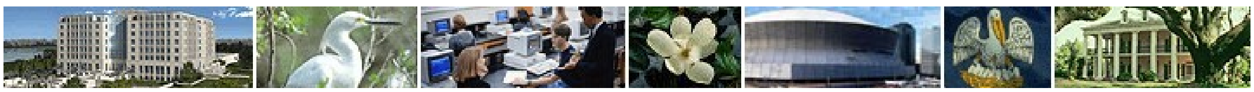
Office of the Governor
Division of Administration



Office of Risk Management

Annual Report

June 30, 2002

Table of Contents

Office Profile

Mission Statement

The mission of the Office of Risk Management (ORM) is to develop, direct, achieve and administer a cost effective comprehensive risk management program for all agencies, boards and commissions of the State of Louisiana and for any other entity for which the state has an equity interest, in order to preserve and protect the assets of the State of Louisiana.

History

The Office of Risk Management was created within the Division of Administration by R.S. 39:1527, et seq., in order to provide a comprehensive risk management program for the state.

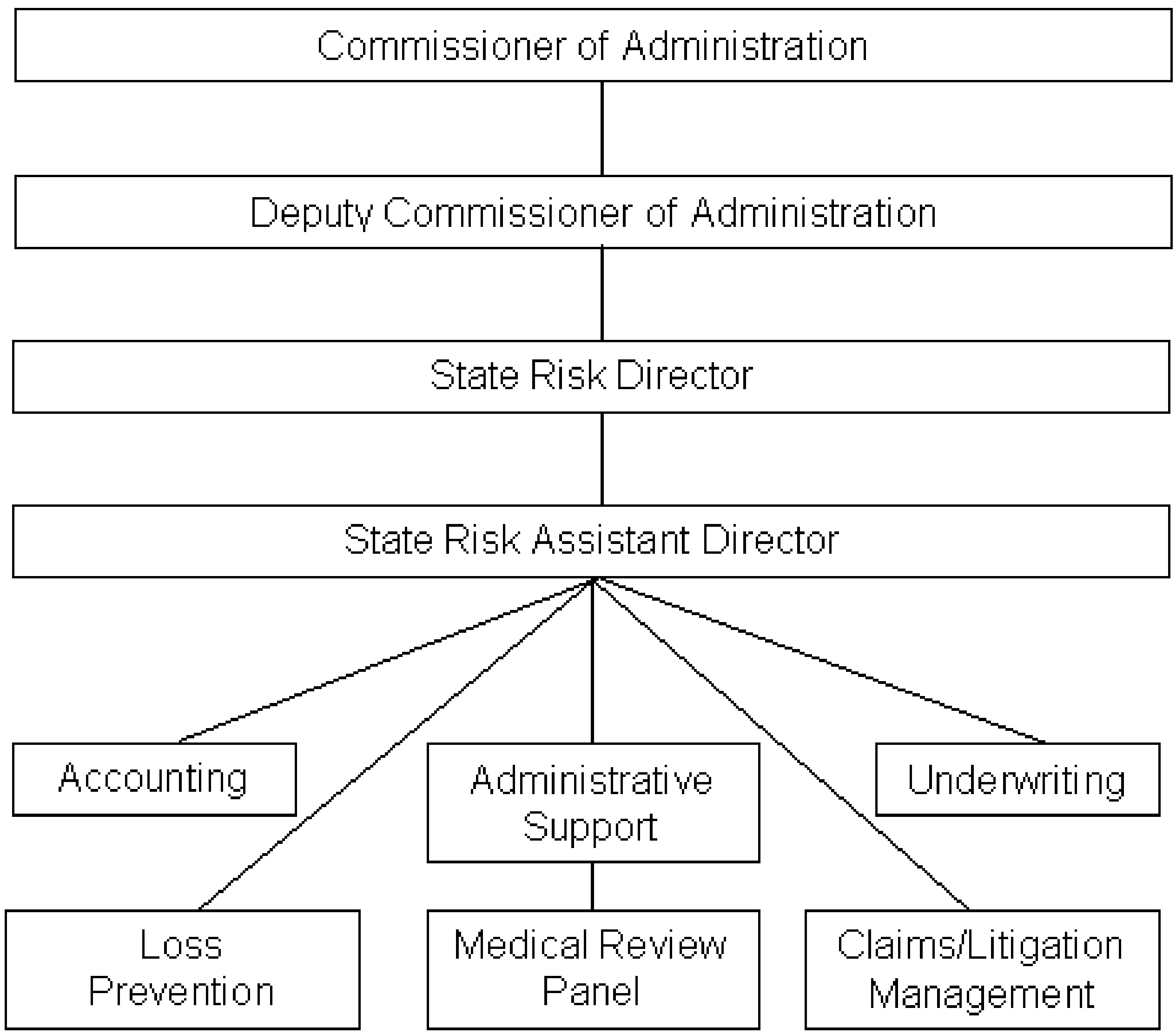
Coverages Provided

R.S. 39:1527, et seq., further designates the Office of Risk Management to be solely responsible for all Property and Casualty and Worker's Compensation insurance purchased by ORM or self-insured by ORM for all State departments, agencies, boards, and commissions.

The Office of Risk Management provides Workers' Compensation coverage to all of the State's approximately 104,277 employees. Coverage is provided for State property valued at $7,312,779,745. ORM also provides coverage for employee bonds, crime, automobile liability and physical damage, comprehensive general liability, personal injury liability, boiler and machinery, medical malpractice, road hazards and miscellaneous tort coverage for those tort claims not otherwise covered.

Other coverages are provided, as needed, such as excess over self-insurance, specific excess for crime, aviation, wet marine, and bridge property damage.

Organizational Chart



Office Directory

MAIN OFFICE **Mailing Address** P.O. Box 94095 Baton Rouge, LA 70804-9095	MAIN OFFICE **Location Address** 1201 N. 3rd Street, Room G-192 Baton Rouge, LA 70802

Loss Prevention Branch Offices

Belle Chase
C/O Metropolitan Development Center
251 F. Edward Hebert Blvd.
Room 65, Administration Bldg.
Belle Chase, LA 70037
(504) 394-1200 Ext. 296

Lafayette
101 Rue Iberville, Suite 103
Lafayette, LA 70508
(504) 262-5580

Luling
107 Maryland Drive, Suite C
Luling, LA 70070
(504) 785-1846

Monroe
122 St. John Street
Post Office Box 1661
Monroe, LA 71210-1661
(318) 362-3308

Pineville
Suite 102, Euclid Street
Pineville, LA 71360
(318) 487-5014

Shreveport
State Office Building
1525 Fairfield Ave., Box 2
P.O. Box 37631
Shreveport, LA 71133-7631
(504) 676-7647

Claims Branch Offices

Kenner
Airport Commerce Center
1919 Veteran's Blvd.
Suite 301
Kenner, LA 70065
(504) 471-2739

Lafayette
101 Rue Iberville, Suite 103
Lafayette, LA 70508
(504) 262-5113

Monroe
122 St. John Street
Post Office Box 1661
Monroe, LA 71210-1661
(318) 362-3307

New Orleans
1541 Tulane Avenue
Butterworth Building, Room 111
New Orleans, LA 70140
(504) 568-6825

Pineville
Suite 102, Euclid Street
Pineville, LA 71360
(318) 487-5701

Shreveport
State Office Building
1525 Fairfield Ave., Box 2
P.O. Box 37631
Shreveport, LA 71133-7631
(504) 676-7649

Actuary
Tillinghast-Towers Perrin
1200 Riverplace Boulevard
Suite 610
Jacksonville, FL 32207-1803
Telephone: (904) 398-5661
Fax: (904) 399-8267

Managerial Staff

J.S. "Bud" Thompson, Jr.
State Risk Director
jthomps@doa.state.la.us
(225) 342-8412

Patricia H. Reed
State Risk Assistant Director
preed@doa.state.la.us
(225) 342-1221

Ann Wax
State Risk Claims Officer
awax@doa.state.la.us
(225) 219-0012

Pam Whiteside
Accountant Administrator 2
pwhites@doa.state.la.us
(225) 219-0011

Tommy Arbour
State Risk Underwriting Manager
tarbour@doa.state.la.us
(225) 342-8472

Doris Copeland
State Risk Loss Prevention Manager
dcopela@doa.state.la.us
(225) 342-8479

Achievements

Accounting

The Accounting Unit of the Office of Risk Management has completed another successful year and continues to provide management with accurate, timely, fiscal data to enable and enhance the decision making process.

In addition to the routine daily activities that support the functions listed below, the Accounting Unit officer and managers were involved in providing specialized information and analyses for the Director, Commissioner, Assistant Commissioner and on an "as needed" basis for the Division of Administration, Office of State Planning and Budget, Joint Legislative Committee on the Budget, Legislative Fiscal Office and other agencies statewide.

