UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Basic Financial Statements and
Auditors' Comments and Recommendations

June 30, 2004

(With Independent Auditors' Report Thereon)

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Effective August 2, 2004

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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

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

August 24, 2004

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, 2004. 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 SELF-INSURANCE AND RISK MANAGEMENT TRUST

Basic Financial Statements

June 30, 2004

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UNIVERSITY OF COLORADO SELF-INSURANCE
AND RISK MANAGEMENT TRUST

Audit Report Summary

June 30, 2004

Authority and Purpose/Scope of the Audit

This audit was conducted under 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 primary purpose of our engagement was to audit the basic financial statements of the University of Colorado Self-Insurance and Risk Management Trust (the Trust) as of and for the year ended June 30, 2004 in accordance with auditing standards generally accepted in the United States of America and express an opinion on those financial statements and the notes thereto. 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.

The financial statements of the Trust were prepared in accordance with accounting principles generally accepted in the United States of America (hereinafter referred to as basic financial statements).

We examined, on a test basis, evidence supporting the amounts and disclosures in the Trust's financial statements as of June 30, 2004. The accounting practices used by the Trust to prepare the financial statements are in conformity with accounting principles generally accepted in the United States.

Required Communications to the Legislative Audit Committee

In accordance with auditing standards generally accepted in the United States (AU Section 380), and the Statement of Auditing Standards (SAS) No. 61, *Communication with Audit Committees*, as amended, we must communicate to the Audit Committee certain matters noted during our audit. The following sets forth these required communications:

1. **Auditor's Responsibility Under Generally Accepted Auditing Standards** – Our audit was conducted in accordance with auditing standards generally accepted in the United States and was designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

2. **Significant Accounting Policies and Unusual Transactions** – There were no changes to significant accounting policies in 2004.

3. **Management Judgments and Accounting Estimates** – The Trust's management has made judgments with respect to certain accounting estimates included in the audited financial statements. We have reviewed, as part of our normal audit procedures, information regarding management's formulation of accounting estimates and have concluded that the estimates are reasonable in the context of the financial statements taken as a whole. The major accounting estimates are as follows:

Unpaid Losses and Loss Adjustment Expenses – 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 medical malpractice insurance. To estimate the reserve for losses and loss adjustment expenses, management of the Trust 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 and concluded that such actuarial methods and assumptions were reasonable and appropriate. The reserve for losses and loss adjustment expenses at June 30, 2004 was computed by the actuary based upon several methods; such amounts represent management's best estimates of the ultimate loss to be incurred. The Trust discounts its liabilities for unpaid losses and loss adjustment expenses. The funding level required at a 90% confidence level has been discounted on a nontabular basis at 5.48%. A nontabular discount is calculated with reference to an estimated payout pattern and an interest rate, and without reference to actuarial tables. The Trust's selection of the discount rate is based on a weighted average of third-party capital market projections by asset class. The interest rate used to discount liabilities on a nontabular basis has changed from the previous audited financial statements as of June 30, 2002. The prior interest rate was 6.1%. We concur that management's 2004 estimate of the reserve for losses and loss adjustment expenses is a reasonable estimate. Since the ultimate disposition of claims is subject to uncertainty, the actual losses may vary significantly from the estimate in the statutory financial statements.

4. **Audit Adjustments and Uncorrected Misstatements** – There were no audit adjustments.

5. **Disagreements With Management** – There were no disagreements with management on accounting or financial reporting matters that would have caused us to modify our opinion on the financial statements.

6. **Consultation With Other Accountants** – We are not aware of any instances of management consulting with other accountants regarding auditing and accounting matters during 2004, including the type of opinion rendered in connection with our audit.

7. **Other Matters**

   KPMG performed this audit under contract with the Office of the State Auditor and does not discuss accounting or auditing issues with management in connection with our initial or recurring retention as auditor.

   We received excellent cooperation from the Trust's management and staff throughout the audit.

   There were no material errors, irregularities, or possible illegal acts of which we are aware.

