

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Financial Statements and  
Auditors' Comments

June 30, 2002 and 2001

(With Independent Auditors' Report Thereon)

**LIMITATIONS ON DISCLOSURE OF INFORMATION  
CONTAINED IN THIS DOCUMENT**

The enclosed report is being distributed to you at this time for your information in accordance with Colorado Revised Statutes (CRS).

SECTION 2-3-103 (2) states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements which is **released only upon the approval of a majority vote of the committee (emphasis supplied)**.

SECTION 2-3-103.7 (1) states in part:

Any state employee **or other individual acting in an oversight role as a member of a committee, board or commission** who willfully and knowingly discloses the contents of any report prepared by, or at the direction of, the Office of the State Auditor prior to **the release of such report by a majority vote** of the committee as provided in Section 2-3-103 (2) is guilty of a misdemeanor and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars **(emphasis supplied)**.

COSA – 201 04/00

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*Sally Symanski*  
Deputy State Auditor

August 16, 2002

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the University of Colorado Risk and Insurance Management Fund as of and for the year ended June 30, 2002. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

We were engaged to conduct our audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

KPMG LLP

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Financial Statements  
June 30, 2002 and 2001

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# UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

## Audit Report Summary

June 30, 2002

### **Authority**

The authority for this audit comes from Colorado Revised Statutes Section 2-3-103, which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government.

### **Purpose**

The primary purpose of our engagement was to audit the financial statements of the University of Colorado Risk and Insurance Management Fund (the Fund) as of and for the year ended June 30, 2002, in accordance with auditing standards generally accepted in the United States of America, and express an opinion on whether the financial statements and the notes thereto are presented in conformity with accounting principles generally accepted in the United States of America. The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Fund as of and for the year ended June 30, 2002, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on its internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud 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. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

In conjunction with our audit, we also evaluated the progress made by the Fund in implementing prior audit recommendations.

### **Scope**

We examined, on a test basis, evidence supporting the financial transactions and related balances of the Fund as of and for the year ended June 30, 2002.

### **Management Judgments and Accounting Estimates**

Auditing standards generally accepted in the United States of America require that the independent auditor communicate to the Legislative Audit Committee, among other items, information regarding accounting estimates which are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Estimating the reserve for losses and loss adjustment expenses of an insurance company is a subjective and judgmental process, particularly for long-tail lines of business such as workers' compensation insurance. To estimate the reserve for losses and loss adjustment expenses, management of the Fund utilizes the independent actuarial consulting services of Tillinghast, a Towers Perrin Company. In order for us to satisfy the requirements of auditing standards generally accepted in the United States of America when a specialist has been utilized, a KPMG LLP actuary obtained an understanding of the methods and assumptions used by the specialist to determine whether the findings were suitable to corroborate the representations of management in the financial statements. We concluded that such actuarial methods and assumptions were reasonable and appropriate.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Audit Report Summary

June 30, 2002

The reserve for losses and loss adjustment expenses at June 30, 2002 was computed by the actuary based upon several methods, such amounts representing management's best estimates of the ultimate loss to be incurred. We concur that management's 2002 estimate of the reserve for losses and loss adjustment expenses is the best available estimate, subject to the uncertainty that the Fund lacks a significant amount of experience upon which to base the assumptions used in developing the estimate. As a result, the actual losses may vary significantly from the estimate in the financial statements.

**Other Considerations**

In connection with the performance of our audit, we noted that the Fund experienced the following developments in recent years which we believe merit your consideration, as follows:

- In July 2001, the University of Colorado Administration made the decision to return \$4 million of the Fund's excess surplus. The distribution was made to the University of Colorado on July 31, 2001. The Fund's fund balance at June 30, 2001 before the distribution was \$17,545,895.
- In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB 34 establishes new financial reporting requirements for state and local governments throughout the United States, including the requirement to provide an analytical overview of the financial statements in Management's Discussion and Analysis (MD&A).
- The Fund adopted the provisions of GASB 34 as of July 1, 2001 and has included MD&A in its basic financial statements.