- Cash Management of $172 million
- Accounts Payable
- Accounts Receivable
- Fixed Asset Management
- Payroll processing for 130 employees
- Imprest Fund System
- Bank Reconciliation for approximately 7000 checks monthly
- Cost Accounting and Analyses
- Monitoring and Quality Control on Claims Management System
- Budget Preparation for total budget of $175 million
- Budget Monitoring by cost center (monthly) on 23 cost centers
- Actuarial Reporting on 15 lines of self-insurance for claim reserves (liabilities) totaling in excess of $1.2 billion
- Maintenance of a computerized accrual Accounting System for financial reporting of 18 lines of insurance for managerial purposes and a modified accrual basis system for state wide financial reporting
- Billing documents for each of the approximately 200 state billing entities on ISIS
- Processing of all travel expense reports
- Assisting with Premium Development on 15 lines of self-insurance
- Processing Litigation Division/Department of Justice payments and entry to Claims System
- Distribution of approximately 7000 checks per month
- Preparation of approximately 1,350 contracts and 800 amendments
- Payment of approximately $10 million for contract legal services and $1.5 million for contract investigative/adjusting services
- Maintained the use of "experience rating" in premium development

Claims

As of June 30, 2002 the claims section had 12,745 pending claims (occurrence basis) with outstanding reserves of $587,596,918.

The claims section implemented the use of TeleNet Claims (TCNet) which is the electronic process for state agencies to submit workers' compensation claims by utilizing the Internet. TCNet arose out of efforts to reduce the amount of time it takes to initiate workers' compensation benefits since there are time restraints in the workers' compensation statutes for payment of indemnity and medical benefits. Approximately 20% of our workers compensation claims are received by TCNet. Our administration of transitional duty employment and utilization of vocational rehabilitation services has returned 42% of referrals to some form of employment. Medical bills associated with workers' compensation claims are submitted for review and paid in accordance with a medical fee schedule for various types of medical services/procedures. We realized a total savings of $5,256,976.57 through bill review and fee scheduling, which is an increase in savings of $1,780,796.82 over last fiscal year. In addition, the workers' compensation unit recovered $1,915,748.10 from the Second Injury Board. Subrogation efforts resulted in recoveries totaling $394,934.79.

In the Road Hazards Unit, we have continued the ORM/LSP Accident Reconstruction Program with great success. During the 2001-2002 fiscal year, ORM, the Louisiana State Police and the Louisiana DOTD investigated 247 highway accidents. Coordinated efforts between the agencies resulted in the correction of numerous roadway deficiencies around the state. To date, 49 lawsuits have been filed against the La. Dept. of Transportation and Development in which the La. State Police conducted an investigation through the ORM/LSP Accident Reconstruction Program. As these claims proceed through the litigation process and become final, we will be able to report on the results and success of the program. Also, we continue to conduct the Interagency Road Hazard Committee Quarterly Meetings, a forum where representatives from the Office of Risk Management, Office of the Attorney General, La. Department of Transportation and Development, Louisiana State Police and the Louisiana Highway Safety Commission meet to discuss highway tort issues, discuss problems and possible solutions. During the 2001-2002 fiscal year, the Committee was instrumental in obtaining funding to purchase Vetronix computer modules for the purpose of downloading Event Data Recorder information from crash vehicles. This valuable information will be utilized by the Louisiana State Police as an integral part of the accident reconstruction program and will provide data regarding the actions of the driver of a vehicle involved in a crash. The Committee was instrumental in obtaining funding to purchase Global Positioning Satellite Systems for the La. State Police patrol units which will, among many other functions, assist in accurate spotting of crash scene locations for highway needs, planning and in the defense of claims against the La. DOTD.

Loss Prevention

Fiscal year July 1, 2001 – June 30, 2002 continued to be a very productive and rewarding year for the Unit. Following the revision of Louisiana Revised Statutes 39:1536-43 in 2000 to allow the Office of Risk Management to credit or charge agencies 5% of their annual premium following the annual Loss Prevention Audit, all Departments continue to maintain a Loss Prevention Program. The Unit audited all of the twenty-one (21) Departments and six (6) Boards and Commissions. Two thousand three hundred seventy four (2,503) individual audits were conducted. Seventeen (17) of the Departments and five (5) of the Boards and Commissions passed the audit.

The Interagency Advisory Council continues to meet quarterly to provide the Departments with information regarding current events at the Office of Risk Management. One or more representatives from each Department attends the meeting to discuss any matter relating to the state's self-insured program.. Speakers are from the various units of ORM and discuss items of importance to the Departments. Private companies provide new information to the council to assist them in maintaining the highest standards of insurance and loss control. Currently over seventy five (75) representatives attend each meeting.

"Workplace Safety" courses continued to provide the agencies with the information necessary to pass the Loss Prevention Audit and to assist them in rendering a safe workplace for employees. The Loss Prevention staff has expanded the courses from twenty one (21) to thirty five (35). Topics now taught include Accident Investigation, Asbestos Awareness, Bloodborne Pathogens, Boater Safety (with WL& F), Bonds, Crime and Other Exposures, Confined Space Entry, Developing Effective Safety Meetings, Driver Safety, Drug Testing and Substance Abuse, Electrical Safety, Emergency Preparedness, Employment Practice Liability, Ergonomics in the Workplace, Fire Safety, Forklift Safety, Fundamentals of Boiler Operation and Maintenance (with Hartford), Hand Tool Training, Hazard Communication, Hazardous Materials, Indoor Air Quality, Job Safety Analysis, Laboratory Safety, Lock-Out Tag-Out, The Loss Prevention Program, Material Safety Data Sheets, Preventing a Hostile Work Environment, Respiratory Protection, Safety Inspections, Safety Meetings, Safety Motivation, Security Awareness, Supervisor Responsibility, Tuberculosis, Violence in the Workplace and Workplace Threats. During the past fiscal year the Loss Prevention staff taught one hundred twenty two (122) classes with eight thousand five hundred sixty-six (7,566) state employees attending. Steps have been initiated to prepare four (4) of the courses to be viewed on our website. They include Driver Safety, Bloodborne Pathogens, Drug Testing and Violence in the Workplace. Employees who complete all of the requirements of attending ten of the Workplace Safety courses and the Loss Prevention Program course are awarded the designation of "Loss Prevention Associate" and provided with an award plaque. Eighty-two (82) state employees received this designation for FY 2001-2002.

The defensive driving program, Next Step Coaching, is still used to train all state employees. Numbers from the past fiscal year indicate the Loss Prevention staff held thirty six (36) driving instructor classes and certified five hundred sixteen (516) instructors. The number of state employees receiving training exceeded nineteen thousand six hundred twenty seven (19,627).

The State Land and Building System (SLABS) is the program that allows the Loss Prevention Unit to update all buildings in a five year (5) period. There are approximately eight thousand eight hundred ninety four (8,894) state owned structures with replacement values in excess of six-billion five hundred thirty five million ($6,535,528,735) dollars. Replacement cost of the non state owned buildings exceeds one hundred seventeen million three hundred thousand ($117,306,901). The Unit appraised two hundred four (204) new buildings and reappraised over four thousand six hundred seventeen (4,617) buildings.

The Loss Prevention staff made three thousand three hundred twenty two (3,322) consultation visits to the agencies to assist them with various loss prevention problems. Two hundred thirty four (234) investigations were requested and completed by the Unit.

The Office of Risk Management Recognition Program continues to acknowledge state agencies or state employees who make significant contributions to the Loss Prevention Program. To receive an award one of the following criteria must be met: (1) heroic act in the workplace (2) development of a safety awareness program (3) installation of methods to reduce claims and costs for the State of Louisiana or (4) development of cost savings programs affecting one or more lines of insurance. The individual winners in FY 2001 - 2002 were from the Department of Wildlife and Fisheries, Division of Administration, the Department of Transportation and Development, Department of Culture, Recreation and Tourism, Louisiana College System, the Department of Corrections, the Department of Social Services and the Community and Technical College System. The agency winner was the Department of Transportation and Development.

Loss Prevention maintains and loans approximately three hundred (300) safety videos for use by all agencies to assist them in their loss prevention program. In the past fiscal year we loaned four hundred thirty three (433) videos.

The Loss Prevention Unit received the “Safety and Health Innovator Award” from the Safety Council of the Louisiana Capital Area.

Underwriting

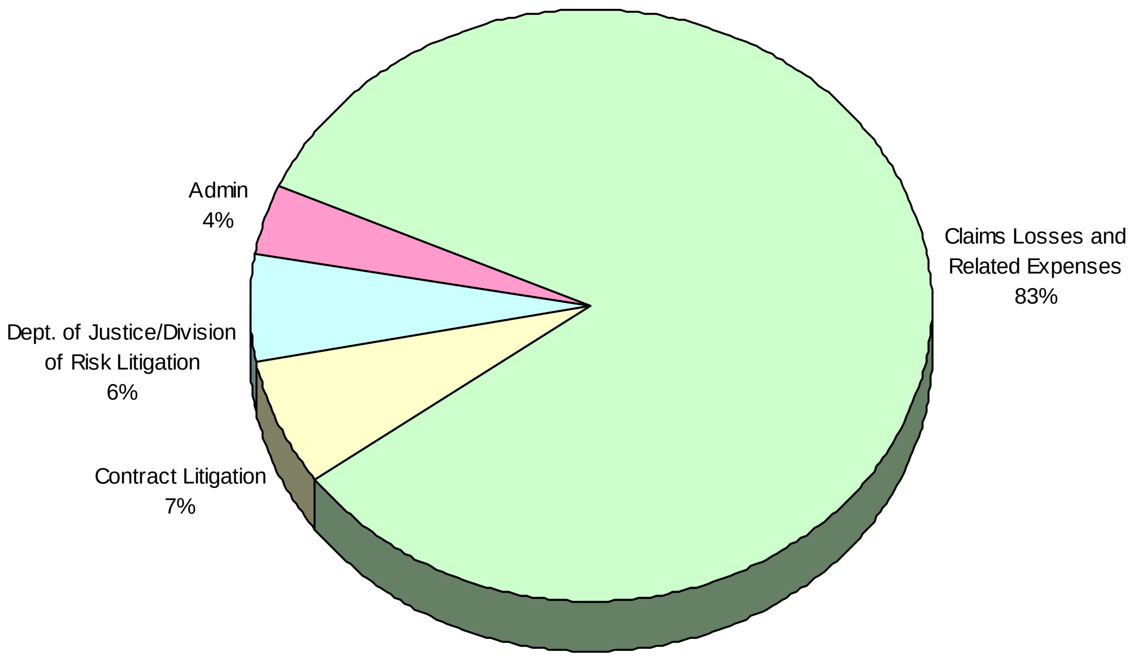
2001 began the hardest insurance market experts have ever seen due to several factors: a sluggish economy with low returns on investment, the Enron and Arthur Anderson scandals, and the September 11 terrorism attack. Renewals of all insurance coverages for governmental entities were almost impossible to obtain. The property line of insurance was one of the most adversely effected by the economic changes. By increasing the self-insurance limit to $50,000,000 per occurrence and including a terrorism exclusion endorsement, the Office of Risk Management was successful in procuring $250,000,000 excess blanket property coverage per occurrence at a cost of $4,915,758.00 for July 1, 2002.