   We identified no material weaknesses in the system of internal control.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Audit Report Summary

June 30, 2004

Summary of Major Audit Findings

Documentation of Reconciliation between Loss Information and Actuarial Report

The Trust maintains loss information, which includes all individual claims listed in the order the claim was reported to the Trust (claims-made basis). The Trust provides this loss information to its third-party actuary so that the actuary can perform the annual actuarial review and in turn, provide the Trust with an actuarial report. The actuarial report is based on information listed in the order the claim occurred (occurrence basis). Since the Trust maintains its loss information on a claims-made basis, the loss information must be sorted and accumulated by occurrence year. The actuary and the Trust's Director of Risk Management work together to sort the loss information into occurrence year format. The Director of Risk Management and the actuary work together to ensure that the loss information on a claims-made basis reconciles to the occurrence basis loss information as presented in the actuarial report. Although documentation of the reconciliation is retained by the third-party actuary, no documentation of the reconciliation is retained by the Trust.

Summary of the Trust's Responses

A recommendation summary for the above comment is included in the Recommendation Locator on the next page. The Recommendation Locator also shows the Trust's response to the audit recommendation. A discussion of the audit comment and recommendation is contained in the Findings and Recommendations Section of our report.

There were no recommendations in the prior audit report dated August 30, 2002.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Recommendation Locator

June 30, 2004

Recommendation Locator

Recommendation number	Page number	Recommendation summary	Trust response	Implementation date
1	6	The Trust should retain documentation of the reconciliation between its loss information and loss information presented in the actuarial report.	Agree	10/06/04

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Organization and Functions of the Trust

June 30, 2004

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

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 healthcare 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 occurrences subsequent to December 31, 1992. 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 healthcare risk management and claims management services for Denver Health. The Trust does not have any responsibility for payment of Denver Health claims. The agreement with Denver Health was terminated on July 1, 2003.

Documentation of Reconciliation between Loss Information and Actuarial Report

The Trust maintains loss information, which includes all individual claims listed in the order the claim was reported to the Trust (claims-made basis). The Trust provides this loss information to its third-party actuary so that the actuary can perform the annual actuarial review and in turn, provide the Trust with an actuarial report. The Trust records its liability for losses and loss adjustment expenses based on the estimate provided by the actuary in the actuarial report. The liability for losses and loss adjustment expenses as of June 30, 2004 was approximately $7.6 million.

The actuarial report is based on information listed in the order the claim occurred (occurrence basis). Since the Trust maintains its loss information on a claims-made basis, the loss information must be sorted by and accumulated by occurrence year. The actuary and the Trust's Director of Risk Management work together to sort the loss information into an occurrence year format.

During a review of the loss information and the actuarial report, we noted that the Director of Risk Management and the actuary work together to ensure that the loss information on a claims-made basis reconciles to the occurrence basis loss information as presented in the actuarial report. Although documentation of that reconciliation is retained by the third-party actuary, no documentation of the reconciliation is retained by the Trust. The impact of not retaining the documentation is that there is no physical audit evidence that the reconciliation has taken place and the Trust does not have a record of the occurrence basis loss information.

Recommendation No. 1:

The Trust should improve its process for the reconciliation of the loss information to the actuarial report by retaining documentation of the occurrence basis claim list and retaining documentation of the reconciliation performed between the occurrence basis claim list and the claims-made basis list, including evidence that paid losses and case reserves on a claims-made basis agree to paid losses and case reserves on an occurrence basis as presented in the actuarial report.

University of Colorado Self-Insurance and Risk Management Trust response:

Agree. This recommendation has been implemented. On October 6, 2004 the Professional Risk Management (PRM) staff met with Rhonda Curran, Tillinghast, the actuary for the University of Colorado Self-Insurance Trust (Trust). Ms. Curran assisted the PRM staff with preparing a template spreadsheet for purposes of converting the Trust loss runs from an occurrence based annual loss run to a claims-made annual loss run. This will enable the Trust to reconcile its loss runs with the actuary.

The University of Colorado Self-Insurance and Risk Management Trust (Trust) herein sets forth a narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2004. This analysis will focus on the financial activities for the 2004 and 2003 fiscal years in accordance with Governmental Accounting Standards.

