinguish operating revenues and expenses from non-operating items. Operating revenues for PLF are primarily insurance assessments. Operating expenses are all expenses that finance claims and the administration of the programs in the Fund.

D. Assessment Revenue

Primary Fund

The annual assessment (insurance "premium") is established by the Oregon State Bar Board of Governors upon recommendation of the PLF Board of Directors. A special underwriting assessment may be imposed on attorneys with a history of claim losses and expenses. The special underwriting assessments vary in amount based on prior payments for indemnity and expenses made by the PLF on behalf of the covered attorney. In addition to the basic and special assessments (if any), a supplemental assessment may be imposed on all attorneys if the financial solvency of the PLF is threatened. This option, however, has never been exercised.

Assessments collected before the beginning of the coverage year are reflected as deferred revenues in the PLF balance sheet.

Excess Fund

The assessment for excess coverage is established by the Bar Board of Governors upon the recommendation of the PLF Board of Directors. The assessment may include debits or credits for firms based on prior claims, practice specialties, the extension of prior acts coverage, and other factors. A supplemental assessment may be imposed on program participants, including firm members. This option has never been exercised.

(1) Continued

D. (Continued)

Like the primary fund, the period of coverage for the excess fund is the calendar year. Firms may elect coverage after the start of the year; however, the period of coverage always ends with the end of the calendar year. Excess coverage may be canceled during the coverage period. Assessments collected before the beginning of the coverage year are reflected as deferred revenues in the PLF balance sheet.

E. Claim Settlement and Defense Costs

Primary Fund

Estimated liabilities (often called "reserves") to settle and defend a claim are established when a claim is reported to the PLF. These estimates are determined by PLF claims attorneys based upon historic experience and current trends and are continually reevaluated and changed as more information becomes available. Changes in estimates resulting from the continuous review process and differences between estimated and actual payments are reflected in financial operations of the period in which the estimates are changed.

The PLF also uses a firm of independent consulting actuaries to review its claims experience and liability estimates every six months. The estimated liabilities for indemnity and expense reported in the 2002 financial statements are based on this actuarial analysis.

In addition to the actuarial methodology used above, PLF cost estimates to defend and settle claims in the future include factors for Unallocated Loss Adjustment Expense (ULAE), Extended Reporting Coverage (ERC), and suspense files. ULAE represents the PLF's estimated future administrative costs for processing open and unresolved claims. ERC represents the estimated cost of future claims that may be filed against lawyers who have obtained such coverage upon leaving private practice. Suspense files represent the estimated cost of potential claims for which the PLF has been notified during a coverage year but formal claims have not yet been filed.

Management believes that its aggregate reserve for losses and loss adjustment expenses is reasonable and adequate to cover the ultimate net cost of losses on claims reported, but such provision is necessarily based on estimates, and the ultimate net cost may vary from such estimates. As adjustments to these estimates become necessary, the adjustments are reflected in current operations.

(1) Continued

E. (Continued)

For financial statement purposes, amounts recoverable from other parties (such as subrogation receivables) relating to paid claims are reflected as assets, net of appropriate valuation allowances, in the balance sheet and as deductions from the provisions for claim settlement and defense costs in the PLF annual operating statement.

Excess Fund

As described in Note (1) F below, 100 percent of the liability for any claim filed under the excess plan has been passed to other insurance companies through reinsurance. The possibility of the PLF incurring direct costs under the excess (1) plan is considered remote. Therefore, no provision or liability for such claims has been established. If future operations of the plan indicate that the PLF will incur direct costs, appropriate estimated liabilities for such losses will be established based on plan experience.

F. Reinsurance

Primary Fund

Through 1985, the PLF carried "excess of loss" reinsurance with a private reinsurer. Reinsurance coverage has not been purchased for the Primary Fund since 1985.

Excess Fund

All losses under the excess plan are covered 100 percent by reinsurance. Although the PLF is ultimately responsible for the payment of successful claims filed under the excess plan, such payments are considered highly unlikely. It is the PLF's policy to diversify risk by choosing several reinsurance companies. In addition, the PLF selected reinsurance companies with an emphasis on financial solvency. The PLF will secure letters of credit and other means of financial protection when appropriate.

