

**UNIVERSITY OF COLORADO SELF-INSURANCE
AND RISK MANAGEMENT TRUST**

Financial Statements and
Auditors' Comments and Recommendations

June 30, 2002

(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).

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**LEGISLATIVE AUDIT COMMITTEE
2002 MEMBERS**

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Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

August 30, 2002

Members of the Legislative Audit Committee:

We have completed the financial audit of University of Colorado Self-Insurance and Risk Management Trust 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 23-103 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 SELF-INSURANCE
AND RISK MANAGEMENT TRUST**

Financial Statements

June 30, 2002

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**UNIVERSITY OF COLORADO SELF-INSURANCE
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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 University of Colorado Self-Insurance and Risk Management Trust (the Trust) 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 the financial statements and the notes thereto 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 Trust 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 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 components 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.

Standards

The audit was conducted in accordance with auditing standards generally accepted in the United States of America.

Scope

We examined, on a test basis, evidence supporting the financial transactions and related balances of the Trust 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 audit committee or its equivalent, 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 loss and loss adjustment expense reserves of an insurance company is a subjective and judgmental process, particularly for long-tail lines of business such as medical malpractice insurance. To estimate the loss and loss adjustment expense reserve, management of the Trust utilizes the 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

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Audit Report Summary

June 30, 2002

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. 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 present value of the ultimate loss to be incurred. We concur that management's estimate of the reserve for losses and loss adjustment expenses is the best available estimate, subject to the uncertainty that the Trust 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 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*. This was followed by the issuance of GASB 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. GASB 34 and 35 establish 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 Trust adopted the provisions of GASB 34 and 35 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 30, 2002, which states that the financial statements of the Trust present fairly the financial position of the Trust at 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.

No adjustments arose from our audit which could, individually or in the aggregate, have a significant effect on the Trust's financial statements. 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 SELF-INSURANCE
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Organization and Functions of the Trust

June 30, 2002

Description of University of Colorado Self-Insurance and Risk Management Trust

University of Colorado Self-Insurance and Risk Management Trust (the Trust) was authorized by Regent resolution dated June 23, 1977, as a self-insurance fund to provide the medical malpractice coverage for the Regents of the University of Colorado, the University of Colorado Health Sciences Center, its faculty, staff, students and health care practitioners in training (the University). The Trust exists as an auxiliary enterprise of the University of Colorado and not as a separate legal entity. Through June 30, 1985, the University provided medical malpractice coverage through a commercial insurance policy to the specified limits of the Colorado Governmental Immunity Act. On July 1, 1985, the University became totally self-insured to the specified limits of liability established in the Colorado Governmental Immunity Act.

The Trust provides professional liability insurance coverage to the aforementioned parties based on C.R.S. §24-10-101, *et seq.* This provides the aforementioned parties coverage up to \$150,000 per individual claimant in one incident and \$600,000 for multiple claimants in one incident for activities arising within the State of Colorado. The Trust's coverage limits are consistent with the State of Colorado's liability limitations for governmental entities and employees. The current liability limitations are effective for occurrences on and subsequent to January 1, 1993. For occurrences from July 1, 1985 through December 31, 1992, liability limitations were \$150,000 per individual claimant in one incident and \$400,000 for multiple claimants in one incident. In the current fiscal year, the Trust entered into excess insurance agreements on behalf of the aforementioned parties. The excess insurance agreements provide coverage for claims based on federal statutes which may not be subject to the same liability limitations provided by the State of Colorado.

The Trust, by agreement of the entities, also provides insurance coverage for the University of Colorado Hospital Authority (the Hospital) and its employees up to the Trust's specified coverage limits. The University Hospital purchased commercial coverage for claims beyond the Trust's coverage limits (\$150,000/\$600,000) to cover the period of 1989 to 1991. The Trust and the Hospital have agreed that the Trust will administer all Hospital claims; however, the Trust is not responsible for the payment of Hospital claims beyond its specified coverage limits (\$150,000/\$600,000). For occurrences from July 1, 1985 through December 31, 1992, coverage limits were \$150,000/\$400,000 per occurrence.

Effective January 1, 1997, the University entered into an agreement with the Denver Health and Hospital Authority (Denver Health) to provide health care risk management and claims management services for Denver Health. The Trust does not have any responsibility for payment of Denver Health claims.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Disposition of Prior Year Recommendations

Listed below are the recommendations noted in the June 30, 2000 audit report dated September 5, 2000 and the disposition or other status of the items as of August 30, 2002.

