



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

Financial Statements and
Auditors' Comments

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)

**LEGISLATIVE AUDIT COMMITTEE
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J. David Barba
State Auditor

Joanne Hill
Deputy State Auditor



707 Seventeenth Street
Suite 2300
Denver, CO 80202

August 29, 2001

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, 2001. 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, 2001 and 2000

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UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Audit Report Summary

June 30, 2001

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, 2001, 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, 2001, 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, 2001.

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

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Audit Report Summary

June 30, 2001

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, 2001 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 2001 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.
- ?? Effective July 1, 1999, the Fund determined that it would be more cost-effective to classify all internal legal costs as unallocated loss adjustment expenses (ULAE). These costs were historically classified as allocated loss adjustment expenses (ALAE). As a result of this policy change, internal legal costs are not allocated to claims and are therefore not recoverable under reinsurance arrangements. Management has discussed the policy change with reinsurers and has informed us that they have obtained certain concessions related to Fiscal Year 2001 and 2000 reinsurance contracts.

Financial Audit Report

We have completed our audit of the financial statements and have issued our report thereon dated August 29, 2001, 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, 2001 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, 2001.

There were no changes in significant accounting policies during Fiscal Year 2001, 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
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Audit Report Summary

June 30, 2001

Summary of Progress in Implementing Prior Year Recommendations

The disposition of the prior year recommendations at June 30, 2001 was:

Implemented	1
Not implemented	<u>—</u>
Total	<u><u>1</u></u>

Additional discussion regarding the status of prior year recommendations is contained at page 5 of this report.

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Organization and Functions of the Fund

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**

Disposition of Prior Year Recommendations

Listed below are the recommendations noted in the prior year audit report dated August 31, 2000 and the disposition or other status of the items as of August 29, 2001.

<u>Recommendation</u>	<u>Implemented</u>	<u>Not implemented</u>	<u>Comments</u>
Perform a reconciliation of the loss run report to the losses reported by the actuary	X		None



707 Seventeenth Street
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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying balance sheets of the University of Colorado Risk and Insurance Management Fund (the Fund) as of June 30, 2001 and 2000, and the related statements of revenue and expenses and changes in fund balance 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, 2001 and 2000, 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.

The Reconciliation of Reserves for Losses and Loss Adjustment Expenses by Type of Coverage and the Claims Development Information on pages 17 and 18 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 29, 2001



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

Balance Sheets

June 30, 2001 and 2000

Assets	2001	2000
Fixed maturities, at fair value	\$ 21,823,592	21,426,462
Cash and cash equivalents	4,660,982	119,986
Accounts receivable	137,750	156,242
Accrued investment income	345,517	328,967
Prepaid expenses	382,564	360,242
	\$ 27,350,405	22,391,899
	\$ 27,350,405	22,391,899
Liabilities and Fund Balance		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 9,719,620	10,244,233
Accounts payable	84,890	114,455
	9,804,510	10,358,688
Total liabilities	9,804,510	10,358,688
Fund balance	17,545,895	12,033,211
Commitments and contingencies (note 3)		
Total liabilities and fund balance	\$ 27,350,405	22,391,899
	\$ 27,350,405	22,391,899

See accompanying notes to financial statements.

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

Statements of Revenue and Expenses and Changes in Fund Balance

Years ended June 30, 2001 and 2000

	2001	2000
Revenue:		
Premiums earned	\$ 6,930,888	7,847,508
Net investment income	2,315,953	876,792
	9,246,841	8,724,300
Expenses:		
Losses and loss adjustment expenses incurred	1,899,598	2,252,905
General and administrative expenses	1,834,559	1,694,544
	3,734,157	3,947,449
Excess of revenue over expenses	5,512,684	4,776,851
Fund balance at beginning of year	12,033,211	7,256,360
Fund balance at end of year	\$ 17,545,895	12,033,211