G. Basis of Coverage

PLF coverage is on a "claims made" basis. Under a "claims made" form of coverage, the attorney is covered for any claim made during a plan period in which he or she has professional liability coverage. Prior to 1992, attorneys who left private practice could obtain "extended reporting coverage" for an additional one-time assessment. Payment of this assessment results in continuing coverage for covered acts committed prior to the end of the plan period. After December 31, 1991, no charge has been made for extended reporting coverage for the limits of coverage offered by the primary fund.

(1) Continued

G. (Continued)

Firms that request to have extended reporting coverage from the excess fund pay an additional assessment.

Under the 2002 Coverage Plan, primary coverage is limited to a maximum of $300,000 for both indemnity and defense costs. In addition to the $300,000 aggregate limit, there is a separate $25,000 claims expense allowance to be used solely for defense costs. Optional coverage under the excess plan increases basic coverage by $700,000, $1,700,000, $2,700,000, $3,700,000, or $4,700,000 as elected by the covered firm. Therefore, firms with excess coverage have the option to increase their total limits to $1 million, $2 million, $3 million, $4 million, or $5 million.

H. Budgets

The PLF operates under annual budgets, which are adopted and approved by the Board of Directors and the Oregon State Bar Board of Governors.

I. Fixed Assets and Depreciation

Fixed assets (office and data processing equipment, furniture, and leasehold improvements) are recorded at cost and charged to expense over their useful lives by use of the straight-line method of depreciation. Computer hardware, software, copiers, and telephone systems are depreciated over a three-year period. Furniture and leasehold improvements are depreciated over a five to ten-year period.

J. Cash and Cash Equivalents

For financial statement purposes, the PLF considers cash and cash equivalents to include cash on hand, cash in checking accounts, and short-term money market funds which are readily convertible to cash.

K. Investments

PLF investments are made in accordance with policy guidelines adopted by the Board of Directors. The guidelines emphasize safety, liquidity, and diversification. To better achieve the benefits of professional management, in late 1993 the PLF placed its investments portfolio in shares of widely diversified SEC-registered mutual or commingled fund companies. Investments are stated and carried at fair value.

(1) Continued

L. Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions which affect the reporting amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from estimates.

(2)

CASH AND CASH EQUIVALENTS

At December 31, 2002 and 2001, the carrying amount of the PLF's deposits in the Primary Fund were $1,027,642 and $895,837, respectively. Bank balances were $1,915,135 and $1,559,114, respectively. In the Excess Fund at December 31, 2002 and 2001, the carrying amount of deposits were $236,274 and $88,926, respectively. Bank balances were $239,241 and $90,012, respectively. The differences between carrying amounts and bank balances consisted primarily of deposits in transit and outstanding checks. PLF checking accounts are insured by federal depository insurance to $100,000. Remaining amounts are uninsured and uncollateralized.

(3)

INVESTMENTS AND INVESTMENT INCOME

The PLF's investments are categorized below to give an indication of the level of risk assumed by the PLF at December 31, 2002. Category 1 includes investments that are insured or registered or securities held by PLF or its agent in PLF's name. Category 2 includes uninsured or unregistered investments, with securities held by the dealer bank or agent in the PLF's name. Category 3 includes uninsured or unregistered investments, with securities held by the dealer bank or agent, but not in the PLF's name.

	Categories			Reported Amount/
	1	2	3	Fair Value
Bond Mutual Funds	$13,987,271	$ -	$ -	$13,987,271
Stock Mutual Funds	10,943,049	-	-	10,943,049
Real Estate Investment Trust	759,656	-	-	759,656
Absolute Return Mutual Fund	750,649	-	-	750,649
Total	$26,440,625	$ -	$ -	$26,440,625

(3) Continued

The following table summarizes the fair value of PLF mutual fund investments held at year-end by type of investment and as allocated to the Primary and Excess Funds.

	Fair Value	
	2002	2001
Type of Investment		
Fixed Income:		
Short-term	$ 4,504,061	$ 2,707,259
Intermediate	9,483,210	14,663,772
Equities:		
Domestic	8,358,751	10,777,194
International	2,584,298	2,991,369
Real Estate	759,656	-
Absolute Return	750,649	-
Total Investments	$ 26,440,625	$ 31,139,594
Allocation		
Primary Fund	$ 21,362,992	$ 25,716,325
Excess Fund	5,077,633	5,423,269
Total Investments	$ 26,440,625	$ 31,139,594

(3) Continued

The following table summarizes the composition and allocation by fund of investment income for the years ended December 31, 2002 and 2001.