<u>Recommendation</u>	<u>Implemented</u>	<u>Not implemented</u>	<u>Comments</u>
Purchase a new claims system	X		None
Develop a claims manual	X		None

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Management's Discussion and Analysis

The discussion and analysis of the University of Colorado Self-Insurance and Risk Management Trust (Trust) provides an overview of the financial activities for the year ended June 30, 2002. This analysis will focus on the financial activities for the current fiscal year only (as opposed to a comparative analysis), since the financial statements only cover the one year. Comparative statements and analysis will be provided in future years. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of the information rests with the preparers.

Financial Highlights

The Trust's financial position as a whole has improved during the fiscal year as net assets increased by \$424,773. This increase was mainly attributable to actual claim payments being less than planned.

In February, the Self Risk Trust Advisory Board approved the transfer of the Trust's \$10 million investments from Fiduciary Trust International to the University of Colorado Treasury. This change in the management of the Trust's investments provided \$15,000 in cost savings of management fees as well as a more diversified portfolio with the outlook of improved returns.

Overview of the Financial Statements

This report consists of three basic financial statements:

- The statement of net assets presents the assets, liabilities, and net assets of the Trust at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the Trust.
- The statement of revenue, expenses, and changes in net assets presents the total revenue received and expenses incurred by the Trust for operating, nonoperating, and other related activities during the period of time (the year ended June 30, 2002). Its purpose is to assess the Trust's operating results.
- The statement of cash flows presents receipts and payments of the Trust during a period of time (the year ended June 30, 2002). Its purpose is to assess the Trust's ability to generate future net cash flows and meet its obligations as they come due.

Statement of Net Assets

The Trust's net assets, the difference between assets and liabilities, is one way to measure the Trust's financial condition. Over time, increases or decreases in the Trust's net assets are one indicator of whether its financial condition is improving.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Management's Discussion and Analysis

Net assets for the Trust at June 30, 2002 were \$2.9 million as identified below (in thousands):

Current assets	\$	1,038
Noncurrent assets		9,707
		10,745
Total assets		10,745
Current liabilities		68
Noncurrent liabilities		7,707
		7,775
Total liabilities		7,775
Net assets	\$	2,970

Statement of Revenue, Expenses, and Changes in Net Assets

Another indicator of financial condition is the relationship between revenue and expenses. When revenue and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. A summary of revenue, expenses, and changes in net assets as of June 30, 2002 (in thousands) is provided below:

Operating revenue	\$	2,449
Operating expenses		2,429
		20
Operating income		20
Nonoperating income		404
		424
Increase in net assets		424
Net assets – June 30, 2001		2,546
Net assets – June 30, 2002	\$	2,970

Operating Revenue

Premiums are assessed each fiscal year to participants to cover the operating expenses in managing the Trust as well as increasing reserves to ensure sufficient funding levels for future claims that have been incurred but not reported. Premiums increased 50% in fiscal year 2002 as compared to fiscal year 2001 to ensure sufficient funding. The funding levels (reserves) are determined by actuarial analysis and are based on a 90% confidence level.

Operating Expenses

The most significant operating expense of the Trust is the provision for settlement and legal expenses. For the year ended June 30, 2002 this amount was \$1.3 million. Projections for this provision were updated during the fiscal year based on an actuarial report dated April 4, 2002. As a result of the updated projections, the provision was decreased based on actual claims history.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Management's Discussion and Analysis

Statement of Cash Flows

Total cash flows from operating activities was negative \$198,996 for the year ended June 30, 2002. This is due to the fact that participant premium assessments did not fully fund the operations of the Trust and investment earnings were used to support the operations. The sale and purchase of investments reported in cash flows from investing activities primarily represents the investment transition as noted previously from the Fiduciary Trust International to the University of Colorado Treasury.

Economic Factors that will Affect the Future

While loss experience has continued to be stable for the Trust, the return on investments has not. This is not reflective of the investment strategy of the Trust but related to issues that have affected the economy nationally. This has resulted in the need to assess premiums to fund the reserve and offset the decrease in investment earnings.

Independent Auditors' Report

Members of the Legislative Audit Committee:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Colorado Self-Insurance and Risk Management Trust at 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.