**Financial Audit Report**

We have completed our audit of the financial statements and have issued our report thereon dated August 16, 2002, which states that the financial statements of the Fund present fairly, in all material respects, the financial position of the Fund as of June 30, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit of the Fund's financial statements, we have not identified or discussed with management any financial statement misstatements as of and for the year ended June 30, 2002. Additionally, no recommendations were made to improve management and accounting procedures of the Fund.

There were no changes in significant accounting policies during fiscal year 2002, nor were there any disagreements with management over the application of accounting principles, the basis for management's judgments about accounting estimates, the scope of our audit, disclosures to be included in the financial statements or the wording of our report. Lastly, no difficulties were encountered in dealing with management related to the performance of our audit.

# **UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND**

Organization and Functions of the Fund

June 30, 2002

## **Description of University of Colorado Risk and Insurance Management Fund**

The University of Colorado Risk and Insurance Management Fund (the Fund) was established by the Board of Regents on June 27, 1996, effective October 1, 1996, to provide funding for the University of Colorado's program of self-insurance encompassing its risks of general liability, including automotive liability and errors and omissions liability; property, including crime; and workers' compensation. The Fund is an asset of the Regents of the University of Colorado and is held and accounted for separately within the Treasury of the Regents of the University of Colorado. Through September 30, 1996, the University provided this coverage through the University of Colorado Insurance Pool (the Pool). Coverages provided by the Fund are essentially the same as those that were provided by the Pool.

# **UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND**

## **Management's Discussion and Analysis**

June 30, 2002

As management of the University of Colorado Risk and Insurance Management Fund (the Fund), we offer to readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2002.

### **Financial Highlights**

Each year since its inception, the Fund has reduced campus premium contributions, while increasing surplus. Through continued reduction of expected net ultimate loss exposure and return on investment, the Fund's surplus has grown over the past five years sufficient to provide return of excess surplus in the amount of \$4 million to insured campuses in July 2001.

### **Overview of the Financial Statements**

This report consists of a series of financial statements and notes to the financial statements. The statements of net assets provide information about the assets and liabilities of the Fund, and they reflect the Fund's net assets as of June 2002 and 2001. The statements of revenue, expenses, and changes in net assets present the Fund's result of operations for the years ended June 30, 2002 and 2001. The statements of cash flows outline the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2002 and 2001. The notes to the financial statements provide additional information essential to a full understanding of the data provided in the financial statements.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Management's Discussion and Analysis

June 30, 2002

The following is a summary of the Fund's statements of net assets at June 30, 2002, 2001 and 2000:

Assets	2002	2001	Change	2001	2000	Change
<b>Current assets:</b>						
Cash and cash equivalents	\$ 7,407,493	4,660,982	2,746,511	4,660,982	119,986	4,540,996
Accrued investment income	283,136	345,517	(62,381)	345,517	328,967	16,550
Accounts receivable	126,164	137,750	(11,586)	137,750	156,242	(18,492)
Prepaid expenses	564,445	382,564	181,881	382,564	360,242	22,322
Fixed maturities, at fair value	4,942,384	4,789,135	153,249	4,789,135	3,983,157	805,978
Total current assets	13,323,622	10,315,948	3,007,674	10,315,948	4,948,594	5,367,354
Fix maturities, at fair value	12,668,181	17,034,457	(4,366,276)	17,034,457	17,443,305	(408,848)
Total assets	25,991,803	27,350,405	(1,358,602)	27,350,405	22,391,899	4,958,506
<b>Liabilities</b>						
<b>Current liabilities:</b>						
accounts payable	111,641	84,890	26,751	84,890	114,455	(29,565)
Reserves for losses and loss adjustment expenses	9,530,905	9,719,620	(188,715)	9,719,620	10,244,233	(524,613)
Total liabilities	9,642,546	9,804,510	(161,964)	9,804,510	10,358,688	(554,178)
Net assets	\$ 16,349,257	17,545,895	(1,196,638)	17,545,895	12,033,211	5,512,684

**Financial Statement Analysis**

***Assets***

Cash and Cash Equivalents

The increase in cash and cash equivalents is a result of the anticipated implementation of a new investment policy. Proceeds from the maturity of long term bonds are being held in a money market account until the policy is approved.