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2001 and 2000

	2001	2000
Operating activities:		
Premiums collected	\$ 6,930,888	7,847,508
Losses and loss adjustment expenses paid	(2,424,211)	(2,132,737)
Accounts receivable	18,492	(156,242)
Prepaid expenses	(22,322)	(21,255)
Net investment income received	1,758,386	1,156,721
General and administrative and other expenses paid	(1,864,124)	(1,658,492)
Net cash provided by operating activities	4,397,109	5,035,503
Investing activities:		
Maturities of investments	4,293,887	3,675,000
Purchase of investments	(4,150,000)	(10,006,324)
Net cash provided (used) by investing activities	143,887	(6,331,324)
Net increase (decrease) in cash and cash equivalents	4,540,996	(1,295,821)
Cash and cash equivalents at beginning of year	119,986	1,415,807
Cash and cash equivalents at end of year	\$ 4,660,982	119,986
Reconciliation of excess of revenue over expenses to net cash provided by operating activities:		
Excess of revenue over expenses	\$ 5,512,684	4,776,851
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Unrealized (gain) loss	(541,017)	377,221
Changes in operating assets and liabilities:		
Accrued investment income	(16,550)	(97,292)
Accounts receivable	18,492	(156,242)
Prepaid expenses	(22,322)	(21,255)
Reinsurance balances recoverable	—	6,282
Reserve for losses and loss adjustment expenses	(524,613)	113,886
Accrued liabilities	(29,565)	36,052
Net cash provided by operating activities	\$ 4,397,109	5,035,503

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2001 and 2000

(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 \$10 million 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 \$500 million per occurrence. The Fund retains the first \$100,000 per occurrence less a policyholder deductible 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) less a policyholder deductible, 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.

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

Notes to Financial Statements

June 30, 2001 and 2000

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.

(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.

**UNIVERSITY OF COLORADO RISK AND
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Notes to Financial Statements

June 30, 2001 and 2000

(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.

(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 the uninsured deposits.

The carrying amount of the Fund's deposits in the collateral pool was \$4,660,982 and \$119,986 at June 30, 2001 and 2000, respectively. The bank balances were \$4,832,992 and \$221,598 at June 30, 2001 and 2000, respectively. The 2001 and 2000 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.

**UNIVERSITY OF COLORADO RISK AND
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Notes to Financial Statements

June 30, 2001 and 2000

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.

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, 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>
At June 30, 2000:				
U.S. Treasury securities and obligations	\$ 3,522,547	7,404	(70,939)	3,459,012
Mortgage-backed securities	<u>18,281,136</u>	<u>6,355</u>	<u>(320,041)</u>	<u>17,967,450</u>
Total fixed maturities	<u>\$ 21,803,683</u>	<u>13,759</u>	<u>(390,980)</u>	<u>21,426,462</u>

The amortized cost and fair value of fixed maturities at June 30, 2001, by contractual maturity, are shown below. 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	\$ 3,688,209	3,759,798
Mortgage-backed securities	<u>17,594,366</u>	<u>18,063,794</u>
Total fixed maturities	<u>\$ 21,282,575</u>	<u>21,823,592</u>

**UNIVERSITY OF COLORADO RISK AND
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Notes to Financial Statements

June 30, 2001 and 2000

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

	2001	2000
Fixed maturities	\$ 1,308,428	1,043,207
Cash and cash equivalents	100,588	48,061
Net increase (decrease) in the fair value of investments	918,238	(204,701)
Total investment income	2,327,254	886,567
Investment expenses	(11,301)	(9,775)
Net investment income	\$ 2,315,953	876,792

There were no realized gains or losses on sales of bonds during 2001 and 2000.