Financial Highlights

The Trust's financial position as a whole has improved during 2004 as net assets increased by $1,889,669, where as net assets decreased by $818,891 in 2003. The increase in 2004 was mainly attributable to actual claim experience being less than previously estimated, resulting in a decrease in loss and loss adjustment expenses reserves of approximately $1.1 million.

Overview of the Financial Statements

This report consists of three basic financial statements:

- The statements 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 statements 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, 2004). Its purpose is to assess the Trust's operating results.
- The statements of cash flows presents receipts and payments of the Trust during a period of time (the year ended June 30, 2004). Its purpose is to assess the Trust's ability to generate future net cash flows and meet its obligations as they become due.

Statements 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.

Net assets for the Trust at June 30, 2004 and 2003 were $4 million and $2 million, respectively, as identified below:

		2004	2003	Change
			(In thousands)	
Current assets	$	896	1,102	(206)
Noncurrent assets		10,832	10,131	701
Total assets		11,728	11,233	495
Current liabilities		1,762	2,332	(570)
Noncurrent liabilities		5,924	6,749	(825)
Total liabilities		7,686	9,081	(1,395)
Net assets	$	4,042	2,152	1,890

(Continued)

Net assets have increased by $1.9 million from the prior year. This increase has primarily resulted from a decrease in reserves for loss and loss adjustment expenses of approximately $1.1 million and an increase in mutual fund holdings of $700,000.

Statements 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, 2004 and 2003 is provided below:

	2004	2003	Change
		(In thousands)	
Operating revenue	$ 2,573	2,454	119
Operating expenses	1,362	3,851	(2,489)
Operating income	1,211	(1,397)	2,608
Nonoperating income	679	578	101
Increase in net assets	1,890	(819)	2,709
Net assets – June 30, 2003	2,152	2,971	(819)
Net assets – June 30, 2004	$ 4,042	2,152	1,890

Operating revenue increased due to an increase in premiums, as approved by the Trust Advisory Board. 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 10% in fiscal year 2004 as compared to fiscal year 2003 to ensure sufficient funding. The funding levels (reserves) are determined by actuarial analysis and are based on a 90% confidence level.

The most significant operating expense of the Trust is the provision for settlement and legal expenses. For the years ended June 30, 2004 and 2003 this amount was $537,083 and $2,883,961, respectively. Projections for this provision were updated during the fiscal year based on an actuarial report dated March 29, 2004. The actuarial report was re-evaluated using June 30, 2004 claims information. No change to the provision was considered necessary. As a result of the updated projections, the provision was decreased based on actual claims history.

Nonoperating income increased due to market influences on investment earnings.

Economic Factors

The following important economic factors should be considered when evaluating the financial position and operating results of the Trust.

Loss and loss adjustment expenses and the corresponding reserve are based on estimates that are subject to inherent variability caused by the nature of the insurance process. The potentially long period of time between the occurrence of an insured event and the final settlement of a claim and the possible effects of changes in the legal, social, and economic environments contribute to this variability. In response to this uncertainty, the Trust continually reviews these estimates, obtains independent actuarial studies, and adjusts the estimates as necessary as experience develops or new information becomes known. Such adjustments are made in current operations. Also, the Trust maintains a balance in net assets which increases funding of unpaid claim responsibilities to a 90% confidence level, as determined by independent actuarial studies.

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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, 2004, and the related statement of revenue, expenses, and changes in net assets, and cash flows for the year then ended. These basic 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 basic 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, 2004, 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 on pages 7 through 9 and 21 through 23 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 accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 24, 2004, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

August 24, 2004

UNIVERSITY OF COLORADO SELF-INSURANCE
AND RISK MANAGEMENT TRUST

Statement of Net Assets

June 30, 2004

Assets

Current assets:		
Cash and cash equivalents	$	191,553
Short-term investments		703,920
Accrued investment income		291
Total current assets		895,764
Noncurrent assets:		
Mutual funds, at fair value:		
Fixed maturities		8,580,988
Equity securities		2,251,187
Total noncurrent assets		10,832,175
Total assets	$	11,727,939