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 Self-Insurance and Risk Management Trust, 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 30, 2002

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Statement of Net Assets

June 30, 2002

Assets

Current assets:

Cash and cash equivalents	\$ 406,160
Short term investments	480,433
Accrued investment income	<u>151,790</u>
Total current assets	1,038,383

Mutual funds, at fair value:

Fixed income	7,718,128
Equity securities	<u>1,989,262</u>
Total investments	<u>9,707,390</u>
Total assets	<u>10,745,773</u>

Liabilities

Current liabilities – accounts payable and accrued expenses	67,840
Reserve for losses and loss adjustment expenses	<u>7,707,144</u>
Total liabilities	<u>7,774,984</u>
Net assets	<u>\$ 2,970,789</u>

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Statement of Revenue, Expenses, and Changes in Net Assets

Year ended June 30, 2002

Operating revenue – premiums	\$ 2,449,152
Operating expenses:	
Salaries and benefits	(647,005)
Other general and administrative expenses	(306,973)
Losses and loss adjustment expenses	(1,309,926)
Stop loss insurance	(165,000)
Total operating expenses	<u>(2,428,904)</u>
Operating income	20,248
Nonoperating income	<u>404,525</u>
Increase in net assets	424,773
Net assets at beginning of year	<u>2,546,016</u>
Net assets at end of year	<u><u>\$ 2,970,789</u></u>

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Statement of Cash Flows

Year ended June 30, 2002

Cash flows from operating activities:	
Participant payments	\$ 2,393,207
Payment to employees	(647,005)
Payment to suppliers	(197,262)
Legal and settlement payments	(1,473,225)
Other operating payments	<u>(274,711)</u>
Net cash used in operating activities	(198,996)
Cash flows from investing activities:	
Proceeds from sale and maturities of investments	34,253,610
Interest on investments	543,037
Investment management fees paid	(15,313)
Purchase of investments	<u>(34,420,206)</u>
Total cash flows from investing activities	<u>361,128</u>
Net increase in cash and cash equivalents	162,132
Cash and cash equivalents at beginning of year	<u>244,028</u>
Cash and cash equivalents at end of year	<u><u>\$ 406,160</u></u>
Reconciliation of net operating income to net cash used in operating activities:	
Operating income	\$ 20,248
Adjustments to reconcile operating income to net cash used in operating activities:	
Accrued investment income	(55,945)
Accounts payable and accrued expenses	5,853
Reserve for losses and loss adjustment expenses	<u>(169,152)</u>
Net cash used in operating activities	<u><u>\$ (198,996)</u></u>

See accompanying notes to financial statements.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Notes to Financial Statements

June 30, 2002

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

(a) Organization

The University of Colorado Self-Insurance and Risk Management Trust (the Trust) was authorized by Regent resolution dated June 23, 1977, as a self-insurance fund to provide the medical malpractice coverage for the Regents of the University of Colorado, the University of Colorado Health Sciences Center, its faculty, staff, students, and health care practitioners in training (the University). The Trust exists as an auxiliary enterprise of the University of Colorado and not as a separate legal entity. Through June 30, 1985, the University provided medical malpractice coverage through a commercial insurance policy to the specified limits of the Colorado Governmental Immunity Act. On July 1, 1985, the University became totally self-insured to the specified limits of liability established in the Colorado Governmental Immunity Act.

The Trust provides professional liability insurance coverage to the aforementioned parties based on C.R.S. §24-10-101, *et seq.* This provides the aforementioned parties coverage up to \$150,000 per individual claimant in one incident and \$600,000 for multiple claimants in one incident for activities arising within the State of Colorado. The Trust also provides coverage of \$1,000,000 per occurrence for claims arising outside the State of Colorado. The Trust's coverage limits are consistent with the State of Colorado's liability limitations for governmental entities and employees. The current liability limitations are effective for occurrences on and subsequent to January 1, 1993. For occurrences from July 1, 1985 through December 31, 1992, liability limitations were \$150,000 per individual claimant in one incident and \$400,000 for multiple claimants in one incident. During 2000, the Trust entered into excess insurance agreements on behalf of the aforementioned parties. The excess insurance agreements provide coverage for claims based on federal statutes which may not be subject to the same liability limitations provided by the State of Colorado.