(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, 2001 and 2000:

	2001	2000
Reserve for losses and loss adjustment expenses at beginning of year	\$ 10,244,233	10,130,347
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	4,083,715	4,947,015
Decrease in provision for insured events of prior years	(2,184,117)	(2,694,110)
Total incurred losses and loss adjustment expenses	1,899,598	2,252,905
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	887,605	844,085
Losses and loss adjustment expenses attributable to insured events of prior years	1,536,606	1,294,934
Total payments	2,424,211	2,139,019
Total reserve for losses and loss adjustment expenses at end of year	\$ 9,719,620	10,244,233

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

Notes to Financial Statements

June 30, 2001 and 2000

The provisions for losses and loss adjustment expenses pertaining to prior years decreased during the years ended June 30, 2001 and 2000 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 \$2,100 and \$955,100 at June 30, 2001 and 2000, 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 \$737,130 and \$793,896 to the University of Colorado during the years ended June 30, 2001 and 2000, respectively, for risk management services.

(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, 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>

**UNIVERSITY OF COLORADO RISK AND
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Notes to Financial Statements

June 30, 2001 and 2000

The following is a summary of premiums earned and losses incurred by type of coverage for the year ended June 30, 2000.

<u>Coverage</u>	<u>Premiums earned</u>	<u>Losses and loss adjustment expenses incurred</u>
Workers' compensation (net of \$155,044 of premiums ceded)	\$ 4,980,183	512,952
Property (net of \$776,241 of premiums ceded)	604,108	470,769
General liability (net of \$365,968 of premiums ceded)	2,130,298	1,068,556
Auto liability (net of \$95,000 of premiums ceded)	113,376	18,353
ULAE reserves	—	182,275
Other	19,543	—
	<u>\$ 7,847,508</u>	<u>2,252,905</u>

(6) Subsequent Event

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.

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, 2001 and 2000

The schedule below presents the changes in reserves for losses and loss adjustment expenses for the years ended June 30, 2001 and 2000 for the Fund's two types of coverage: workers' compensation and liability and property.

	Workers' compensation		Liability and property	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Reserve for losses and loss adjustment expenses at beginning of year	\$ 5,542,593	6,490,113	4,701,640	3,640,234
Incurring losses and loss adjustment expenses:				
Provision for insured events of current year	2,478,220	2,815,266	1,605,495	2,131,749
Decrease in provision for insured events of prior years	<u>(756,032)</u>	<u>(2,257,158)</u>	<u>(1,428,085)</u>	<u>(436,952)</u>
Total incurred losses and loss adjustment expenses	<u>1,722,188</u>	<u>558,108</u>	<u>177,410</u>	<u>1,694,797</u>
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	521,780	687,434	365,825	156,651
Losses and loss adjustment expenses attributable to insured events of prior years	<u>1,048,528</u>	<u>818,194</u>	<u>488,078</u>	<u>476,740</u>
Total payments	<u>1,570,308</u>	<u>1,505,628</u>	<u>853,903</u>	<u>633,391</u>
Total reserve for losses and loss adjustment expenses at end of year	<u>\$ 5,694,473</u>	<u>5,542,593</u>	<u>4,025,147</u>	<u>4,701,640</u>

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

Required Supplementary Information –
Claims Development Information

June 30, 2001

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>
1. Net earned premium and investment revenue	\$ 6,320	8,342	10,336	8,724	9,247
2. Unallocated expenses	558	807	1,280	1,695	1,835
3. Estimated incurred claims and expense, end of policy period	5,402	7,054	6,529	5,791	4,971
4. Paid (cumulative) as of:					
End of policy period	603	1,374	799	844	888
One year later	1,618	2,319	1,913	1,821	
Two years later	2,073	2,693	2,457		
Three years later	2,211	2,925			
Four years later	2,381				
5. Reestimated incurred claims and expense:					
End of policy period	5,402	7,054	6,529	5,791	4,971
One year later	4,282	7,301	4,690	4,240	
Two years later	4,233	3,939	4,070		
Three years later	2,870	3,723			
Four years later	2,823				
6. Increase (decrease) in estimated incurred claims and expense from the period ended	(2,579)	(3,331)	(2,459)	(1,551)	—



707 Seventeenth Street
Suite 2300
Denver, CO 80202

August 29, 2001

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, 2001 and have issued our report thereon dated August 24, 2001. 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 letter 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, 2001

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