Fixed Maturities

As bonds mature, funds are held in a money market account as discussed above. As a result, investments in fixed maturities have decreased.

Accrued Investment Income

The amount of accrued investment income is lower in 2002 due to the decrease in fixed maturities discussed above.

Accounts Receivable

Accounts receivable is representative of the common expenses allocated to the University of Colorado Insurance Pool (UCIP) for the fourth quarter of each fiscal year. As UCIP's number of open claims and case reserves continues to decrease, the apportionment of common expenses also decreases.

**UNIVERSITY OF COLORADO RISK AND  
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Management's Discussion and Analysis

June 30, 2002

Prepaid Expenses

Prepaid expenses represent the cost of excess insurance for the three-month period of July through September each fiscal year. Excess insurance costs increased significantly for the policy period of October 1, 2001 through September 30, 2002, with a resulting increase to prepaid expenses. A hardening of the insurance market, the downturn of the investment market, and the events of September 11, 2001 were contributing factors to the increase in excess insurance premiums.

*Liabilities and Net Assets*

Loss Reserves

The decrease in reserves for losses and loss adjustment expenses is minimal, and reflects management's philosophy of aggressive claims management.

Accounts Payable

The increase in accounts payable in 2002 is largely due to an increase in the workers' compensation self insurance surcharge from the Division of Workers' Compensation. The formula for calculating the surcharge was changed effective with the reporting period January 1, 2002 through June 30, 2002, and the change has proven to be unfavorable for entities with good loss history, such as the Fund.

Net Assets

Although the net assets decreased from June 30, 2001 to June 30, 2002, this reflects the refund of excess surplus to the campuses in July 2001, and management's decision to maintain the level of premium charged to the campuses by absorbing the increased excess insurance charges with surplus funds.

The following is a summary of the Fund's statements of revenue, expenses, and changes in net assets for the years ended June 30, 2002, 2001, and 2000:

	<u>2002</u>	<u>2001</u>	<u>Change</u>	<u>2001</u>	<u>2000</u>	<u>Change</u>
Revenue:						
Premiums earned	\$ 5,819,914	6,930,888	(1,110,974)	6,930,888	7,847,508	(916,620)
Net investment income	1,580,861	2,315,953	(735,092)	2,315,953	876,792	1,439,161
	<u>7,400,775</u>	<u>9,246,841</u>	<u>(1,846,066)</u>	<u>9,246,841</u>	<u>8,724,300</u>	<u>522,541</u>
Expenses:						
Losses and loss adjustment expenses incurred	2,691,977	1,899,598	792,379	1,899,598	2,252,905	(353,307)
General and administrative expenses	1,905,436	1,834,559	70,877	1,834,559	1,694,544	140,015
	<u>4,597,413</u>	<u>3,734,157</u>	<u>863,256</u>	<u>3,734,157</u>	<u>3,947,449</u>	<u>(213,292)</u>
Excess of revenue over expenses	2,803,362	5,512,684	(2,709,322)	5,512,684	4,776,851	735,833
Surplus distribution	(4,000,000)	—	(4,000,000)	—	—	—
Net assets at beginning of year	<u>17,545,895</u>	<u>12,033,211</u>	<u>5,512,684</u>	<u>12,033,211</u>	<u>7,256,360</u>	<u>4,776,851</u>
Net assets at end of year	<u>\$ 16,349,257</u>	<u>17,545,895</u>	<u>(1,196,638)</u>	<u>17,545,895</u>	<u>12,033,211</u>	<u>5,512,684</u>

# UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

## Management's Discussion and Analysis

June 30, 2002

### *Revenue*

#### Premiums Earned

##### *Direct Earned Premium*

Although gross premiums charged to the campuses remained consistent in 2002, the decrease in direct premium earned is related to the elimination of the Miscellaneous Property Insurance (MPI) program, effective July 1, 2001. The MPI program allowed campus departments to "buy down" the deductible on property claims by paying a premium, of which a portion was kept by the campus risk management department and a portion was transferred to the Fund. Deductibles on most property claims were eliminated effective July 1, 2001 after an evaluation determined that they were not effectively used to reduce losses. Once deductibles were eliminated, the MPI program was no longer necessary. Deductibles that remain in effect are \$5,000 per crime loss, \$1,000 per auto physical damage loss, \$250 per general liability gate arm malfunction, and \$2,500 for property theft losses in which there is no evidence of forced entry.

##### *Ceded Earned Premium*

The amount of ceded earned premium increased significantly in 2002 as a result of the increased cost of excess insurance, particularly in the property line of coverage.

#### Investment Income

The increase in investment income in 2001 is reflective of higher asset values. The decrease in investment income in 2002 is due to fewer dollars invested in long-term bonds, and lower rates of return available for maturing investments. Lower rates of return are reflective of the overall economic decline in the United States during 2002, partially due to the events of September 11, 2001 in addition to other adverse conditions in the equity markets.

### *Expenses*

#### Losses and Loss Adjustment Expense

The amounts paid on losses and loss adjustment expenses for workers compensation, auto liability and auto physical damage increased in 2001, while the amounts incurred for property, crime and general liability decreased, with an overall decrease.

The amounts paid on losses and loss adjustments expenses for property, auto physical damage, general liability, and auto liability increased in 2002, while the amounts paid for workers compensation decreased. Losses paid on property claims were responsible for the largest percentage of the increase. Management expected an increase in property claims in 2002, as a result of the elimination of deductibles for most property claims.

#### General and Administrative Expenses

Administrative expenses increased 8.26% in 2001 due to annual salary increases and the addition of the new position of Assistant Director of University Risk Management. The increase to these expenses in 2002 was minimal at 3.86%.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Management's Discussion and Analysis

June 30, 2002

**Surplus Distribution**

The distribution of \$4,000,000 excess surplus to the campuses in 2002 was based on an analysis of the fund balance in relation to the liabilities of the Fund. Management's funding goal is to maintain a 1:1 ratio of surplus to liabilities.

**Contacting the Fund's Financial Management**

For additional information regarding the Fund's financial statements please contact:

University Risk Management  
4001 Discovery Drive, Suite 230  
Boulder, CO 80303  
303-735-1604

## **Independent Auditors' Report**

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of the University of Colorado Risk and Insurance Management Fund (the Fund) as of June 30, 2002 and 2001, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Risk and Insurance Management Fund as of June 30, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, Reconciliation of Reserves for Losses and Loss Adjustment Expenses by Type of Coverage and Claims Development Information are not required parts of the basic financial statements of the University of Colorado Risk and Insurance Management Fund, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

**KPMG LLP**

August 16, 2002

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Statements of Net Assets

June 30, 2002 and 2001

<b>Assets</b>	<b>2002</b>	<b>2001</b>
Current assets:		
Cash and cash equivalents	\$ 7,407,493	4,660,982
Accounts receivable	126,164	137,750
Accrued investment income	283,136	345,517
Prepaid expenses	564,445	382,564
Fixed maturities, at fair value	4,942,384	4,789,135
Total current assets	13,323,622	10,315,948
Fixed maturities, at fair value	12,668,181	17,034,457
Total assets	25,991,803	27,350,405
<b>Liabilities</b>		
Current liabilities – accounts payable	111,641	84,890
Reserve for losses and loss adjustment expenses	9,530,905	9,719,620
Total liabilities	9,642,546	9,804,510
Net assets	\$ 16,349,257	17,545,895