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	$	47,606
Reserve for losses and loss adjustment expenses		1,715,000
Total current liabilities		1,762,606
Noncurrent liabilities:		
Reserve for losses and loss adjustment expenses		5,923,766
Total noncurrent liabilities		5,923,766
Total liabilities		7,686,372
Net assets:		
Unrestricted		4,041,567
Total net assets		4,041,567
Commitments and contingencies (notes 2, 3, 4, and 5)		
Total liabilities and net assets	$	11,727,939

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Statement of Revenue, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenue:		
Premiums, net of excess insurance premiums of $123,840	$	2,573,076
Operating expenses:		
Salaries and benefits		574,864
Other general and administrative expenses		250,451
Losses and loss adjustment expenses		537,083
Total operating expenses		1,362,398
Operating income		1,210,678
Nonoperating revenue:		
Net investment income		678,991
Increase in net assets		1,889,669
Net assets, beginning of year		2,151,898
Net assets, end of year	$	4,041,567

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO SELF-INSURANCE
AND RISK MANAGEMENT TRUST

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:		
Participant payments, net of excess insurance premiums paid	$	2,573,076
Payment to employees		(576,546)
Payment to suppliers		(250,273)
Legal and settlement payments, net of excess insurance recoveries		(1,930,902)
Net cash used in operating activities		(184,645)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments		2,195,000
Interest on investments		544,663
Investment management fees paid		(44,157)
Purchase of investments		(2,716,782)
Total cash flows used in investing activities		(21,276)
Net decrease in cash and cash equivalents and short-term investments		(205,921)
Cash and cash equivalents and short-term investments, beginning of year		1,101,394
Cash and cash equivalents and short-term investments, end of year	$	895,473
Reconciliation of net operating income to net cash used in operating activities:		
Operating income	$	1,210,678
Adjustments to reconcile operating income to net cash used in operating activities:		
Change in accounts payable and accrued expenses		(274,793)
Change in reserve for losses and loss adjustment expenses		(1,120,530)
Net cash used in operating activities	$	(184,645)

See accompanying notes to basic financial statements.

(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 healthcare 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 occurrences subsequent to December 31, 1992. 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. The Trust does not have any responsibility for payment of Denver Health Claims. The agreement with Denver Health was terminated on July 1, 2003.

(Continued)

(b) Reporting Entity and Fund Type

The Trust has no component units using the criteria as set forth in accounting principles generally accepted in the United States of America. The Trust is a self-insurance fund and is accounted for as an enterprise fund (a business-type activity). All applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations that do not conflict with or contradict GASB pronouncements, have been implemented by the Trust.

(c) Basis of Presentation

The accompanying basic financial statements have been prepared using the flow of economic resources measurement focus and the accrual method of accounting, in accordance with accounting principles generally accepted in the United States of America.

(d) Use of Estimates

The preparation of basic financial statements in accordance 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 revenue and expenses during the reporting period. Significant estimates include the reserves for unpaid losses and loss adjustment expenses. Actual results could differ from those estimates.

(e) Net Assets

Net assets are classified as follows:

Unrestricted net assets: Unrestricted net assets represent resources from the continuing operations of the Trust that are not invested in capital assets or restricted as to use by an external third party.

(f) Classification of Revenues and Expenses

The Trust has classified revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses: Revenues and expenses that result from providing medical malpractice coverages, claims administration, and loss control services and related services for member entities.

Nonoperating revenues and expenses: Revenues and expenses that are not included as operating revenues. Nonoperating revenues include investment income.

(g) Cash and Cash Equivalents and Short-term Investments

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.

For the purposes of the statement of net assets, cash and cash equivalents include only cash on deposit. Short-term investments include 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.

(h) 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.

(i) Participant Assessments

The Trust requires the University to 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 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.

(j) 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, 2004. The reserve for unpaid losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analysis. 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.

(k) Excess Insurance

The cost of excess insurance and reinsurance coverage is charged to income ratably over the period of coverage and is reported as a reduction of member contributions earned. Losses, loss adjustment expenses, and the reserves for loss and loss adjustment expenses are reported net of reinsured amounts.

(l) Related-Party Transactions

The Trust, which is an auxiliary enterprise of the University of Colorado, paid the University approximately $107,371 for administrative services during 2004.

