



**UNIVERSITY OF COLORADO INSURANCE POOL**

Statutory Financial Statements and  
Auditors' Comments

June 30, 2001 and 2000

(With Independent Auditors' Report Thereon)

**LEGISLATIVE AUDIT COMMITTEE  
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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 statutory financial audit of the University of Colorado Insurance Pool 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 INSURANCE POOL

## Statutory Financial Statements

June 30, 2001 and 2000

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# UNIVERSITY OF COLORADO INSURANCE POOL

## 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 statutory financial statements of the University of Colorado Insurance Pool (the Pool) 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 statutory financial statements and the notes thereto are presented in conformity with accounting practices prescribed or permitted by the Division of Insurance of the State of Colorado (the Division). 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 statutory financial statements of the Pool 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 statutory 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 Pool in implementing prior audit recommendations.

### **Scope**

We examined, on a test basis, evidence supporting the financial transactions and related balances of the Pool 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 Pool 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 INSURANCE POOL

## 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 Pool 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**

?? Under the Extended Reporting provision of the Pool's General Liability policy, all claims made prior to October 1, 2001 are covered provided they were reported to the Pool prior to October 1, 1998.

### **Financial Audit Report**

We have completed our audit of the statutory financial statements and have issued our report thereon dated August 29, 2001, which states that the statutory financial statements of the Pool present fairly, in all material respects, the financial position of the Pool as of June 30, 2001 and the results of its operations and its cash flow for the year then ended in conformity with accounting practices prescribed or permitted by the Division.

In connection with our audit of the Pool's statutory 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 INSURANCE POOL**

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 INSURANCE POOL**

### **Organization and Functions of the Pool**

#### **Description of University of Colorado Insurance Pool**

The University of Colorado Insurance Corporation (the Corporation) was originally organized with the intention of qualifying as a captive insurance company under the Colorado Captive Insurance Company Act, as amended. All of the common stock issued and outstanding was owned by the University of Colorado Board of Regents. The Corporation provided several types of insurance coverage, including employers' liability and workers' compensation, for the University of Colorado and certain of its affiliates (the University).

On April 7, 1993, the Board of Directors of the Corporation declared a liquidating dividend of \$500,000 to fund capitalization of a public entity self-insurance pool, the University of Colorado Insurance Pool (the Pool), which replaced the Corporation effective July 1, 1993. All assets and liabilities of the Corporation were liquidated and assumed by the Pool. Surplus contributions were provided to the Pool by utilizing the existing surplus of the Corporation upon dissolution of the Corporation. Coverages provided by the Pool were essentially the same as those that were provided by the Corporation.

Effective October 1, 1996, the Pool ceased the issuance of insurance policies. However, the Pool did not dissolve or terminate on this date, but remains in operation, in a run-off mode, performing all of the functions it has historically performed with respect to insurance policies the Pool issued prior to October 1, 1996, in full compliance with State law and the regulations of the Colorado Division of Insurance (referred to herein as the "run-off" period). The Pool provided the Colorado Division of Insurance with a plan to maintain a minimum target surplus level of \$750,000 during the run-off period. In accordance with the requirements of the State of Colorado Regulation of Public Entity Self-Insurance Pools, the Pool is required to maintain a minimum surplus, as determined under statutory accounting practices, of \$500,000.



**UNIVERSITY OF COLORADO INSURANCE POOL**

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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Denver, CO 80202

## Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statutory statements of admitted assets, liabilities and surplus of the University of Colorado Insurance Pool (the Pool) as of June 30, 2001 and 2000, and the related statutory statements of income, surplus and cash flow for the years then ended. These statutory financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these statutory 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 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 audits provide a reasonable basis for our opinion.

As described more fully in note 1, the Pool prepared these financial statements using accounting practices prescribed or permitted by the Division of Insurance of the State of Colorado, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are also described in note 1.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Insurance Pool as of June 30, 2001 and 2000, and the results of its operations and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the statutory statements of admitted assets, liabilities and surplus of the University of Colorado Insurance Pool as of June 30, 2001 and 2000, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in note 1.