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
Revenue:		
Premiums earned	\$ 5,819,914	6,930,888
Net investment income	1,580,861	2,315,953
	7,400,775	9,246,841
Expenses:		
Losses and loss adjustment expenses incurred	2,691,977	1,899,598
General and administrative expenses	1,905,436	1,834,559
	4,597,413	3,734,157
Excess of revenue over expenses	2,803,362	5,512,684
Surplus distribution	(4,000,000)	—
Net assets at beginning of year	17,545,895	12,033,211
Net assets at end of year	\$ 16,349,257	17,545,895

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Statements of Cash Flows

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating activities:		
Premiums collected	\$ 5,638,033	6,908,566
Losses and loss adjustment expenses paid	(2,880,691)	(2,424,211)
Net investment income received	1,065,269	1,758,386
General and administrative and other expenses paid	(1,867,100)	(1,845,632)
Net cash provided by operating activities	<u>1,955,511</u>	<u>4,397,109</u>
Investing activities:		
Maturities of investments	4,791,000	4,293,887
Purchase of investments	—	(4,150,000)
Net cash provided by investing activities	<u>4,791,000</u>	<u>143,887</u>
Financing activities:		
Surplus distribution	(4,000,000)	—
Net increase in cash and cash equivalents	2,746,511	4,540,996
Cash and cash equivalents at beginning of year	<u>4,660,982</u>	<u>119,986</u>
Cash and cash equivalents at end of year	<u>\$ 7,407,493</u>	<u>4,660,982</u>
Reconciliation of excess of revenue over expenses to net cash provided by operating activities:		
Excess of revenue over expenses	\$ 2,803,362	5,512,684
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Unrealized gain	(577,973)	(541,017)
Changes in operating assets and liabilities:		
Accrued investment income	62,381	(16,550)
Accounts receivable	11,586	18,492
Prepaid expenses	(181,881)	(22,322)
Reserve for losses and loss adjustment expenses	(188,714)	(524,613)
Accrued liabilities	26,750	(29,565)
Net cash provided by operating activities	<u>\$ 1,955,511</u>	<u>4,397,109</u>

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

**(1) Organization, Basis of Presentation, and Summary of Significant Accounting Policies**

**(a) Organization**

The University of Colorado Risk and Insurance Management Fund (the Fund) was established by the board of regents on June 27, 1996, effective October 1, 1996, to provide funding for the University of Colorado's program of self-insurance encompassing its risks of general liability, including automobile liability and errors and omissions liability; property, including crime; and workers' compensation. The Fund is an asset of the Regents of the University of Colorado and is held and accounted for separately within the Treasury of the Regents of the University of Colorado. Through September 30, 1996, the University provided this coverage through the University of Colorado Insurance Pool (the Pool). Coverages provided by the Fund are essentially the same as those that were provided by the Pool. Employers' liability coverage is provided up to a limit of \$2 million and \$10 million during the years ended June 30, 2002 and 2001, respectively, for each accident and each employee disease and workers' compensation coverage is provided up to the statutory requirements for the State of Colorado. Through September 30, 1999, the Fund retained the first \$300,000 for each accident or each employee disease and ceded the excess. Effective October 1, 1999, the Fund increased its retention for each accident and each employee disease to \$500,000.

Property coverage is provided up to a limit of \$300 million and \$500 million per occurrence during 2002 and 2001, respectively. The Fund retained the first \$250,000 and \$100,000 per occurrence during 2002 and 2001, respectively, and cedes the excess.

Liability insurance, including general liability, auto liability, errors, and omissions and school leaders' coverage, is also provided by the Fund. The coverage under this policy is limited to \$10 million per occurrence or wrongful act through March 27, 2000 and \$25 million per occurrence or wrongful act effective March 28, 2000. Through September 30, 1999, the Fund retained the first \$250,000 per occurrence or wrongful act (\$500,000 for employment practices liability), ceding the excess. Effective October 1, 1999, the Fund decreased its retention level to \$150,000 per occurrence or wrongful act (\$450,000 for employment practices liability), plus a \$100,000 annual aggregate corridor retention, ceding the excess.

**(b) Reporting Entity and Fund Type**

The Fund is a part of the University of Colorado and is used to account for the University's risk financing activities after October 1, 1996.