By allowing the addition of terrorism exclusions endorsements (required industry wide) to the existing excess bridge property damage policies and to the existing builder's risk policy, the Office of Risk Management was able to continue these coverage's at the existing rates for July 1, 2002. The Superdome Crime coverage was also continued at the same rate and without a terrorism endorsement. It is extremely beneficial to the State when coverages are continued at the same rate; large premium increases are avoided, which would have occurred if coverage had to be re-bid.

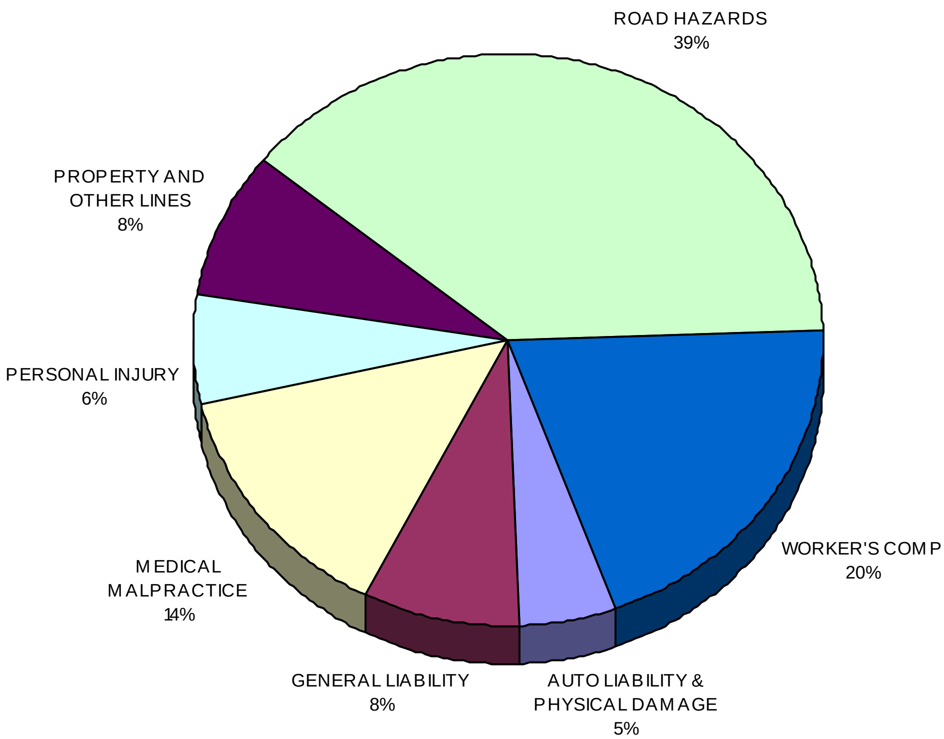
Most liability lines of insurance had to be re-bid, due to insurance company cancellation because of the need for rate increases in the hard market. The lines of insurance successfully re-bid with moderate rate increases and terrorism exclusion endorsements include the following: Excess Liability, Aviation, Airport, Wet Marine, Superdome General Liability, Superdome Workers Compensation, Excess Bond and Excess Crime.

In our continuing efforts to improve ORM's service to our agencies, during this fiscal year the quarterly risk exposure reporting system was converted from a manual system to an online system. It has resulted in a much faster and efficient method of collecting the required exposure data from our agencies.