The Reconciliation of Reserves for Losses and Loss Adjustment Expenses by Type of Coverage and the Claims Development Information on pages 18 and 19 are not required parts of the basic statutory financial statements of the University of Colorado Insurance Pool, 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 INSURANCE POOL**

Statutory Statements of Admitted Assets, Liabilities and Surplus

June 30, 2001 and 2000

<b>Admitted Assets</b>	<b>2001</b>	<b>2000</b>
	<u>                    </u>	<u>                    </u>
Investments:		
Bonds, at amortized cost	\$ 4,208,226	5,101,612
Cash and short-term investments	<u>1,113,509</u>	<u>1,280,655</u>
Total investments	5,321,735	6,382,267
Reinsurance receivable	72,565	8,350
Accrued investment income	<u>78,933</u>	<u>79,807</u>
Total admitted assets	<u>\$ 5,473,233</u>	<u>6,470,424</u>
<b>Liabilities and Surplus</b>		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 1,665,997	3,099,019
Accounts payable and accrued expenses	<u>157,745</u>	<u>159,036</u>
Total liabilities	<u>1,823,742</u>	<u>3,258,055</u>
Surplus:		
Surplus contribution certificates	4,000,000	4,000,000
Paid-in surplus	1,500,000	1,500,000
Unassigned deficit	<u>(1,850,509)</u>	<u>(2,287,631)</u>
Total surplus	<u>3,649,491</u>	<u>3,212,369</u>
Commitments and contingencies (notes 3 and 4)		
Total liabilities and surplus	<u>\$ 5,473,233</u>	<u>6,470,424</u>

See accompanying notes to statutory financial statements.

**UNIVERSITY OF COLORADO INSURANCE POOL**

Statutory Statements of Income

Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Losses and loss adjustment expenses incurred	\$ 769,323	761,118
Other underwriting expenses incurred, net	<u>(671,983)</u>	<u>(751,024)</u>
Underwriting income	97,340	10,094
Net investment income	<u>339,782</u>	<u>398,474</u>
Net income	<u>\$ 437,122</u>	<u>408,568</u>

See accompanying notes to statutory financial statements.

**UNIVERSITY OF COLORADO INSURANCE POOL**

Statutory Statements of Surplus

Years ended June 30, 2001 and 2000

	<b>Surplus contribution certificates</b>	<b>Paid-in surplus</b>	<b>Unassigned surplus (deficit)</b>	<b>Total</b>
Balance at June 30, 1999	\$ 4,000,000	1,500,000	(2,696,199)	2,803,801
Net income	<u>—</u>	<u>—</u>	<u>408,568</u>	<u>408,568</u>
Balance at June 30, 2000	4,000,000	1,500,000	(2,287,631)	3,212,369
Net income	<u>—</u>	<u>—</u>	<u>437,122</u>	<u>437,122</u>
Balance at June 30, 2001	\$ <u><u>4,000,000</u></u>	<u><u>1,500,000</u></u>	<u><u>(1,850,509)</u></u>	<u><u>3,649,491</u></u>

See accompanying notes to statutory financial statements.

**UNIVERSITY OF COLORADO INSURANCE POOL**

Statutory Statements of Cash Flow

Years ended June 30, 2001 and 2000

	<b>2001</b>	<b>2000</b>
Operating activities:		
Losses and loss adjustment expenses paid, net of reinsurance receivables	\$ (727,914)	(1,262,364)
Underwriting expenses paid	(679,630)	(762,789)
Net investment income received	310,398	411,633
Net cash used by operating activities	(1,097,146)	(1,613,520)
Investing activities:		
Maturity or repayment of investments	3,230,000	5,235,000
Purchase of investments	(2,300,000)	(3,958,945)
Net cash provided by investing activities	930,000	1,276,055
Net decrease in cash and short-term investments	(167,146)	(337,465)
Cash and short-term investments at beginning of year	1,280,655	1,618,120
Cash and short-term investments at end of year	\$ 1,113,509	1,280,655
Reconciliation of net income to net cash used by operating activities:		
Net income	\$ 437,122	408,568
Adjustments to reconcile net income to net cash used by operating activities:		
Net amortization of debt securities premiums and discounts	(36,614)	(33,198)
Changes in operating assets and liabilities:		
Reinsurance receivable	(64,215)	52,461
Accrued investment income	874	46,357
Reserve for losses and loss adjustment expenses	(1,433,022)	(2,075,943)
Accounts payable and accrued expenses	(1,291)	(11,765)
Net cash used by operating activities	\$ (1,097,146)	(1,613,520)

See accompanying notes to statutory financial statements.