Investment Income:	**2002**	**2001**
Proprietary Funds		
Operating Dividends and Interest	$ 1,069,715	$ 1,692,015
Net increase (decrease) in the fair value of investments	(2,391,457)	(2,039,632)
Total Investment Income (Loss)	$ (1,321,742)	$ (347,617)
Allocation:		
Operating Investment Income (Loss)		
Primary Fund	$ (1,076,949)	$ (291,880)
Excess Fund	(244,793)	(55,737)
Total Investment Income (Loss)	$ (1,321,742)	$ (347,617)

(4)

CLAIM RECEIVABLES

Claim receivables represent the estimated value of non-cash assets (such as real estate, promissory notes, and various subrogation rights) that the PLF may receive when it settles a claim on behalf of a covered party. Only claim receivables that are reasonably expected to be collected are recorded in the financial statements. Claim receivables are reflected in the financial statements as an asset and are offset against the provision for claim settlements in the operating statement.

(5)

CAPITAL ASSETS

The following table reflects the cost, accumulated depreciation and amortization, and net book value for each major type of equipment and furniture owned by the PLF at December 31, 2002 and 2001:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Property and Equipment				
Data Processing Equipment	$ 201,650	$ 48,653	$ (365)	$ 249,938
Furniture and equipment	416,091	20,452	(4,530)	432,013
Leasehold Improvements	366,226	-	-	366,226
Total Property and Equipment	983,967	69,105	(4,895)	1,048,177
Less Accumulated Depreciation for				
Data Processing Equipment	(150,488)	(30,442)	365	(180,565)
Furniture and equipment	(147,258)	(68,179)	4,417	(211,020)
Leasehold Improvements	(18,660)	(38,260)	-	(56,920)
Total Accumulated Depreciation	(316,406)	(136,881)	4,782	(448,505)
Total Capital Assets, Net	$ 667,561	$ (67,776)	$ (113)	$ 599,672

(6)

LIABILITY FOR COMPENSATED ABSENCES

PLF employees earn vacation leave at rates from 8 to 20 hours per month depending, in part, upon their length of service. Unused vacation leave is compensable to the employee upon termination of employment. At December 31, 2002 and 2001, the value of vacation leave earned by all PLF employees totaled $219,884 and $202,800, respectively, including the employer's share of social security taxes and other related payroll costs.

(7)

LIABILITIES FOR UNEMPLOYMENT BENEFITS

PLF employees who qualify are entitled to benefit payments during periods of unemployment. Like state agencies, the PLF does not pay unemployment insurance. The PLF is required to reimburse the Employment Department for actual benefit payments made to its former employees. Therefore, the potential liability cannot be determined. The PLF paid no unemployment expenses during 2002.

(8)

DEFINED BENEFIT RETIREMENT PLAN

PLF employees participate in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. All employees of the PLF are eligible to participate in the system after completing six months of service. PERS, which is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, chapter 238, offers 12 retirement benefit options. Options include annuities, survivorship benefits, and lump sum payments. PERS also provides death and disability benefits.

Covered employees are required by statute to contribute 6 percent of their salary to the plan. Statutes also require the employer to contribute actuarially computed amounts determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. In 2002, the rate was 9.49 percent of each covered employee's salary. The PLF's contributions for the years ending December 31, 2002, 2001, and 2000 totaled $218,019, $194,360, and $180,175, respectively, which were equal to the required contributions for each year. No pension liability existed at December 31, 2001, determined in accordance with GASB statement No. 27.

A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, PO Box 23700, Tigard, Oregon 97281-3700.

(9)

LEASE OBLIGATIONS

In August 2001, the PLF moved its headquarters from office space rented at the Oregon State Bar Center to the Kruse Woods Corporate Park. After entering into the Kruse Woods office lease, it was determined that a portion of the rent was for property tax. Since PLF is except from tax, the county agreed to refund the property tax allocated to the PLF office. During 2002, a $29,164 refund was applied against rent expense. In future years, tax refunds are expected to reduce rent expense. Rent payments for the headquarters office space totaled $447,804 in 2002 and $275,567 in 2001. Rent expense totaled $484,233 in 2002 and $305,823 in 2001.