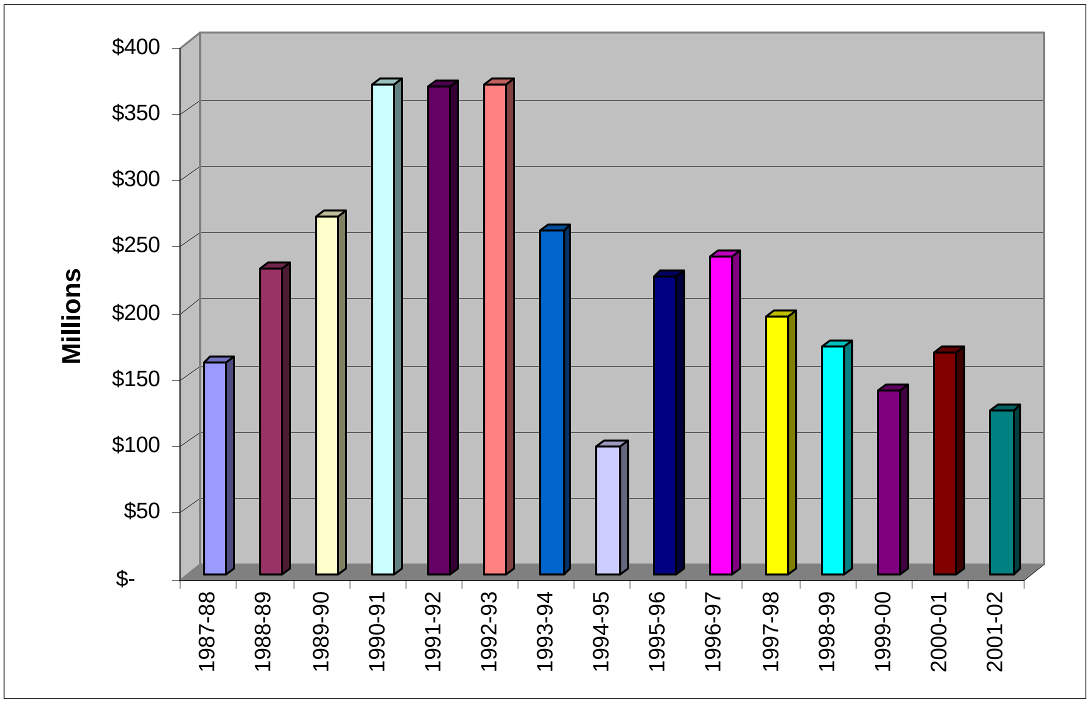
Cash Expenditures by Budget Program



Cash Expenditures by Line of Insurance

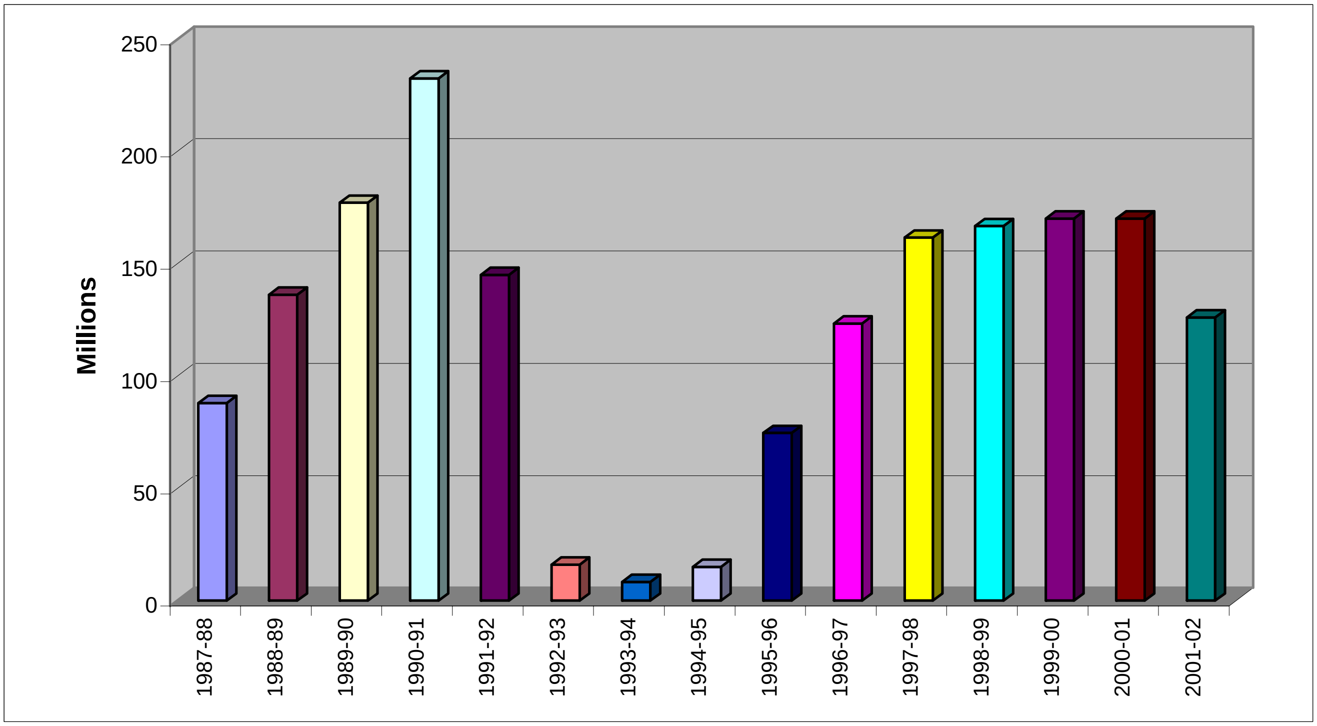


Budget



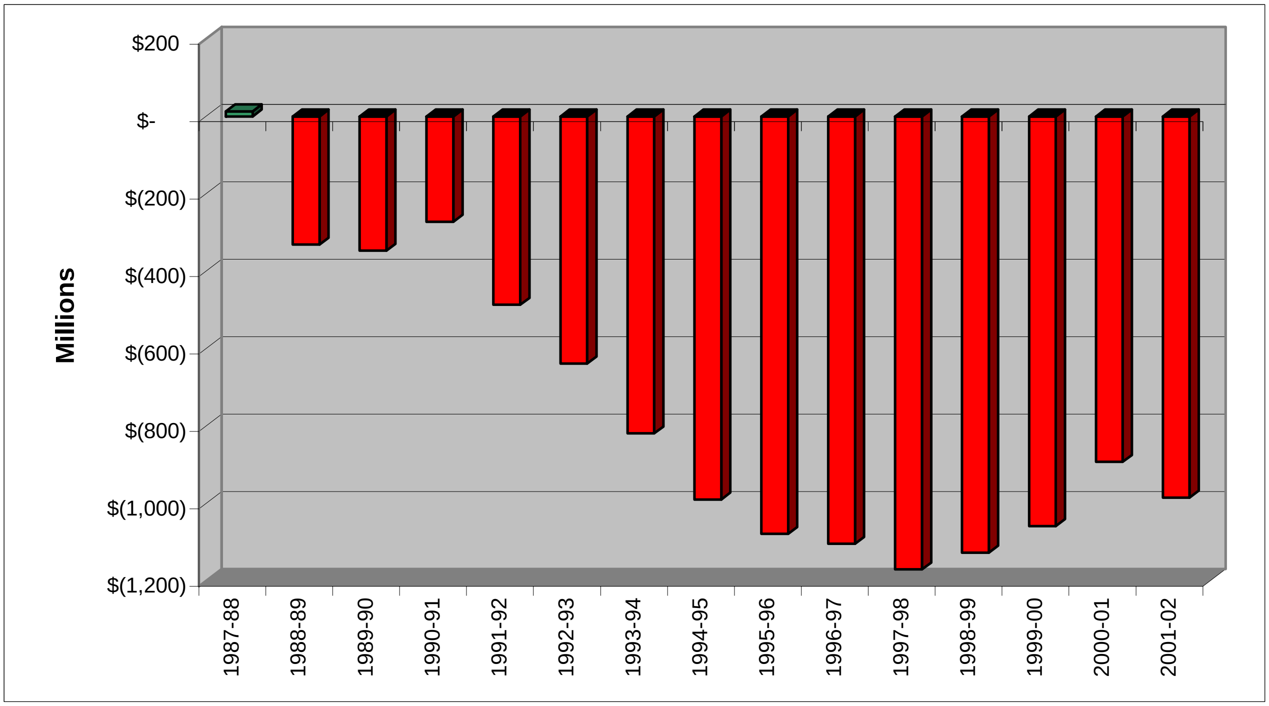
Fiscal Year	Total Budget
1987-88	$ 160,000,000
1988-89	$ 231,163,517
1989-90	$ 269,404,983
1990-91	$ 368,818,757
1991-92	$ 368,317,741
1992-93	$ 368,844,694
1993-94	$ 258,879,001
1994-95	$ 97,565,325
1995-96	$ 224,846,405
1996-97	$ 239,326,671
1997-98	$ 194,393,632
1998-99	$ 171,675,510
1999-00	$ 139,457,883
2000-01	$ 167,491,519
2001-02	$ 124,096,116

Cash Balance



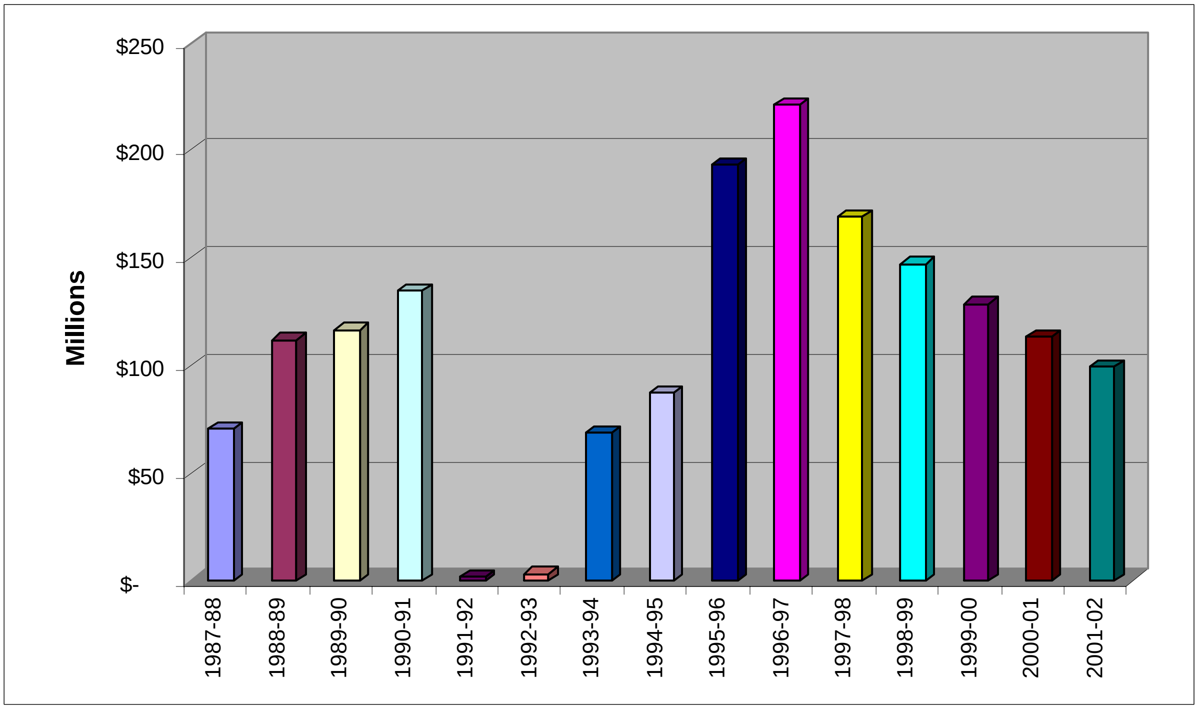
Fiscal Year	Total Cash Balance	
1987-88	$	87,983,512
1988-89	$	136,197,880
1989-90	$	177,167,033
1990-91	$	232,570,471
1991-92	$	145,048,419
1992-93	$	16,054,526
1993-94	$	8,284,465
1994-95	$	15,004,482
1995-96	$	74,693,176
1996-97	$	123,354,824
1997-98	$	161,624,140
1998-99	$	166,761,033
1999-00	$	170,099,177
2000-01	$	126,071,172
2001-02	$	33,018,390