The Trust, by agreement of the entities, also provides insurance coverage for the University of Colorado Hospital Authority (the Hospital) and its employees up to the Trust's specified coverage limits. The Hospital purchased commercial coverage for claims beyond the Trust's coverage limits (\$150,000/\$600,000) to cover the period of 1989 to 1991. The Trust and the Hospital have agreed that the Trust will administer all Hospital claims; however, the Trust is not responsible for the payment of Hospital claims beyond its specified coverage limits (\$150,000/\$600,000). For occurrences from July 1, 1985 through December 31, 1992, coverage limits were \$150,000/\$400,000 per occurrence.

Effective January 1, 1997, the Trust entered into an agreement with the Denver Health and Hospital Authority (Denver Health) to provide health care risk management and claims management services for Denver Health. Denver Health is not insured by the Trust, and therefore, the Trust has not recorded a reserve for loss and loss adjustment expenses of Denver Health as of June 30, 2002. Additionally, the Trust has not recorded losses and loss adjustment expenses incurred related to Denver Health claims during the year ended June 30, 2002.

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Notes to Financial Statements

June 30, 2002

(b) Basis of Presentation

The financial statements have been prepared in conformity 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 amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

(c) Cash and Cash Equivalents

For purposes of the statement 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.

The Trust maintains cash on deposit with the University of Colorado in a pooled cash account. Investment income is allocated to the members of the pool on a pro rata basis.

(d) Investments

Investments in mutual funds 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 statement of revenue, expenses, and changes in net assets. Gains and losses on investments sold are realized in operations and are computed based on the specific identification method.

(e) Participant Assessments

The Trust requires that the University reimburse all administrative costs incurred by the Trust on a pro rata basis using its individual risk factors as determined by independent consulting actuaries. The revenue from participant assessments is recognized on a pro rata basis by the Trust in the year in which it is earned.

The Trust relies upon investment income and surplus to fund losses incurred. If the total losses incurred exceed investment income for a given year, the participants in the Trust may be assessed additional assessments on a pro rata basis.

(f) 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, 2002. 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

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Notes to Financial Statements

June 30, 2002

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.

(g) Excess Insurance

Excess insurance 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 excess insurance contracts. Should the excess insurers be unable to fulfill their obligations under the excess insurance contracts, the Trust would remain liable for claims and expenses associated with the ceded business.

(h) Related Party Transactions

The Trust, which is an auxiliary enterprise of the University of Colorado, paid the University approximately \$118,000 for administrative services during 2002.

(i) Income Taxes

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

(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*. This was followed by the issuance of GASB 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. GASB 34 and 35 establish 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 Trust adopted the provisions of GASB 34 and 35 as of July 1, 2001 and has included MD&A in its basic financial statements.

(2) Investments and Deposits

(a) Cash Deposits

The Trust 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 the uninsured deposits.

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Notes to Financial Statements

June 30, 2002

The carrying amount of the Trust's deposits was \$406,160 at June 30, 2002. The bank balances were \$406,160 at June 30, 2002. The entire 2002 bank balance was fully insured by the Federal Deposit Insurance Corporation or covered by collateral held in the bank's trust department in the Trust's name.

(b) Investments

Investments in mutual funds are not subject to collateralization under the provisions of the Colorado Public Deposit Protection Act. The Colorado state statutes govern the Trust's investments.

The amortized cost and market value of investments in mutual funds at June 30, 2002 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturities – corporate bond fund	\$ 7,695,604	22,524	—	7,718,128
Equity securities	\$ 2,088,713	16,971	(116,422)	1,989,262

Major categories of investment income for the year ended June 30, 2002 are summarized as follows:

Fixed income	\$ 791,611
Equity securities	(251,341)
Cash equivalents	3,831
Net decrease in the fair value of investments	(124,263)
Total investment income	419,838
Investment expenses	(15,313)
Net investment income	\$ 404,525

The calculation of realized gains and losses is independent of the calculation of the net change in fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the current year.

(3) Reserve for Losses and Loss Adjustment Expenses

As discussed in note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses.

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Notes to Financial Statements

June 30, 2002

The following represents changes in those aggregate liabilities for the Trust for the year ended June 30, 2002.