**(c) Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

**(d) Investments**

Investments in fixed maturities are reported at fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Unrealized gains and losses are included in investment income.

All investment income is recognized as revenue (or expense) in the statements of revenue and expenses and changes in fund balance. Gains and losses on investments sold are realized in operations and are computed based on the specific-identification method.

**(e) Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents include cash on deposit, money market funds, and other investments with maturities of three months or less at the date of acquisition.

**(f) Premiums**

Premiums are earned pro rata over the terms of the policies, except for premium adjustments on retrospectively rated policies that are recognized when accrued. The billing for premium adjustments on retrospectively rated policies normally occurs in the period following the accrual. The reserve for unearned premiums is determined on a monthly pro rata basis.

**(g) Reserve for Losses and Loss Adjustment Expenses**

The reserve for losses and loss adjustment expenses represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency. The estimates are periodically reviewed by independent consulting actuaries and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate.

**(h) Reinsurance**

Reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, losses, loss adjustment expenses, and the reserves for losses and loss adjustment expenses are reported net of reinsured amounts. Should the reinsurers be unable to fulfill their obligations under the reinsurance contracts, the Fund would remain liable for claims and expenses associated with the ceded business.

**(i) Income Taxes**

The Fund is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

**(j) *Recently Issued Accounting Standards***

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB 34 establishes new financial reporting requirements for state and local governments throughout the United States, including the requirement to provide an analytical overview of the financial statements in Management’s Discussion and Analysis (MD&A).

The Fund adopted the provisions of GASB 34 as of July 1, 2001 and has included MD&A in its basic financial statements.

**(2) Cash Deposits and Investments**

**(a) *Cash Deposits***

The Fund currently operates under the guidelines of the Colorado Public Deposit Protection Act of 1975 (the Act). The Act, as amended, for banks and savings and loans requires state regulators to certify eligible depositories for public deposits. The Act requires eligible depositories with public deposits in excess of the federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the assets in the pool must be at least equal to 102% of the uninsured deposits.

The carrying amount of the Fund’s deposits in the collateral pool was \$7,407,493 and \$4,660,982 at June 30, 2002 and 2001, respectively. The bank balances were \$7,580,159 and \$4,832,992 at June 30, 2002 and 2001, respectively. The 2002 and 2001 bank balances were fully insured by the Federal Deposit Insurance Corporation or covered by collateral held in the bank’s trust department in the Fund’s name.

**(b) *Investments***

Investments in debt securities are not subject to collateralization under the provisions of the Colorado Public Deposit Protection Act. The Colorado state statutes govern the Fund’s investments.

Investments are categorized below to give an indication of the level of risk assumed:

- Category 1: Includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund’s name.
- Category 2: Includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent in the Fund’s name.
- Category 3: Includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Fund’s name.

All of the Fund’s investments are considered Category 1 investments.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

The amortized cost and fair value of investments in bonds are as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At June 30, 2002:				
U.S. Treasury securities and obligations	\$ 4,432,312	227,369	—	4,659,681
Mortgage-backed securities	<u>12,292,541</u>	<u>658,343</u>	<u>—</u>	<u>12,950,884</u>
Total fixed maturities	<u>\$ 16,724,853</u>	<u>885,712</u>	<u>—</u>	<u>17,610,565</u>
At June 30, 2001:				
U.S. Treasury securities and obligations	\$ 3,688,209	71,589	—	3,759,798
Mortgage-backed securities	<u>17,594,366</u>	<u>470,868</u>	<u>(1,440)</u>	<u>18,063,794</u>
Total fixed maturities	<u>\$ 21,282,575</u>	<u>542,457</u>	<u>(1,440)</u>	<u>21,823,592</u>