Fund Equity



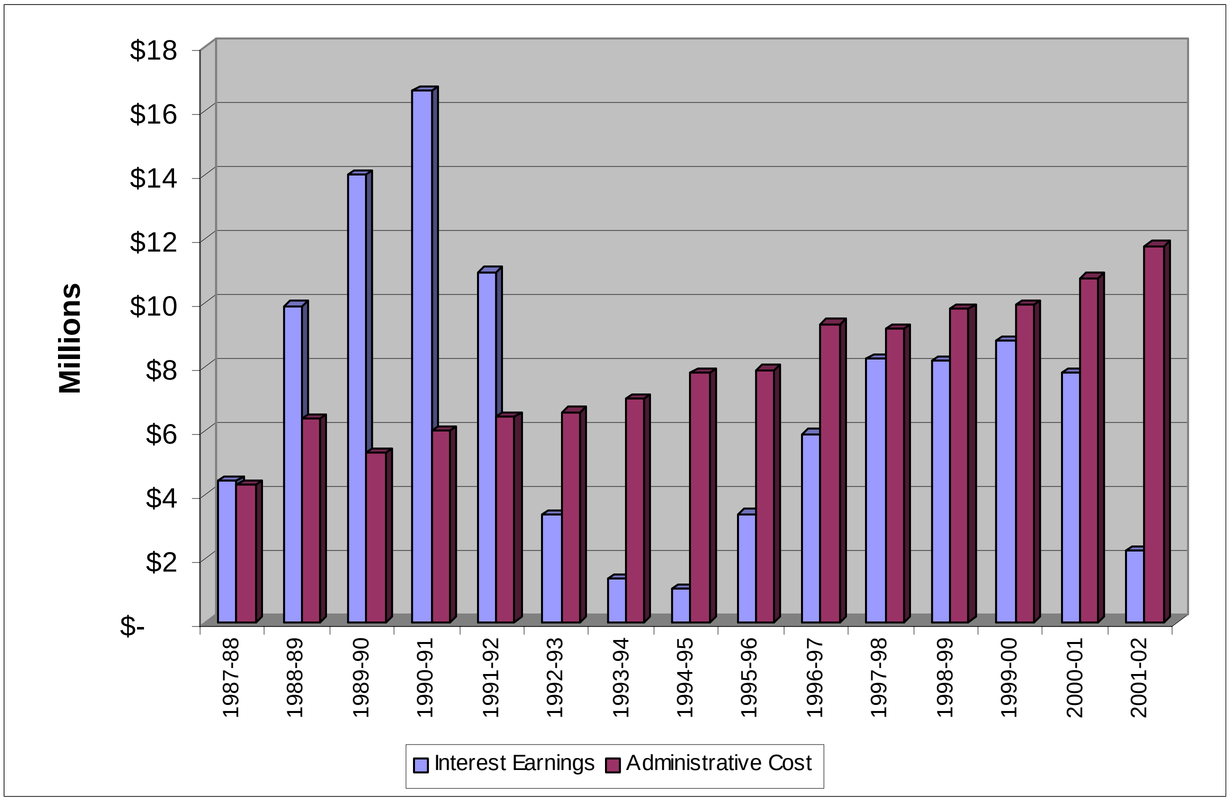
Fiscal Year	Total Fund Equity	
1987-88	$	13,014,112
1988-89	$	(331,090,858)
1989-90	$	(346,662,508)
1990-91	$	(271,958,071)
1991-92	$	(486,507,461)
1992-93	$	(637,901,253)
1993-94	$	(818,644,299)
1994-95	$	(989,537,511)
1995-96	$	(1,078,065,151)
1996-97	$	(1,103,819,414)
1997-98	$	(1,169,748,070)
1998-99	$	(1,126,332,490)
1999-00	$	(1,058,050,563)
2000-01	$	(892,190,771)
2001-02	$	(984,477,740)

Premiums Collected



Fiscal Year	Total Premium Collected
1987-88	$ 70,933,701
1988-89	$ 111,864,517
1989-90	$ 116,745,861
1990-91	$ 134,591,411
1991-92	$ 1,775,132
1992-93	$ 3,145,241
1993-94	$ 68,845,869
1994-95	$ 87,348,273
1995-96	$ 193,360,233
1996-97	$ 221,425,973
1997-98	$ 169,004,359
1998-99	$ 147,388,790
1999-00	$ 128,793,146
2000-01	$ 113,254,354
2001-02	$ 99,215,760

Interest Earnings vs Administrative Cost



Fiscal Year	Interest Earnings	Administrative Costs [1]
1987-88	$ 4,412,202	$ 4,313,789
1988-89	$ 9,900,102	$ 6,383,078
1989-90	$13,999,243	$ 5,290,218
1990-91	$16,648,961	$ 5,976,164
1991-92	$10,973,250	$ 6,437,556
1992-93	$ 3,346,419	$ 6,574,934
1993-94	$ 1,342,554	$ 6,995,833
1994-95	$ 1,042,107	$ 7,794,305
1995-96	$ 3,396,422	$ 7,908,967
1996-97	$ 5,887,778	$ 9,338,184
1997-98	$ 8,264,904	$ 9,201,017
1998-99	$ 8,177,315	$ 9,818,911
1999-00	$ 8,829,597	$ 9,944,946
2000-01	$ 7,808,733	$ 10,779,811
2001-02	$ 2,222,094	$ 11,794,264

1 Includes Administrative and unallocated expenses (adjusting and Second Injury/Workers' Comp Assessments).

Premium Comparison & Program Savings

Shown in the following chart are the Office of Risk Management's Billed Premiums for Fiscal Year 2001-2002 Equivalent Commercial Premiums and the indicated statewide savings by line of coverage. Since Fiscal Year 1997-98 the Billed Premiums have been calculated based on "cash needs" and have not included deficit amounts needed to recoup uncollected premiums from prior years. Again in Fiscal Year 2001-2002 ORM was not allowed by the Legislature to collect 100% of the premiums developed on an actuarially sound basis. The Commercial Premiums do not include any deficit amounts. For comparison purposes on this chart, we have used the billed premium amounts as opposed to the budgeted recommendations that have been used in the past.

Self Insured Coverages	Billed Premium	Equivalent Commercial Premium**	Program Savings
Workers' Compensation	$31,006,029.00	$ 46,292,716.79	($15,286,688)
W. C. Maritime	$1,427,017.00	$ 2,413,023.89	($986,007)
General Liability	$16,963,231.00	$ 33,854,332.37	($16,891,101)
Personal Injury Liability	$8,289,685.00	$ 26,518,659.46	($18,228,974)
Auto Liability	$5,184,542.00	$ 15,775,422.07	($10,590,880)
Auto Physical Damage	$1,138,920.00	$ 3,596,672.81	($2,457,753)
Property Damage	$8,637,154.00	$32,944,205	($24,307,051)
Boiler and Machinery	$807,414.00	$ 4,978,491.68	($4,171,078)
Bonds	$263,910.00	$516,461	($252,551)
Crime	$37,026.00	$408,301	($371,275)
Marine	$892,253.00	$715,743	$176,510
Aviation	$731,386.00	$679,854	$51,532
Medical Malpractice	$24,470,442.00	$ 93,610,578.76	($69,140,137)
Road and Bridge Hazard*	$63,064,000.00	$ 59,592,852.59	($59,592,853)
Miscellaneous Tort	$1,927,412.00	$ 3,195,933.09	($1,268,521)
GRAND TOTALS	$101,776,421.00	$ 325,093,247.51	($223,316,827)

*Road and Bridge Hazard premiums in the amount of $63,064,000 were not billed in Fiscal Year 2001/2002. Funds were not appropriated by the Legislature. This premium is greater than the commercial equivalent because the commercial equivalent does not include the deficit reduction which resulted when ORM was unable to collect self-insured premiums for this coverage for eight out of the last eleven years.

**The commercial equivalent does not include the deficit reduction amount. If we added the deficit amount to the equivalent commercial premium, it would be greater than the self-insured premium.

Statement of Actuarial Opinion

STATEMENT OF ACTUARIAL OPINION

I, Michael Bayard Smith, am associated with Tillinghast–Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion for property and casualty lines of business. I am a Fellow of the Casualty Actuarial Society.

I have examined the undiscounted reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2002 as presented by the Office of Risk Management, Division of Administration, State of Louisiana (ORM) in its June 30, 2002 financial package.

The scope of my review included all risk groups except the uninsured lines (non-reviewed risk groups). The liabilities I reviewed were on a nominal (undiscounted) basis. The reserves stated by ORM are as follows:

1.	Total Loss & Loss Expense Reserves for Reviewed and Non-Reviewed Risk Groups	$1,045,418,019
2.	Reserve for Non-Reviewed Risk Groups	$68,688,177
3.	Total of Reserves for Reviewed Risk Groups [(1) - (2)]	$976,729,842

My examination included the performance of independent projections of ORM's loss and loss adjustment expense liabilities and such other tests and procedures as I considered necessary under the circumstances. In making my examination, I relied upon ORM as to the accuracy and completeness of its loss and loss expense data and other related information provided to me.

My independent estimates of the reserves net of excess insurance are computed in accordance with commonly accepted actuarial methods on an ultimate undiscounted basis and are based upon actuarial assumptions which are reasonable given the coverages provided and the information available. My estimates make no provision for either the extraordinary future emergence of new classes of losses or losses which are not yet quantifiable. I have not anticipated any contingent liabilities that may exist in the event that any of the companies providing excess insurance might be unable to meet their obligations to ORM under existing excess insurance agreements.

Due to the inherent uncertainty associated with actuarial projections of future contingent events, it is possible that the actual future payments associated with the disposition of current loss and loss adjustment expense liabilities could prove to be materially different from the estimated amounts underlying the reserves in the financial package.

It should be noted that ORM's financial package indicates that cash assets are approximately $20 million and that total liabilities are approximately $1 billion as of June 30, 2002.

Tillinghast -
Towers Perrin

STATEMENT OF ACTUARIAL OPINION

Page 2 of 2

In my calculations I have assumed that sufficient assets will become available on a timely basis such that ORM will continue to pay claims. In the event that sufficient assets do not become available on a timely basis, there may be a material impact upon our estimates.

As of June 30, 2002, ORM is holding $68,688,177 as a reserve for unpaid loss and loss adjustment expense obligations arising from the uninsured lines. Review of the reserves for the uninsured lines is outside the scope of our analysis. I have, therefore, excluded the uninsured lines from the opinion stated in the next paragraph.

In my opinion, except for the uninsured lines risk group (as explained in the preceding paragraph), the amount stated of $976,729,842 as the reserve for estimated loss and loss adjustment expense liabilities:

(1) is fairly stated in accordance with sound actuarial principles; and

(2) makes a reasonable provision for the unpaid loss and loss adjustment expense obligations associated with the lines reviewed.

This statement of opinion is solely for the use of and is only to be relied upon by public officials of the State of Louisiana who have access to and the ability to understand the data and operations of ORM. Such knowledge is required in order to place appropriate reliance on this opinion.