# UNIVERSITY OF COLORADO INSURANCE POOL

Notes to Statutory Financial Statements

June 30, 2001 and 2000

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

### (a) Organization

The University of Colorado Insurance Corporation (the Corporation) was originally organized with the intention of qualifying as a captive insurance company under the Colorado Captive Insurance Company Act, as amended. All of the common stock issued and outstanding was owned by the University of Colorado Board of Regents. The Corporation provided several types of insurance coverage for the University of Colorado and certain of its affiliates (the University).

Effective July 1, 1993, the Corporation was reorganized as a public entity self-insurance pool, the University of Colorado Insurance Pool (the Pool), and received a certificate of authority from the Division of Insurance of the State of Colorado (the Division). The Pool was initially capitalized through a liquidating dividend of \$500,000 by the Board of Directors of the Corporation. All assets and liabilities of the Corporation were acquired and assumed by the Pool. Surplus contributions were provided to the Pool by utilizing the existing surplus of the Corporation upon the dissolution of the Corporation. Surplus contribution certificates of \$3,200,000 and \$800,000 were issued to the University of Colorado and University Hospital, respectively, representing statutory surplus contributions to the Pool. The certificates are not a legal liability of the Pool and cannot be sold, transferred, pledged or hypothecated. Insurance coverages provided by the Pool are essentially the same as those that were provided by the Corporation.

Effective October 1, 1996, the Pool ceased the issuance of insurance policies. However, the Pool did not dissolve or terminate on this date, but remains in operation, performing all of the functions it has historically performed with respect to insurance policies the Pool issued prior to October 1, 1996, in full compliance with State law and the regulations of the Division (referred to herein as the run-off period). The Pool provided the Division with a plan to maintain a minimum target surplus level of \$750,000 during the run-off period. In accordance with the requirements of the State of Colorado Regulation of Public Entity Self-Insurance Pools, the Pool is required to maintain a minimum surplus, as determined by statutory accounting practices, of \$500,000.

The Pool provided employers' liability and workers' compensation insurance for the University. Employers' liability coverage was provided up to a limit of \$10 million for each accident and each employee disease. Beginning October 1, 1995, the Pool retains the first \$300,000 for each accident or each employee disease and reinsures the excess; prior to this date, the Pool's retention was \$500,000. The Pool provided workers' compensation insurance up to the statutory requirements for the State of Colorado, retaining the first \$300,000 (\$500,000 retention prior to October 1, 1995) for each accident or each employee disease, and ceding the excess.

The Pool provided a master property policy to all of the insured entities combined. Property coverage was provided up to a limit of \$500 million per occurrence. The Pool retains the first \$100,000 per occurrence less a policyholder deductible and reinsures the excess.

## UNIVERSITY OF COLORADO INSURANCE POOL

### Notes to Statutory Financial Statements

June 30, 2001 and 2000

Liability insurance, including general liability, auto liability, errors and omissions and school leaders' coverage, was also provided by the Pool. The coverage under this policy was limited to \$10 million per occurrence or wrongful act. The Pool retains the first \$250,000 per occurrence or wrongful act less a policyholder deductible, reinsuring the excess.

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the Division 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.

**(b) Basis of Presentation**

The accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division. Such practices vary from accounting principles generally accepted in the United States of America (GAAP); the significant variance from GAAP is as follows:

**Investments**

The National Association of Insurance Commissioners (NAIC) requires that investments in bonds and redeemable preferred stocks be reported at amortized cost or market value based on their NAIC rating. For GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale.

Held-to-maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and a separate component of surplus for those designated as available-for-sale. The Pool's investments in debt securities are designated as held-to-maturity in its portfolio.

