

NOTE 14. RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and a portion of property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage

awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The Management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2002, for workers' compensation, automobile accident and health-care claim liabilities is \$97.4 million. The claim liabilities relating to health-care totaling \$38.2 million have been recorded as current liabilities. The liability for workers' compensation and automobile accident liabilities of \$59.2 million have been recorded as long-term obligations. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2002 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2001 and 2002 were as follows:

Claim Liabilities

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2001	\$ 85,438	\$ 356,926	\$ (347,170)	\$ 95,194
2002	\$ 95,194	\$ 384,570	\$ (382,350)	\$ 97,414