August 26, 2002

Michael Bayard Smith, FCAS, MAAA
1200 Riverplace Boulevard, Suite 610
Jacksonville, Florida 32207-1803
(904) 391-1915

Financial Statements

Balance Sheet

ASSETS	
Cash and investments	$33,018,390
Insurance/reinsurance balances receivable	$12,928,973
Less reserve for abolished agencies	$0
Interest receivable and other assets	$3,199,996
Prepaid insurance	$12,534,170
Machinery	$970,225
Less: Accumulated depreciation	$517,350
TOTAL ASSETS	$62,134,404
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Loss and expense reserves	$1,043,306,592
Unearned premium	$77,818
Other liabilities	$3,227,734
TOTAL LIABILITIES	$1,046,612,144
FUND EQUITY	
TOTAL FUND EQUITY	($984,477,740)
TOTAL LIABILITIES AND FUND EQUITY	$62,134,404

Statement of Revenues and Expenses

OPERATING REVENUES	
Premiums written	$101,776,421
General fund appr./non-tort reimbursement	$0
Add unearned premium from prior year	$0
Less unfunded premium	$0
Less unearned premium at statement date	$77,818
Less cost of insurance	$14,473,004
TOTAL INCOME	$87,225,599
OPERATING EXPENSES	
General and administrative expenses	$5,948,492
Claims cost:	
Losses	$136,951,363
Allocated loss adjustment expense	$27,727,191
Unallocated loss adjustment expense	$5,845,772
Change in provision for losses/expenses	$4,528,236
TOTAL EXPENSES	$181,001,054
NET INCOME(LOSS) FROM OPERATIONS	($93,775,455)
NON-OPERATING REVENUES AND EXPENSES	
Interest income	$2,222,094
Gain(loss) on sale of fixed assets/misc. inc.	$0
TOTAL OTHER INCOME/LOSS	$2,222,094
TOTAL NET INCOME/LOSS	($91,553,361)
RETAINED EARN./FUND BAL. JULY 1, 2000	($892,190,771)
Current income(loss)	($91,553,361)
Prior year adjustments	($733,608)
RETAINED EARN./FUND BAL. JUNE 30, 2001	($984,477,740)

NOTE: The statements contained in this report are unaudited.

Financial Statements by Line of Insurance

OFFICE OF RISK MANAGEMENT
FINANCIAL STATEMENTS
June 30, 2001

	AUTO LIABILITY RISK GROUP	AUTO PHYSICAL DAMAGE RISK GROUP	BONDS RISK GROUP	WORKER'S COMP RISK GROUP	MARITIME RISK GROUP	PROPERTY RISK GROUP	GENERAL LIABILITY RISK GROUP
Balance Sheet							
ASSETS							
Cash & investments - State Treasury	$14,597,181	($3,389,780)	$661,876	$60,493,131	$3,996,902	($18,959,768)	$103,910,081
Insurance/reinsurance balances receivable	$55,019	$11,615	$3,462	$3,936,484	$0	$1,394,823	$1,194,254
Less reserve for abolished agencies	$0	$0	$0	$0	$0	$0	$0
Interest receivable and other assets	$2,680	$0	$156	$2,011,337	$1,123,588	$0	$18,531
Prepaid insurance	$0	$0	$227,915	$399,439	$349,250	$5,432,519	$2,845,262
Machinery	$86,663	$20,388	$1,278	$385,823	$30,021	$30,187	$148,575
Less: Accumulated depreciation	$61,401	$5,588	$625	$218,672	$22,852	$14,867	$96,051
TOTAL ASSETS	$14,680,142	($3,363,365)	$894,062	$67,007,542	$5,476,909	($12,117,106)	$108,020,652
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Loss and expense reserves	$26,805,555	$845,154	$647,204	$162,858,440	$5,546,795	$14,428,320	$102,602,483
Unearned premium	$0	$0	$0	$0	$0	$77,818	$0
Other liabilities	$126,526	$13,807	$4,805	$1,864,801	$7,445	$74,851	$245,261
TOTAL LIABILITIES	$26,932,081	$858,961	$652,009	$164,723,241	$5,554,240	$14,580,989	$102,847,744
FUND EQUITY							
TOTAL FUND EQUITY	($12,251,939)	($4,222,326)	$242,053	($97,715,699)	($77,331)	($26,698,095)	$5,172,908
TOTAL LIABILITIES AND FUND EQUITY	$14,680,142	($3,363,365)	$894,062	$67,007,542	$5,476,909	($12,117,106)	$108,020,652
Statement of Revenues and Expenses							
OPERATING REVENUES							
Premiums written	$5,184,542	$1,138,920	$263,910	$31,006,029	$1,427,017	$8,637,154	$16,963,231
General fund appr./non-tort reimbursement	$0	$0	$0	$0	$0	$0	$0
Add unearned premium from prior year	$0	$0	$0	$0	$0	$0	$0
Less unfunded premium	$0	$0	$0	$0	$0	$0	$0
Less unearned premium as of date of statement	$0	$0	$0	$0	$0	$77,818	$0
Less cost of insurance	$100,309	$0	$125,178	$181,576	$40,080	$9,709,899	$2,338,655
TOTAL INCOME	$5,084,233	$1,138,920	$138,732	$30,824,453	$1,386,937	($1,150,563)	$14,624,576
OPERATING EXPENSES							
General and administrative expenses	$345,208	$200,232	$12,395	$1,885,549	$59,233	$469,782	$552,047
Claims cost:							
Losses	$6,305,159	$1,359,954	($453,599)	$29,433,358	$1,520,914	$3,667,229	$6,939,830
Allocated loss adjustment expense	$994,723	$10,744	$4,488	$989,000	$334,051	$17,611	$5,524,238
Unallocated loss adjustment expense	$124,376	$138,964	$496	$3,522,061	$2,515	$444,638	$203,189
Change in provision for losses/expenses	($9,104,864)	($196,039)	$106,669	$29,074,909	$267,937	$1,278,134	($4,778,653)
TOTAL EXPENSES	($524,706)	$2,324,547	($260,045)	$65,131,729	$2,411,502	$13,216,299	$9,991,593
NET INCOME(LOSS) FROM OPERATIONS	$6,419,631	($374,935)	$468,283	($34,080,424)	($797,713)	($7,027,957)	$6,183,925
NON-OPERATING REVENUES AND EXPENSES							
Interest income	$78,694	$0	$2,498	$335,253	$22,376	$0	$540,340
Gain(loss) on sale of fixed assets and misc. income	$0	$0	$0	$0	$0	$0	$0
TOTAL OTHER INCOME/LOSS	$78,694	$0	$2,498	$335,253	$22,376	$0	$540,340
TOTAL NET INCOME/LOSS	$6,498,325	($374,935)	$470,781	($33,745,171)	($775,337)	($7,027,957)	$6,724,265
RETAINED EARN./FUND BAL. JULY 1, 2001	($18,728,928)	($3,853,125)	($229,234)	($64,262,075)	$688,958	($19,564,267)	($1,365,594)
Current year income(loss)	$6,498,325	($374,935)	$470,781	($33,745,171)	($775,337)	($7,027,957)	$6,724,265
Prior year adjustments	($21,336)	$5,734	$506	$291,547	$9,048	($105,871)	($185,763)
RETAINED EARN./FUND BAL. JUNE 30, 2002	($12,251,939)	($4,222,326)	$242,053	($97,715,699)	($77,331)	($26,698,095)	$5,172,908

Financial Statements by Line of Insurance(continued)