In addition to renting office space in Lake Oswego, the PLF also has been leasing office space for its Oregon Attorney Assistance Program in downtown Portland since 1989. Payments on the Portland lease totaled $80,364 in 2002 and $80,364 in 2001. Rent expense for the downtown office totaled $86,044 in 2002 and 78,125 in 2001.

The future minimum lease payments, not adjusted for expected property tax refunds, for the two office leases are as follows. The expected property tax refunds cannot be accurately estimated at the current time.

Year Ending December 31	Amount
2003	$ 542,880
2004	566,952
2005	582,031
2006	610,092
2007	624,804
Thereafter	2,328,883
Totals	$ 5,255,642

(10)

ANNUAL ASSESSMENTS

Primary Fund
The following table summarizes assessment revenues for the Primary Fund by type of coverage for fiscal years 2002 and 2001:

Type of Coverage	2002	2001
Basic Annual Assessment	$ 13,203,342	$ 10,659,456
Special Underwriting Assessment	198,071	186,468
No Arbitration Endorsement	7,525	11,867
Total Assessments Earned	$ 13,408,938	$ 10,857,791

Excess Fund
The following table summarizes assessment revenues earned by the Excess Fund for fiscal years 2002 and 2001:

Type of Coverage	2002	2001
$ 700,000 Limit	$ 286,340	$ 283,336
$ 1,700,000 Limit	347,593	309,378
$ 2,700,000 Limit	166,612	120,814
$ 3,700,000 Limit	19,933	68,626
$ 4,700,000 Limit	510,955	422,091
No Arbitration Endorsement	3,748	2,893
Total Assessments Collected	1,335,181	1,207,138
Less Assessments Ceded to Reinsurers	(1,588,848)	(1,424,755)
Net Assessments	$ (253,667)	$ (217,617)

All assessments are ceded to reinsurers, with the exception of the small amount collected for the no arbitration endorsement.

In 1999, the PLF decided that firms carrying excess liability coverage would be given a credit on their assessment. The amount credited on assessments varied based on the number of years the firm has participated in excess liability coverage. Because of this additional credit in 2002 and 2001, which totaled $257,415 and $220,510 respectively, the amounts ceded to reinsurers exceeded the amount collected from assessments.

(11)

PROVISION FOR CLAIM SETTLEMENTS AND DEFENSE COSTS

Primary Fund:

As more fully described in Note (1), estimates to settle indemnity and defend liability claims are established when claims are reported to the PLF. Subsequent changes in estimates resulting from the case-by-case continuous review process and differences between estimates and ultimate payments are reflected in operations of the fiscal period when the changes occur. Estimates are further adjusted based on studies performed by the PLF's independent consulting actuaries. For financial statement purposes, actual or estimated amounts recoverable from various claims related receivables (such as subrogation receivables) are deducted from estimated expenses in the PLF's operating statement. During 2002, the net provisions for settling and defending liability claims totaled $9,060,935 and $5,362,146, respectively, for a total provision of $14,423,081 at year-end. This is an increase of $2,529,041 over the total provision of $11,894,040 during 2001.

The current portions of claims liability were determined by applying the prior three-year average of indemnity and expense payments made on claims pending at the start of each year. For the three-year period ending December 31, 2002 the average current portion of indemnity and expense claims were 47 percent and 37 percent, respectively. The actual payments made in 2002 for claims pending at December 31, 2001 are shown for GASB 34 restatement of current and non-current claims liability at December 31, 2001.

Excess Fund:

As described in Note (1) F, the primary liability for any claim filed under the excess plan has been passed to other insurance companies through reinsurance. The possibility of the PLF incurring direct costs under the excess plan is considered remote. Therefore, no provision or liability for such claims has been established. If future operations of the plan indicate that the PLF will incur direct costs, appropriate provision for such losses will be established based on plan experience.