(m) Income Taxes

As an organization described in Internal Revenue Code Section 501(c)(3), the Trust is exempt from federal income tax on income related to its exempt purposes under IRC Section 501(a). The Trust had no material unrelated income, therefore no provision for income taxes is included in the 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.

The carrying amount of the Trust's deposit was $191,553 at June 30, 2004. The bank balance was $409,922 at June 30, 2004. The entire 2004 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.

Cash and cash equivalents are presented net of outstanding checks of $218,369 at June 30, 2004.

(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, 2004 are as follows:

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
			(In thousands)		
Fixed maturities:					
Corporate Bond Fund	$	8,610	—	(29)	8,581
Equity securities		1,901	350	—	2,251

Major categories of investment income for the year ended June 30, 2004 are summarized as follows:

Fixed income	$	493,233
Equity securities		68,870
Cash equivalents		11,968
Net decrease in the fair value of investments		149,652
Total investment income		723,723
Investment expenses		44,732
Net investment income	$	678,991

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.

The following represents changes in those aggregate liabilities for the Trust for the year ended June 30, 2004.

Reserve for losses and loss adjustment expenses at beginning of year	$	8,759,296
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year		2,295,247
Decrease in provision for insured events of prior years		(1,758,164)
Total incurred losses and loss adjustment expenses		537,083
Payments:		
Losses and loss adjustment expenses attributable to insured events of current year		(15,193)
Losses and loss adjustment expenses attributable to insured events of prior years		(1,642,420)
Total payments		(1,657,613)
Total reserve for losses and loss adjustment expenses at end of year	$	7,638,766

The provision for loss and loss adjustment expenses pertaining to prior years decreased approximately $1.8 million during the year ended June 30, 2004 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.

Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Trust discounts its liabilities for unpaid losses and loss adjustment expenses. The funding level required at a 90% confidence level has been discounted on a non-tabular basis at 5.48%. A non-tabular discount is calculated with reference to an estimated payout pattern and an interest rate, and without reference to actuarial tables. The Trust's selection of the discount rate is based on a weighted-average of third-party capital market projections by asset class. The interest rate used to discount liabilities on a non-tabular basis has changed from the previous audited financial statements as of June 30, 2002. The prior interest rate was 6.1%.

At June 30, 2004, the Trust accrued $7,638,766 for unpaid losses and loss adjustment expenses. The amount of the discount (computed at 5.48%) for unpaid losses and loss adjustment expenses as of June 30, 2004 is $1,341,077.

(4) Excess Insurance

The Trust has entered into excess insurance contracts to limit its liability resulting from losses that exceed the governmental immunity act limits. Effective July 1, 1998, the Trust purchased excess insurance that covered any exposure greater than the $150,000/$600,000 retention limit, with expenses outside the limit. Effective July 1, 2002, the excess insurance purchased by the Trust covered any exposure greater than the $150,000/$600,000 retention limit, with expenses within the limit. The Trust also had coverage for out-of-state exposures for $1 million per individual per occurrence.

Excess insurance has reduced premiums earned and losses and loss adjustment expenses by the following amounts in fiscal year 2004:

Premiums earned	$	123,840
Loss and loss adjustment expenses paid		19,800

Excess insurance contracts do not relieve the Trust from its obligations, and a failure of the excess insurer to honor it obligations could result in losses to the Trust. The Trust evaluates and monitors the financial condition of its excess insurers to minimize its exposure to loss from excess insurer insolvency. Management of the Trust believes its excess insurers are financially sound and will continue to meet their contractual obligations.

(5) Contingencies

In the normal course of operations, the Trust is involved in litigation related principally to claims made under insurance contracts. Those actions are considered by the Trust in estimating the reserves for losses and loss adjustment expense. In the opinion of management, the resolution of these matters will not have a material effect on the Trust's financial position, results of operations, or liquidity.

In accordance with the Trust Advisory Board Bylaws for the University of Colorado Self-Insurance and Risk Management Trust article V, section 2.D., "the University of Colorado Health Sciences Center shall be responsible for the proper administration and control of the Risk and Claims Management Fund." Accordingly, no reserve for unallocated loss adjustment expenses has been recorded in the Trust's financial statements.