PERSONAL INJURY RISK GROUP	MARINE RISK GROUP	AVIATION RISK GROUP	BOILER & MACHINERY RISK GROUP	CRIME RISK GROUP	MEDICAL MALPRACTICE	ROAD HAZARDS	MISC. TORT OTHER	NON-TORT PAYMENTS	TOTAL SELF-INSURED & UNINSURED LINES
$4,337,353	($8,038,239)	($3,950,090)	($1,639,252)	$1,232,271	$182,671,892	($315,175,266)	$13,400,098	($1,130,000)	$33,018,390
$103,628	$12,711	$155,307	$17,098	$4,343	$6,024,017	$0	$16,212	$0	$12,928,973
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$989	$0	$0	$0	$176	$38,584	$0	$3,955	$0	$3,199,996
$0	$1,568,487	$1,075,152	$591,473	$44,673	$0	$0	$0	$0	$12,534,170
$18,851	$2,166	$546	$9,515	$2,211	$80,285	$116,436	$37,280	$0	$970,225
$12,495	$449	$273	$6,127	$1,652	$21,855	$26,739	$27,704	$0	$517,350
$4,448,326	($6,455,324)	($2,719,358)	($1,027,293)	$1,282,022	$188,792,923	($315,085,569)	$13,429,841	($1,130,000)	$62,134,404
$63,383,104	$297,297	$51,331	$838,619	$223,363	$384,264,886	$265,801,040	$14,713,001	$0	$1,043,306,592
$0	$0	$0	$0	$0	$0	$0	$0	$0	$77,818
$208,344	$4,557	$61	$1,970	$183	$253,937	$416,757	$4,429	$0	$3,227,734
$63,591,448	$301,854	$51,392	$840,589	$223,546	$384,518,823	$266,217,797	$14,717,430	$0	$1,046,612,144
($59,143,122)	($6,757,178)	($2,770,750)	($1,867,882)	$1,058,476	($195,725,900)	($581,303,366)	($1,287,589)	($1,130,000)	($984,477,740)
$4,448,326	($6,455,324)	($2,719,358)	($1,027,293)	$1,282,022	$188,792,923	($315,085,569)	$13,429,841	($1,130,000)	$62,134,404
$8,289,685	$892,253	$731,386	$807,414	$37,026	$24,470,442	$0	$1,927,412	$0	$101,776,421
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0	$0	$77,818
$0	$791,144	$604,931	$542,778	$38,454	$0	$0	$0	$0	$14,473,004
$8,289,685	$101,109	$126,455	$264,636	($1,428)	$24,470,442	$0	$1,927,412	$0	$87,225,599
$347,785	$34,975	$946	$27,882	$2,917	$713,398	$1,189,946	$46,197	$60,000	$5,948,492
$5,985,431	$267,839	($3,465)	$751,296	$3,605	$17,908,435	$64,925,821	($1,660,444)	$0	$136,951,363
$5,318,021	$40,484	$0	$690	$0	$6,953,080	$7,382,927	$157,134	$0	$27,727,191
$163,570	$1,063	$71	$8,152	$212	$647,538	$585,667	$3,260	$0	$5,845,772
($12,122,633)	($96,975)	$12,116	($325,400)	$210,734	$28,921,766	($18,427,996)	($10,291,469)	$0	$4,528,236
($307,826)	$247,386	$9,668	$462,620	$217,468	$55,144,217	$55,656,365	($11,745,322)	$60,000	$384,553,896
$8,597,511	($146,277)	$116,787	($197,984)	($218,896)	($30,673,775)	($55,656,365)	$13,672,734	($60,000)	($297,328,297)
$36,667	$0	$0	$0	$6,263	$1,095,044	$0	$104,959	$0	$2,222,094
$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
$36,667	$0	$0	$0	$6,263	$1,095,044	$0	$104,959	$0	$2,222,094
$8,634,178	($146,277)	$116,787	($197,984)	($212,633)	($29,578,731)	($55,656,365)	$13,777,693	($60,000)	($91,553,361)
($67,553,041)	($6,609,434)	($2,887,669)	($1,673,462)	$1,212,661	($166,034,075)	($525,218,553)	($15,042,933)	($1,070,000)	($892,190,771)
$8,634,178	($146,277)	$116,787	($197,984)	($212,633)	($29,578,731)	($55,656,365)	$13,777,693	($60,000)	($91,553,361)
($224,259)	($1,467)	$132	$3,564	$58,448	($113,094)	($428,448)	($22,349)	$0	($733,608)
($59,143,122)	($6,757,178)	($2,770,750)	($1,867,882)	$1,058,476	($195,725,900)	($581,303,366)	($1,287,589)	($1,130,000)	($984,477,740)

Notes to Financial Statements

INTRODUCTION

The Office of Risk Management is an agency of the State of Louisiana reporting entity and was created in accordance with Title 39; Chapter 1527:1544 of the Louisiana Revised Statutes of 1950 as a part of the Executive branch of government. The _Office of Risk Management_ is charged with _administering the self-insurance program_ within the State of Louisiana.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Office of Risk Management prepared its financial statements in accordance with the procedures established by the Division of Administration. While the financial activities of the Office of Risk Management are not legally or practically an established fund account, they are organized and operated on a fund basis whereby a separate self- balancing set of accounts is maintained to account for authorized or appropriated activities. Therefore, while the accompanying financial statements of Office of Risk Management contain sub-account information of the various funds of the State of Louisiana they only present information as to the transactions of the Office of Risk Management as authorized by Louisiana statutes and administrative regulations, and as such, they are not prepared in accordance with generally accepted accounting principles. In addition, general fixed assets and long-term obligations of the agency are not recognized in the accompanying financial statements but are recognized in the account groups of the general purpose financial statements of the State of Louisiana.

In June, 2001, the Governmental Accounting Standards Board (GASB) updated its Codification of Governmental Accounting and Financial Reporting Standards. This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

Annually the State of Louisiana issues a comprehensive annual financial report which includes the activity contained in the accompanying financial statements. The comprehensive annual financial report is audited by the Louisiana Legislative Auditor.

1. FUND ACCOUNTING

General Operating Appropriations
The General Operations Fund is used to account for all general and auxiliary fund appropriated operating expenditures and minor capital acquisitions. All appropriated general and auxiliary operations revenue is accounted for in this fund.

Non-Appropriated Funds
Major State Revenues and Income Not Available - The agency collects major state revenues that are remitted to the State Treasury for deposit to statutorily dedicated funds. In addition, the agency collects funds specifically identified by the Division of Administration - Budget Office as Income Not Available that are remitted to the State Treasury. These amounts are not available to the agency for expenditure and are, therefore, not included on Statement B but are detailed on Schedule 4.

Payroll Clearing Fund - The Payroll Clearing Fund is used to account for payroll deductions and accrued benefits.

The non-appropriated funds relating to Major State Revenues, Income Not Available and Payroll Clearing are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

For purpose of this statement presentation, collections in excess of Appropriated Means of Financing are not considered income not available and therefore are included on Statement B.

2. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of the Office of Risk Management are maintained in accordance with applicable statutory provisions and the regulations of the Division of Administration - Office of Statewide Reporting and Accounting Policy as follows:

Revenues - State General Fund and Interim Emergency Board appropriations are recognized as the net amount warranted during the fiscal year including the 45 day close period.

Fees and self-generated revenues, interagency transfers, federal funds, intrafund revenues, non-appropriated revenues, and other financing sources (with the exception of agency funds) are recognized in the amounts earned, to the extent that they are both measurable and available.

Expenditures - Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recorded as expenditures when paid.

B. IMPREST FUNDS

The agency maintains a permanent Travel and Petty Cash Imprest Fund in the amount of $_8500.00____ as authorized by the Commissioner of Administration and advanced by the State Treasurer's Office in accordance with Title 39. The funds are permanently established and periodically replenished from agency operating funds when expenditure vouchers are presented.

C. LEAVE

1. ANNUAL AND SICK LEAVE

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. Act 343 of 1993 allows members of the Louisiana State Employees' Retirement System, upon application for retirement, the option of receiving an actuarially determined lump sum payment for annual and sick leave which would otherwise have been used to compute years of service for retirement. The liability for unused annual leave payable at June 30, _2002_, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be $_443,669.47_. The leave payable is not recorded in the accompanying financial statements.

2. Compensatory Leave (Non-Exempt Employees)

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at June 30, _2002_ computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be $_12,985.94_. The leave payable (is) (is not) recorded in the accompanying financial statements.

D. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS PER GASB 12

LRS 42:821 through 42:880 establishes the self-insured and self-funded state employees group health care and life insurance program and authorizes the _Office of Risk Management_ agency to provide certain continuing health care and life insurance benefits for its retired employees. Substantially all of the agency's employees become eligible for those benefits if they reach normal retirement age while working for the agency. Monthly premiums are paid jointly by the employees and the employer (from the agency appropriation) for both retirees' and active employees' benefits regardless of whether benefits are provided by Group Benefits or one of the HMOs authorized by Group Benefits. The agency recognizes the cost of providing benefits as an expenditure when paid during the year. For the year ended June 30, _2002_, the costs of retirees' benefits totaled $_122,195.31_, while the number of retirees is ___28__. (As defined by the GASB Statement 12, dependents of a retiree should be counted as a single unit if the retiree is deceased and should not be counted if the retiree is alive.) The cost of retirees' benefits is net of participant's contribution.

E. LEASE AND RENTAL COMMITMENTS

Lease agreements, if any, have non-appropriation exculpatory clauses that allow lease cancellation if the Legislature does not make an appropriation for its continuation during any future fiscal period. Total operating lease expenditures for fiscal year _01_ - _02_ amounted to $_28,780.82_.

1. OPERATING LEASES

Operating leases are all leases which do not meet the criteria of a capital lease. Operating leases are grouped by nature (i.e. office space, equipment, etc.) and the annual rental payments for the next five fiscal years are presented in the following schedule.

Nature of lease	FY2003	FY2004	FY2005	FY2006	FY2007	FY 2008-2012
a. Office space	$ 15,011.76	$ 11,258.82	$	$	$	$
b. Equipment						
c. Land						
d. Other						
Total	$ 15,011.76	$ 11,258.82	$	$	$	$

Rental expense for operating leases with scheduled rent increases is based on the relevant lease agreement except in those cases where a temporary rent reduction is used as an inducement to enter the lease. In those instances, rental expense is determined on either a straight-line or interest basis over the term of the lease, as required by GASB 13, and not in accordance with lease terms. The agency does not have leases with scheduled rent increases due to temporary rent reductions used as an inducement to enter the lease.

F. PAYROLL AND RELATED BENEFITS ACCRUAL

Agencies are required to reflect the 2001-2002 accrued personal services cost for this fiscal year on the accompanying financial statement. The following schedule aids in doing so. As most agency units pay their employees biweekly this would require a fiscal year 2000-01 accrual calculation based on five (5) days and the fiscal year 2001-02 calculation will be based on five (5) days.