The effects of the foregoing variance from GAAP on the accompanying statutory financial statements have been determined and are as follows:

Following is a reconciliation of net income and surplus as presented herein in accordance with the basis of accounting prescribed by the Division to the GAAP basis as of and for the years ended June 30:

	2001		2000	
	Net income	Surplus	Net income	Surplus
Statutory basis	\$ 437,122	3,649,491	408,568	3,212,369
Record investments at fair value	78,321	45,123	(41,934)	(33,198)
GAAP	\$ 515,443	3,694,614	366,634	3,179,171



## UNIVERSITY OF COLORADO INSURANCE POOL

### Notes to Statutory Financial Statements

June 30, 2001 and 2000

**(c) Investments**

The Pool follows the general investment philosophy of the University of Colorado. Bonds and short-term investments are stated at values prescribed by the NAIC, which principally are as follows:

- ?? Bonds are reported at amortized cost. Discount or premium on bonds is amortized using the interest method.
- ?? Short-term investments include investments with maturities of less than one year at the date of acquisition and common funds reported at market value, which approximates cost.
- ?? Realized investment gains and losses are determined using the specific-identification basis.

**(d) Cash and Cash Equivalents**

For the purposes of the statement of cash flow, 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.

**(e) 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.

**(f) 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 Pool would remain liable for claims and expenses associated with the ceded business.

**(g) Income Taxes**

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

**UNIVERSITY OF COLORADO INSURANCE POOL**

Notes to Statutory Financial Statements

June 30, 2001 and 2000

**(2) Cash Deposits and Investments**

**(a) Cash Deposits**

The Pool 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 Pool's deposits in the collateral pool was \$1,113,509 and \$1,280,655 at June 30, 2001 and 2000, respectively. The bank balances were \$1,137,446 and \$1,362,586 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 Pool's name.

**(b) Investments**

Short-term investments include common funds which consist of money market funds and are held in trust in the Pool's name. The balances are not subject to collateralization under the provisions of the Colorado Public Deposit Protection Act.

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 Pool's investments.

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

	<b>Amortized cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
At June 30, 2001:				
U.S. Treasury securities and obligations	\$ 300,767	5,890	—	306,657
Mortgage-backed securities	3,907,459	39,666	(433)	3,946,692
Total bonds	\$ 4,208,226	45,556	(433)	4,253,349

**UNIVERSITY OF COLORADO INSURANCE POOL**

Notes to Statutory Financial Statements

June 30, 2001 and 2000

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
At June 30, 2000:				
U.S. Treasury securities and obligations	\$ 357,676	—	(151)	357,525
Mortgage-backed securities	<u>4,743,936</u>	<u>—</u>	<u>(33,047)</u>	<u>4,710,889</u>
Total bonds	<u>\$ 5,101,612</u>	<u>—</u>	<u>(33,198)</u>	<u>5,068,414</u>

The amortized cost and fair value of bonds 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	\$ 300,767	306,657
Mortgage-backed securities	<u>3,907,459</u>	<u>3,946,692</u>
Total bonds	<u>\$ 4,208,226</u>	<u>4,253,349</u>

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

	<u>2001</u>	<u>2000</u>
Bonds	\$ 293,431	358,580
Short-term investments	<u>52,436</u>	<u>49,984</u>
Total investment income	345,867	408,564
Investment expenses	<u>(6,085)</u>	<u>(10,090)</u>
Net investment income	<u>\$ 339,782</u>	<u>398,474</u>

Proceeds from sales of bonds during 2001 and 2000 totaled \$3,230,000 and \$5,235,000, respectively. Gross realized gains on sales of bonds during 2001 and 2000 were \$0. Gross realized losses on sales of bonds during 2001 and 2000 totaled \$0 and \$2,084, respectively.

At June 30, 2001, investments in bonds, with an admitted asset value of \$498,797 (fair value – \$507,110), were on joint deposit with the Division to satisfy regulatory requirements.