The amortized cost and fair value of fixed maturities at June 30, 2002, by contractual maturity, are shown below. Current maturities of mortgage-backed securities were \$4,942,384 and \$4,789,135 at June 30, 2002 and 2001, respectively. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>Contractual maturities</u>	<u>Amortized cost</u>	<u>Fair value</u>
Due after one through five years	\$ 4,432,312	4,659,681
Mortgage-backed securities	<u>12,292,541</u>	<u>12,950,884</u>
Total fixed maturities	<u>\$ 16,724,853</u>	<u>17,610,565</u>

Major categories of investment income for the year ended June 30 are summarized as follows:

	<u>2002</u>	<u>2001</u>
Fixed maturities	\$ 1,152,691	1,308,428
Cash and cash equivalents	94,525	100,588
Net increase in the fair value of investments	<u>344,695</u>	<u>918,238</u>
Total investment income	1,591,911	2,327,254
Investment expenses	<u>(11,050)</u>	<u>(11,301)</u>
Net investment income	<u>\$ 1,580,861</u>	<u>2,315,953</u>

There were no realized gains or losses on sales of bonds during 2002 and 2001.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

**(3) Reserve for Losses and Loss Adjustment Expenses**

As discussed in note 1, the Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses. The following represents changes in those aggregate liabilities, excluding any reinsurance recoverables for the Fund during the years ended June 30, 2002 and 2001:

	<b>2002</b>	<b>2001</b>
Reserve for losses and loss adjustment expenses at beginning of year	\$ 9,719,620	10,244,233
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	5,574,278	4,083,715
Decrease in provision for insured events of prior years	(2,882,302)	(2,184,117)
Total incurred losses and loss adjustment expenses	2,691,976	1,899,598
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	1,205,495	887,605
Losses and loss adjustment expenses attributable to insured events of prior years	1,675,196	1,536,606
Total payments	2,880,691	2,424,211
Total reserve for losses and loss adjustment expenses at end of year	\$ 9,530,905	9,719,620

The provisions for losses and loss adjustment expenses pertaining to prior years decreased during the years ended June 30, 2002 and 2001 due to lower than anticipated settlement costs of certain prior year claims. The reserve for losses and loss adjustment expenses is presented net of reinsurance recoverable on unpaid losses, which totaled \$0 and \$2,100 at June 30, 2002 and 2001, respectively.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and loss adjustment expenses. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

**(4) Related Party Transactions**

The Fund paid fees of \$740,609 and \$737,130 to the University of Colorado during the years ended June 30, 2002 and 2001, respectively, for risk management services.

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Notes to Financial Statements

June 30, 2002 and 2001

**(5) Summary of Premiums and Losses**

The following is a summary of premiums earned and losses incurred by type of coverage for the year ended June 30, 2002.

<u>Coverage</u>	<u>Premiums earned</u>	<u>Losses and loss adjustment expenses incurred</u>
Workers' compensation (net of \$196,628 of premiums ceded)	\$ 3,987,692	1,291,971
Property (net of \$1,999,806 of premiums ceded)	(24,863)	905,565
General liability (net of \$329,828 of premiums ceded)	1,730,210	199,114
Auto liability (net of \$99,526 of premiums ceded)	126,875	293,458
ULAE reserves	—	1,869
	<u>\$ 5,819,914</u>	<u>2,691,977</u>

The following is a summary of premiums earned and losses incurred by type of coverage for the year ended June 30, 2001.

<u>Coverage</u>	<u>Premiums earned</u>	<u>Losses and loss adjustment expenses incurred</u>
Workers' compensation (net of \$167,588 of premiums ceded)	\$ 4,403,294	1,722,188
Property (net of \$891,467 of premiums ceded)	489,589	(11,110)
General liability (net of \$349,749 of premiums ceded)	1,936,387	127,069
Auto liability (net of \$99,129 of premiums ceded)	101,618	221,593
ULAE reserves	—	(160,142)
	<u>\$ 6,930,888</u>	<u>1,899,598</u>

**(6) Surplus Distribution**

In July 2001, the University of Colorado Administration made the decision to return \$4 million of the Fund's excess surplus. The distribution was made to the University of Colorado on July 31, 2001.