		FY 2000-01	FY 2001-02
1.	07/13/01 Payroll (gross & related)	$ 195,550.96	
2.	07/12/02 Payroll (gross & related)	X 50.0%	$ 207,222.00 X 50.0%
2a.	Payroll accrual	97,775.43	103,611.00
2b.	Add voids and supplementals (off cycle) paid in the 45 day close with prior year appropriations.		
3.	Total payroll accruals	$ 97,775.43	$ 103,611.00
4.	Estimated federal receivable attributed to the accrual shown above	$ 0.00	$ 0.00
Total Agency Expenditures			
5.	Total programs from Schedule 1		187,568,300.32
6.	Less: 2000-01 accrual from line 3, column 1 above		(97,775.43
7.	Plus: 2001-02 accrual from line 3, column 2 above		103,611.00

	Less : Expense for reinsurance	(31,502,507.31)
8.	To Statement B (this should be the total for *all* programs)	$ 156,071,628.58

Total Federal Revenue

9.	Federal Funds from Schedule 3, column VIII, line A or Schedule 3-1, column V, line 1	___________
10.	Less: 2000-01 accrual from line 4, column 1 above	___________
11.	Plus: 2001-02 accrual from line 4, column 2 above	___________
12.	To Statement B (line 4) Federal Funds	$ ___________

G. RESERVE FOR CONTINUING OPERATION(S)

The Unit is by statute allowed to retain residual fund balance in order to finance future operations. For the fiscal year ended June 30, _02_, $_33,018,390.47__ was the amount reserved.

Office/Fund	Louisiana Revised Statutes	Reserve for Continuing Operations
Self-Insurance Fund	39:1533	$ 22,339,416.47
Future Medical Fund	39:1533.2	10,678,974.00
Total		$ 33,018,390.47

ADDENDUM TO THE NOTES TO THE CAFR

1. A description of the risks of loss to which the state is exposed and the ways in which those risks of loss are handled.

   There are four basic types of risks to which the State is exposed. Loss can occur as a result of (1) damage to property, (2) loss of property, (3) loss of income or increased costs because of damage to or loss of property, and (4) liability to others as a result of injury to persons or property. These four main types of risks are not mutually exclusive, they are interrelated. Many accidents and claims involve losses in several risk areas.

   Risk Management is a process for identifying and controlling risks. Until the mid 70's, the traditional method of minimizing losses was to transfer risk to a commercial insurance company. Over the years, the State has been pushed toward self-insurance because of increases in insurance premiums and policy cancellations by commercial insurance companies. Now the Office of Risk Management handles the risks to which the State is exposed through a program that includes self insurance to a specific level and excess commercial insurance above that level. The $ limits will vary according to coverage.

   The best way to insure against loss, however, is through loss prevention and safety programs. Such programs help minimize losses, save money, and most importantly, protect state employees and citizens. The Office of Risk Management aggressively pursues loss prevention through its own Loss Prevention Unit.

2. A description of any significant reductions in coverage from the prior year and whether settlements exceeded coverage for each of the three preceding fiscal years.

   There were no significant reductions in coverage during FY 01/02.

   During the last four fiscal years, there were no claims that exceeded coverage.

   There have been significant changes in case law which will have had adverse impact on the state's liability in general liability claims. On September 3, 1993, the Supreme Court of Louisiana, per case No. 93-C-0472, reversed a lower court's decision in applying Louisiana Revised Statute 13:5106 (B)(1) which provides that "(I) any suit for personal injury, the total amount recoverable, exclusive of medical care and related benefits and loss of earnings, and loss of future earnings, as provided in this Section, shall not exceed five hundred thousand dollars ($500,000)." The Supreme Court held that the ceiling contravenes the constitutional proscription against sovereign immunity contained in LSA - Constitution, Article XII, § 10. As a result of this ruling, the $500,000 ceiling on general damages in a personal injury suit was removed and the State of Louisiana faced larger exposure in suits of this nature. This action is still having an adverse effect on claims reserves.

   In 1995, the Louisiana electorate ratified a constitutional amendment authorizing the Legislature to cap liability. The result was tort reform acts passed by the Legislature which places a cap on general damages of $500,000 with no cap on special damages , and limits joint and solidary liability to a tort feasor's allocated degree of fault.

On May 9, 1996, Act No. 63, known as the "Louisiana Governmental Claims Act", was approved by the governor. This act placed limits on all suits for personal injury and wrongful death. The act states "the total amount recoverable, including all derivative claims, exclusive of property damages, medical care and related benefits and loss of earnings, and loss of future earnings, shall not exceed five hundred thousand dollars." This tort reform, although not retroactive on open cases, will have an effect on future claims by a reduction of costs.

3. The basis for estimating unpaid claim liabilities.

   The philosophy relevant to ORM's reserving policy is based on the best determination of the State's exposure taking into consideration the severity of the injury and the comparative fault if applicable. In those cases where suit has been filed, the attorney is requested to evaluate the State's exposure as early as possible in order to establish a proper reserve.

   Workers Compensation reserves are based on exposure determined by the severity of injury, age of claimant, education or lack of it, and potential for return to employment.

4. The carrying amount of unpaid claims liabilities included in the comprehensive annual financial statements of the State of Louisiana at present value and range of rates used to discount them.

   Prior to FY 91/92, ORM discounted claim liabilities on year end statements. Beginning in FY 91/92, the State Legislature passed an Appropriation Bill that cut ORM's funding by 99%. This was repeated in FY 92/93. For FY 93/94, ORM received funding of approximately 50% of what is needed on a cash basis. In FY 94/95 ORM received funding of approximately 70% of what is needed on a cash basis. In FY 95/96 ORM received funding of approximately 80% of what is needed on a cash basis, which included a general fund appropriation of $10,488,526 towards deficit reduction. In FY 96/97, 97/98, 98/99, 99/00, and 00/01 ORM received funding of approximately 75% of what is needed on a cash basis. In FY 01/02, ORM received funding of approximately 53% of what was needed on a cash basis. As a result of the lack of funding over the past fiscal years, ORM's cash reserves have been depleted. Because of the lack of funding, ORM discontinued discounting and has not discounted the present value of claim liabilities since FY 89/90.

   The provision for losses and loss adjustment expenses includes paid and unpaid claims and expenses associated with settling claims, including legal fees. The liability for unpaid losses and loss adjustment expenses is based on claims adjusters' evaluations of individual claims and management's evaluation and an actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the estimated ultimate cost of settling the claims, including the effects of inflation and other economic factors. Adjustments resulting from the settlement of losses are reflected in earnings at the time the adjustments are determined.

The present value of reserves for claim liabilities for FY 01/02 as reported on the financial statements totals $1,043,306,594. A further breakdown of this total follows:

	Total Reserves	Net of Estimated Recoveries
Current	$10,149,555	$10,129,056
Long-Term	$1,035,268,464	$1,033,177,538
Total	$1,045,418,019	$1,043,306,594

Changes in Aggregate Claims Liabilities

	Beg of F/Y Liab	Claims & Changes in Est	Claim Payments	Est. Recov from settled & unsettled claims	Balance @ F/Y
1992-93	$642,395,392	$139,040,811	($113,665,754)	($50,031)	$667,720,418
1993-94	$667,720,418	$228,995,905	($53,916,903)	($345,195)	$842,454,225
1994-95	$842,454,225	$265,288,947	($89,878,735)	($345,849)	$1,017,518,588
1995-96	$1,017,518,588	$273,810,423	($121,308,199)	($300,682)	$1,169,720,130
1996-97	$1,169,720,130	$234,558,097	($150,597,533)	($165,541)	$1,253,515,153
1997-98	$1,253,515,153	$210,274,436	($113,374,552)	($361,229)	$1,350,053,808
1998-99	$1,350,053,808	$86,940,260	($130,637,348)	$230,425	$1,306,587,145
1999-00	$1,306,587,145	$47,490,493	($112,428,805)	$902,160	$1,242,550,593
2000-01	$1,242,550,593	($67,365,094)	($137,702,150)	$1,295,008	$1,038,778,357
2000-01	$1,038,778,357	$169,103,878	($164,678,554)	$102,913	$1,043,306,594

The cumulative total of estimated recoveries at June 30, 2002 is $2,111,435. Claims payments include all allocated loss adjustment expenses including legal expense and are net of actual recoveries on settled and unsettled claims.

- ♦ The aggregate amount of claims liabilities outstanding for which annuity contracts were purchased in claimants' names and for which related liabilities have been removed from the balance sheet.

From time to time the Office of Risk Management purchases annuities as partial settlements of certain claims. The payment of the annuities to the claimants is made over a period of time by 3rd party trustees.

At June 30, 2002, there are 113 active annuities. The outstanding amount due on these 113 annuities as of June 30, 2002 was $238,048,598.29. Of the 113 annuities, 99 contain wording which releases ORM from any and all future liability on the claims. The remaining liability, on the 14 which do not contain the wording necessary to release ORM from any possible future liability, totals $37,824.773.78. At June 30, 2002 the total amount of annuities purchased was $44,822,820.26.

During the fiscal period the general appropriations/ancillary auxiliary fund type employs encumbrance accounting to assure compliance with annual appropriation acts.

The Auxiliary Appropriation funds are allowed to retain excess resources to fund future program expenses as a restricted fund balance. The non-appropriated funds are not subject to budgetary control.

Statement as to Fraud Event

On December 8, 2000 Seth E. Keener, Jr., State Risk Director notified Dr. Daniel Kyle, Legislative Auditor in writing as to the following:

"On December 4, 2000, this office (ORM) was made aware of a security problem involving embezzlement of funds by employees of the agency. A figure has not been determined although it is believed to be a substantial sum. The embezzlement has taken place over a period of two years."

As of 6-29-02, seven people have been indicted for/convicted of this crime, two former employees of the Office of Risk Management, and five employees of another agency. The total amount paid out for the fraudulent claims is $1,123,670.08. As of 6/30/02, ORM has collected $506,340.21 in restitution, and collections are continuing.