**UNIVERSITY OF COLORADO INSURANCE POOL**

Notes to Statutory Financial Statements

June 30, 2001 and 2000

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

As discussed in note 1, the Pool 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 reinsurance recoverables, for the Pool during the years ended June 30, 2001 and 2000.

	<b>2001</b>	<b>2000</b>
Reserve for losses and loss adjustment expenses at beginning of year	\$ 3,099,019	5,174,962
Incurred losses and loss adjustment expenses – decrease in provision for insured events of prior years	(769,323)	(761,118)
Payments – losses and loss adjustment expenses attributable to insured events of prior years	(663,699)	(1,314,825)
Total reserve for losses and loss adjustment expenses at end of year	\$ 1,665,997	3,099,019

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 years' claims. The reserve for losses and loss adjustment expenses is presented net of reinsurance recoverable on unpaid losses, which totaled \$1,369,196 and \$1,858,610 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) Surplus Requirements**

In accordance with the requirements of the State of Colorado Regulation of Public Entity Self-Insurance Pools, the Pool is required to maintain a minimum surplus, as determined under statutory accounting practices, of \$500,000 (\$200,000, \$200,000 and \$100,000 for workers' compensation, casualty and property coverages, respectively). At June 30, 2001 and 2000, the Pool had met these requirements.

If necessary, the Pool has the ability to retrospectively assess premiums to meet statutory surplus requirements. No retrospective premiums were assessed during the years ended June 30, 2001 or 2000.

## UNIVERSITY OF COLORADO INSURANCE POOL

### Notes to Statutory Financial Statements

June 30, 2001 and 2000

#### (5) Related Party Transactions

The Pool incurred fees of \$635,737 and \$707,515 during 2001 and 2000, respectively, for risk management services provided by the University of Colorado.

#### (6) Summary of Premiums and Losses

The following is a summary of losses and loss adjustment expenses incurred by type of coverage for the year ended June 30:

<u>Coverage</u>		<u>2001</u>	<u>2000</u>
Workers' compensation	\$	(232,954)	(488,061)
Property		738	11,124
General liability		(406,512)	(269,845)
Automobile liability		(34,357)	1,890
ULAE		(96,238)	(16,226)
	\$	<u>(769,323)</u>	<u>(761,118)</u>

Losses and loss adjustment expenses incurred are presented net of reinsurance recoveries, which totaled \$800,559 and \$309,611 during 2001 and 2000, respectively.

**REQUIRED SUPPLEMENTARY INFORMATION**

**UNIVERSITY OF COLORADO INSURANCE POOL**

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 represents the changes in reserves for losses and loss adjustment expenses for the years ended June 30, 2001 and 2000 for the Pool's contracts of insurance: property and casualty. The Pool does not provide coverage for employee health and accident benefits.

	<u>Property and casualty</u>	
	<u>2001</u>	<u>2000</u>
Reserve for losses and loss adjustment expenses at beginning of year	\$ 3,099,019	5,174,962
Incurring losses and loss adjustment expenses – decrease in provision for insured events of prior years	(769,323)	(761,118)
Payments – losses and loss adjustment expenses attributable to insured events of prior years, excluding reinsurance recoveries of \$864,774 and \$257,151 in 2001 and 2000, respectively	<u>(663,699)</u>	<u>(1,314,825)</u>
Total reserve for losses and loss adjustment expenses at end of year	<u>\$ 1,665,997</u>	<u>3,099,019</u>

**UNIVERSITY OF COLORADO INSURANCE POOL**  
Required Supplementary Information – Claims Development Information  
June 30, 2001

**Ten-Year Claims Development Information**

The table below illustrates how the Pool'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 Pool 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 premium and investment revenues. (2) This line shows each fiscal year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims. (3) This line shows the Pool'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 ten 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.