Reserve for losses and loss adjustment expenses at beginning of year	\$ 7,876,296
Incurred losses and loss adjustment expenses:	
Provision for insured events of current year	2,450,000
Decrease in provision for insured events of prior years	<u>(1,140,074)</u>
Total incurred losses and loss adjustment expenses	1,309,926
Payments:	
Losses and loss adjustment expenses attributable to insured events of current year	117,353
Losses and loss adjustment expenses attributable to insured events of prior years	<u>1,361,725</u>
Total payments	<u>1,479,078</u>
Total reserve for losses and loss adjustment expenses at end of year	<u>\$ 7,707,144</u>

The provision for loss and loss adjustment expenses pertaining to prior years decreased approximately \$1.1 million during the year ended June 30, 2002 due to lower than anticipated settlement costs of certain prior year claims.

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.

SUPPLEMENTARY INFORMATION

**UNIVERSITY OF COLORADO SELF-INSURANCE
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Required Supplementary Information – Reconciliation of Reserves
for Losses and Loss Adjustment Expenses by Type of Coverage

June 30, 2002

The schedule below presents the changes in loss and loss adjustment expense reserves for the year ended June 30, 2002 for the Trust's one line of coverage: medical malpractice.

Reserve for losses and loss adjustment expenses at beginning of year	\$ 7,876,296
Incurred losses and loss adjustment expenses:	
Provision for insured events of current year	2,450,000
Decrease in provision for insured events of prior years	<u>(1,140,074)</u>
Total incurred losses and loss adjustment expenses	1,309,926
Payments:	
Losses and loss adjustment expenses attributable to insured events of current year	117,353
Losses and loss adjustment expenses attributable to insured events of prior years	<u>1,361,725</u>
Total payments	<u>1,479,078</u>
Total reserve for losses and loss adjustment expenses at end of year	<u>\$ 7,707,144</u>

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Required Supplementary Information – Claims Development Information

June 30, 2002

The table below illustrates how the Trust's earned revenue and investment income compare to related costs of loss and other expenses assumed by the Trust as of the end of each of the last eight years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned participant assessments and investment revenue. (2) This line shows each fiscal year's other operating costs of the Trust, including overhead and claims expense not allocable to individual claims. (3) This line shows the Trust's incurred claims and allocated claim adjustment expense (both paid and unpaid liabilities) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called Policy Year). (4) This section of eight rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of eight rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual actuarial 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 claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years 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 years. The columns of the table show data for successive policy years.

Ten-Year Claims Development Information (in thousands)

	<u>1995</u>	<u>1996</u>	<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	\$ 1,582	2,029	2,480	2,164	1,901	1,049	1,830	2,689
2. Unallocated expenses	730	585	709	698	957	730	852	954
3. Estimated incurred claims and expense, end of policy year	2,739	2,388	2,933	2,575	2,350	2,680	2,500	2,450
4. Paid (cumulative) as of:								
End of policy year	302	180	28	252	70	232	6	8
One year later	757	529	203	502	488	445	65	—
Two years later	1,214	642	544	1,213	368	681	—	—
Three years later	1,599	857	793	1,124	596	—	—	—
Four years later	1,296	724	1,074	1,501	—	—	—	—
Five years later	1,353	728	1,165	—	—	—	—	—
Six years later	1,347	783	—	—	—	—	—	—
Seven years later	1,348	—	—	—	—	—	—	—
5. Reestimated incurred claims and expense:								
End of policy year	2,739	2,388	2,933	2,575	2,350	2,680	2,500	2,450
One year later	2,082	2,151	2,438	2,300	2,275	2,400	2,000	—
Two years later	1,913	1,959	1,850	2,350	1,700	2,000	—	—
Three years later	1,870	1,500	1,500	1,925	1,450	—	—	—
Four years later	1,570	1,100	1,550	2,075	—	—	—	—
Five years later	1,730	1,000	1,500	—	—	—	—	—
Six years later	1,675	975	—	—	—	—	—	—
Seven years later	1,545	—	—	—	—	—	—	—
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(1,194)	(1,413)	(1,433)	(500)	(900)	(680)	(500)	—

August 30, 2002

Members of the Legislative Audit Committee:

We have audited the financial statements of University of Colorado Self-Insurance and Risk Management Trust (the Trust) for the year ended June 30, 2002, and have issued our report thereon dated August 30, 2002. In planning and performing our audit of the financial statements of the Trust, 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 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.

This report is intended solely for the information and use of the Legislative Audit Committee, board of directors, management, and others within the organization 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 SELF-INSURANCE
AND RISK MANAGEMENT TRUST**

Audited Financial Statements

June 30, 2002

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