(6) Accrued Compensated Absences

Accrued compensated absences and related personnel expenses are recognized based on estimated balances due to employees upon termination. The limitations on such payments are defined by the rules associated with the personnel systems at the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation whereas only a portion of sick leave is paid upon specific types of separation, such as retirement. The Trust does not record a liability for accrued compensated absences, as the portion related to Trust employees is recorded by the University.

SUPPLEMENTARY INFORMATION

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

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

June 30, 2004 and 2003

The schedule below presents the changes in loss and loss adjustment expense reserves for the years ended June 30, 2004 and 2003 for the Trust's one line of coverage: medical malpractice.

	2004	2003
Reserve for losses and loss adjustment expenses, beginning of year	$ 8,759,296	7,707,144
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	2,295,247	2,960,813
Decrease in provision for insured events of prior years	(1,758,164)	(76,852)
Total incurred losses and loss adjustment expenses	537,083	2,883,961
Payments:		
Losses and loss adjustment expenses attributable to insured events of current year	(15,193)	(135,073)
Losses and loss adjustment expenses attributable to insured events of prior years	(1,642,420)	(1,696,736)
Total payments	(1,657,613)	(1,831,809)
Total reserve for losses and loss adjustment expenses, end of year	$ 7,638,766	8,759,296

Unaudited – See accompanying independent auditors' report.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Required Supplementary Information – Claims Development Information

June 30, 2004

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 ten 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 ten 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.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Required Supplementary Information – Claims Development Information

June 30, 2004

Ten-Year Claims Development Information (in thousands):

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. Net earned premium and investment revenue	$ 1,582	2,029	2,480	2,164	1,901	1,049	1,830	2,689	2,889	3,207
2. Unallocated expenses	730	585	709	698	957	730	852	954	906	870
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	2,760	2,247
4. Paid (cumulative) as of:										
End of policy year	302	180	28	252	70	232	6	8	135	15
One year later	757	529	203	502	488	445	65	440	370	—
Two years later	1,214	642	544	1,213	368	681	203	611	—	—
Three years later	1,599	857	793	1,124	596	1,106	362	—	—	—
Four years later	1,296	724	1,074	1,501	1,118	1,008	—	—	—	—
Five years later	1,353	728	1,165	1,703	1,621	—	—	—	—	—
Six years later	1,347	783	1,142	1,980	—	—	—	—	—	—
Seven years later	1,348	865	1,201	—	—	—	—	—	—	—
Eight years later	1,348	935	—	—	—	—	—	—	—	—
Nine years later	1,603	—	—	—	—	—	—	—	—	—
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	2,760	2,247
One year later	2,082	2,151	2,438	2,300	2,275	2,400	2,000	2,500	2,405	—
Two years later	1,913	1,959	1,850	2,350	1,700	2,000	1,530	2,343	—	—
Three years later	1,870	1,500	1,500	1,925	1,450	1,875	929	—	—	—
Four years later	1,570	1,100	1,550	2,075	1,710	1,401	—	—	—	—
Five years later	1,730	1,000	1,500	2,225	2,067	—	—	—	—	—
Six years later	1,675	975	1,420	2,100	—	—	—	—	—	—
Seven years later	1,545	1,030	1,375	—	—	—	—	—	—	—
Eight years later	1,525	1,045	—	—	—	—	—	—	—	—
Nine years later	1,603	—	—	—	—	—	—	—	—	—
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(1,136)	(1,343)	(1,558)	(475)	(283)	(1,279)	(1,571)	(107)	(355)	—

Unaudited – See accompanying independent auditors' report.

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee and Board of Directors
University of Colorado Self-Insurance and Risk Management Trust:

We have audited the financial statements of University of Colorado Self-Insurance and Risk Management Trust (the Trust) for the year ended June 30, 2004, and have issued our report thereon dated August 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. 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 misstatements 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Legislative Audit Committee, the 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.

KPMG LLP

August 24, 2004

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Audited Basic Financial Statements

June 30, 2004

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