(12)

ESTIMATED LIABILITIES FOR CLAIMS – PRIMARY FUND

As described in Note (1) E, estimated liabilities to settle (indemnity) and defend (loss adjustment expenses) claims are composed of various factors. The following table shows the composition of these factors by type and the total allocation between indemnity and loss adjustment expenses for the year ending December 31, 2002 and 2001:

Category	2002	2001
Claim Settlements	$ 11,400,000	$ 11,100,000
Defense Costs	8,000,000	8,600,000
Future ERC Claims	2,300,000	1,900,000
Suspense Files	1,200,000	1,200,000
Unallocated Loss Adjustment Expenses	1,300,000	1,300,000
Total Claim Liabilities	$ 24,200,000	$ 24,100,000
Allocation		
Indemnity Settlements	$ 13,546,000	$ 13,018,000
Loss Adjustment Expenses	10,654,000	11,082,000
Total Claim Liabilities	$ 24,200,000	$ 24,100,000

(13)

Risk Management

The PLF is exposed to various risks of loss related to: torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. Except for unemployment compensation, the PLF purchases commercial insurance to minimize its exposure to these risks. There has been no reduction in commercial insurance coverage from fiscal year 2001 to 2002.

OTHER SUPPLEMENTAL INFORMATION SECTION

FUND FINANCIAL STATEMENTS

State of Oregon

OREGON STATE BAR

PROFESSIONAL LIABILITY FUND

Statement of Net Assets

Deferred Compensation Trust

December 31, 2002 and 2001

	Fiduciary Fund Type	
	Deferred Compensation Trust	
Assets	2002	2001
Deferred Compensation Funds	$ 443,294	$ 498,278
Total Assets	$ 443,294	$ 498,278
Liabilities and Fund Equity		
Liabilities:		
Deferred Compensation Funds	$ 443,294	$ 498,278
Total Liabilities	443,294	498,278
Net Assets	$ -	$ -

State of Oregon

OREGON STATE BAR

PROFESSIONAL LIABILITY FUND

Statements of Revenues, Expenses, and Changes in Fund Net Assets

Deferred Compensation Trust

For the Years Ended December 31, 2002 and 2001

	Fiduciary Fund Type	
	Deferred Compensation Trust	
Revenues	2002	2001
Investment Income (Loss)	$ (91,329)	$ (59,271)
Employee Contributions	34,611	25,495
Total Revenues	(56,718)	(33,776)
Expenses		
Distributions	-	106,042
Loss absorbed	(56,718)	(139,818)
Total Deferred Compensation Expenses	(56,718)	(33,776)
Change in Net Assets	-	-
Net Assets - Beginning	-	-
Net Assets - Ending	$ -	$ -

DEFERRED COMPENSATION PLANS

The PLF has three deferred compensation plans. External investment managers administer two of these plans and the PLF administers the other plan on the participating employee's behalf. Under Internal Revenue Service regulations, all deferred compensation plan contributions had to be placed in a trust for the benefit of participating employees by January 1, 1999. The two plans administered by external entities were placed in trusts prior to 1999 and are no longer reported on the PLF financial statements. A trust fund was set up on January 1, 1999 for the plan administered by the PLF and is presented in the Other Supplemental Section. The following table shows the fair value of deferred compensation, both administered and not administered by the PLF, for fiscal years 2002 and 2001:

Deferred Compensation Plans	2002	2001
Plan Assets Administered by the PLF	$ 443,294	$ 498,278
Plan Assets Not Administered by the PLF	175,176	220,897
Total Deferred Compensation Plan Assets	$ 618,470	$ 719,175

OTHER REPORTS

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
JOHN W. MERINA, CPA • KAMALA K. AUSTIN, CPA

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

To:

Cathy Pollino
Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Board of Directors
Professional Liability Fund
5335 SW Meadows Road
PO Box 1600
Lake Oswego, Oregon 97035

We have audited the financial statements of the Oregon State Bar Professional Liability Fund (PLF), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 14, 2003, which was unqualified. 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 the PLF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and bylaws, 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 the PLF's internal control over financial reporting in order to determine our auditing procedures for the purpose of

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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 internal control over financial reporting and its operation that we consider material weaknesses.

This report is intended solely for the information and use of the Board of Directors of the Oregon State Bar Professional Liability Fund, the Board of Governors of the Oregon State Bar, the management of the Professional Liability Fund and the Oregon State Bar, the Oregon Secretary of State, Division of Audits, the Governor of the State of Oregon, and the Oregon Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
April 14, 2003

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, CGFM, MBA
Deputy Director	Charles A. Hibner, CPA
Deputy Director	Mary E. Wenger, CPA

This report, which is a public record, is intended to promote the best possible management of public resources.

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