**REQUIRED SUPPLEMENTARY INFORMATION**

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Required Supplementary Information – Reconciliation of  
Reserves for Losses and Loss Adjustment Expenses  
by Type of Coverage

Years ended June 30, 2002 and 2001

The schedule below presents the changes in reserves for losses and loss adjustment expenses for the years ended June 30, 2002 and 2001 for the Fund's two types of coverage: workers' compensation and liability and property.

	<b>Workers' compensation</b>		<b>Liability and property</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Reserve for losses and loss adjustment expenses at beginning of year	\$ 5,694,473	5,542,593	4,025,147	4,701,640
Incurring losses and loss adjustment expenses:				
Provision for insured events of current year	3,175,000	2,478,220	2,399,278	1,605,495
Decrease in provision for insured events of prior years	(1,883,029)	(756,032)	(999,273)	(1,428,085)
Total incurred losses and loss adjustment expenses	<u>1,291,971</u>	<u>1,722,188</u>	<u>1,400,005</u>	<u>177,410</u>
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	705,844	521,780	499,652	365,825
Losses and loss adjustment expenses attributable to insured events of prior years	<u>1,078,026</u>	<u>1,048,528</u>	<u>597,169</u>	<u>488,078</u>
Total payments	<u>1,783,870</u>	<u>1,570,308</u>	<u>1,096,821</u>	<u>853,903</u>
Total reserve for losses and loss adjustment expenses at end of year	<u>\$ 5,202,574</u>	<u>5,694,473</u>	<u>4,328,331</u>	<u>4,025,147</u>

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Required Supplementary Information –  
Reconciliation of Claims Development Information

June 30, 2002

**Ten-Year Claims Development Information**

The table below illustrates how the Fund's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each period. The rows of the table are defined as follows: (1) This line shows the total of each fiscal period's earned premium revenues and investment revenues. (2) This line shows each fiscal period's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims. (3) This line shows the Fund's incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the event that triggered coverage under the contract occurred (called *policy period*). (4) This section shows the cumulative amounts paid as of the end of successive periods for each policy period. (5) This section shows how each policy period's incurred losses increased or decreased as of the end of successive periods. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred loss amount to the amount originally established (line 3) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy periods mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy periods. The columns of the table show data for successive policy periods.

**Ten-Year Claims Development Information (in thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
1. Net earned premium and investment revenue	\$ 6,320	8,342	10,336	8,724	9,247	7,401
2. Unallocated expenses	558	807	1,280	1,695	1,835	1,905
3. Estimated incurred claims and expense, end of policy period	5,402	7,054	6,529	5,791	4,971	5,574
4. Paid (cumulative) as of:						
End of policy period	603	1,374	799	844	888	1,205
One year later	1,618	2,319	1,913	1,821	1,801	
Two years later	2,073	2,693	2,457	2,201		
Three years later	2,211	2,925	2,483			
Four years later	2,381	2,951				
Five years later	2,346					
5. Reestimated incurred claims and expense:						
End of policy period	5,402	7,054	6,529	5,791	4,971	5,574
One year later	4,282	7,301	4,690	4,240	3,710	
Two years later	4,233	3,939	4,070	3,421		
Three years later	2,870	3,723	3,118			
Four years later	2,823	3,616				
Five years later	2,713					
6. Increase (decrease) in estimated incurred claims and expense from the period ended	(2,689)	(3,433)	(3,411)	(2,370)	(1,261)	—

August 16, 2002

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Colorado Risk and Insurance Management Fund (the Fund), for the year ended June 30, 2002 and have issued our report thereon dated August 16, 2002. In planning and performing our audit of the financial statements of the Fund, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that error or fraud 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. However, we noted no matters involving internal control and its operation that we consider to be a material weakness as defined above.

This report is intended solely for the information and use of the Legislative Audit Committee, board of directors, and management of the Fund and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

**UNIVERSITY OF COLORADO RISK AND  
INSURANCE MANAGEMENT FUND**

Audited Financial Statements

June 30, 2002

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