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

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
1. Net earned premium and investment revenue	\$ 4,958	6,500	9,972	9,956	9,089	4,220	840	649	398	340
2. Unallocated expenses	996	805	977	1,223	1,317	895	939	534	751	672
3. Estimated incurred claims and expense, end of policy year	5,392	5,635	6,615	7,344	8,995	2,166	—	—	—	—
4. Paid (cumulative) as of:										
End of policy year	923	1,213	931	1,329	1,437	347	—	—	—	—
One year later	2,830	3,505	2,998	4,445	3,876	624	—	—	—	—
Two years later	3,239	4,904	4,099	5,842	5,614	1,025	—	—	—	—
Three years later	4,307	5,900	4,436	6,603	6,693	1,190	—	—	—	—
Four years later	4,692	6,535	4,623	7,312	7,106	1,541	—	—	—	—
Five years later	4,825	6,761	4,848	7,600	8,180	—	—	—	—	—
Six years later	4,916	6,815	5,061	8,094	—	—	—	—	—	—
Seven years later	4,996	6,908	5,771	—	—	—	—	—	—	—
Eight years later	5,300	7,352	—	—	—	—	—	—	—	—
Nine years later	5,436	—	—	—	—	—	—	—	—	—
5. Reestimated incurred claims and expense:										
End of policy year	5,392	5,635	6,615	7,344	8,995	2,166	—	—	—	—
One year later	5,204	7,000	6,856	9,461	8,935	1,596	—	—	—	—
Two years later	5,648	7,790	6,415	9,383	8,731	1,438	—	—	—	—
Three years later	5,693	7,733	5,820	8,297	8,496	1,536	—	—	—	—
Four years later	5,421	7,705	5,587	8,373	8,142	1,092	—	—	—	—
Five years later	5,266	7,475	5,666	8,082	7,857	—	—	—	—	—
Six years later	5,271	7,375	5,643	7,999	—	—	—	—	—	—
Seven years later	5,346	7,146	6,011	—	—	—	—	—	—	—
Eight years later	5,431	7,124	—	—	—	—	—	—	—	—
Nine years later	5,389	—	—	—	—	—	—	—	—	—
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(3)	1,489	(604)	655	(1,138)	(1,074)	—	—	—	—





707 Seventeenth Street  
Suite 2300  
Denver, CO 80202

August 29, 2001

Members of the Legislative Audit Committee:

We have audited the statutory financial statements of the University of Colorado Insurance Pool (the Pool) for the year ended June 30, 2001, and have issued our report thereon dated August 29, 2001. In planning and performing our audit of the statutory financial statements of the Pool, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the statutory 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, management of the Pool and the Division of Insurance of the State of Colorado and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**





707 Seventeenth Street  
Suite 2300  
Denver, CO 80202

August 29, 2001

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of the University of Colorado Insurance Pool (the Pool) for the year ended June 30, 2001, and have issued our report thereon dated August 29, 2001. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Pool and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Colorado State Board of Accountancy.
- b. The engagement partner and engagement manager, who are certified public accountants, have 18 years and 5 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, all of whom have had experience in auditing insurance enterprises and 75 percent of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Pool intends to file its audited statutory financial statements and our report thereon with the Division of Insurance of the State of Colorado (the Division of Insurance) and the Insurance Commissioner will be relying on that information in monitoring and regulating the statutory financial condition of the Pool.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Pool and the Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities and surplus, results of operations and cash flow in conformity with accounting practices prescribed or permitted by the Division of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, that errors and irregularities that have a material effect on the statutory financial statements will be detected and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and as to the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on statutory financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment (including collusion, falsified



documentation and forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material errors or misstatements caused by fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Pool to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control over financial reporting that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditors' report.

- d. We will retain the workpapers prepared in the conduct of our audit until the Division of Insurance has filed a Report of Examination covering 2001, but not longer than seven years. After notification to the Pool and approval from the Office of the State Auditor, we will make them available for review by the Division of Insurance at the offices of the insurer, at our offices, at the Division of Insurance or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Division of Insurance, photocopies of pertinent audit workpapers may be made (under the control of the accountant) and such copies may be retained by the Division of Insurance.
- e. The engagement partner is licensed by the Colorado Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Model Rule (Regulation), *Requiring Annual Audited Financial Reports*, regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Members of the Legislative Audit Committee and management of the Pool and filing with the Division of Insurance 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 INSURANCE POOL**

Audited Statutory Financial Statements

June 30, 2001

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