UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Financial Statements and
Auditors' Comments

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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KPMG LLP
Contract Auditors

Suite 2700
707 Seventeenth Street
Denver, CO 80202

August 29, 2003

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the University of Colorado Risk and Insurance Management Fund as of and for the year ended June 30, 2003. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

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

KPMG LLP

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Financial Statements

June 30, 2003 and 2002

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UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Audit Report Summary

June 30, 2003

Authority

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

Purpose

The primary purpose of our engagement was to audit the financial statements of the University of Colorado Risk and Insurance Management Fund (the Fund) as of and for the year ended June 30, 2003, in accordance with auditing standards generally accepted in the United States of America, and express an opinion on whether the financial statements and the notes thereto are presented in conformity with accounting principles generally accepted in the United States of America. The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Fund as of and for the year ended June 30, 2003, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on its internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

Scope

We examined, on a test basis, evidence supporting the financial transactions and related balances of the Fund as of and for the year ended June 30, 2003.

Management Judgments and Accounting Estimates

Auditing standards generally accepted in the United States of America require that the independent auditor communicate to the Legislative Audit Committee, among other items, information regarding accounting estimates which are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Estimating the reserve for losses and loss adjustment expenses of an insurance company is a subjective and judgmental process, particularly for long-tail lines of business such as workers' compensation insurance. To estimate the reserve for losses and loss adjustment expenses, management of the Fund utilizes the independent actuarial consulting services of Tillinghast, a Towers Perrin Company. In order for us to satisfy the requirements of auditing standards generally accepted in the United States of America when a specialist has been utilized, a KPMG LLP actuary obtained an understanding of the methods and assumptions used by the specialist and concluded that such actuarial methods and assumptions were reasonable and appropriate. The reserve for losses and loss adjustment expenses at June 30, 2003 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 2003 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 financial statements.

Other Considerations

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

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

Financial Audit Report

We have completed our audit of the financial statements and have issued our report thereon dated August 29, 2003, which states that the financial statements of the Fund present fairly, in all material respects, the financial position of the Fund as of June 30, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit of the Fund's financial statements, we have not identified or discussed with management any financial statement misstatements as of and for the year ended June 30, 2003. Additionally, no recommendations were made to improve management and accounting procedures of the Fund.

There were no changes in significant accounting policies during fiscal year 2003, nor were there any disagreements with management over the application of accounting principles, the basis for management's judgments about accounting estimates, the scope of our audit, disclosures to be included in the financial statements or the wording of our report. Lastly, no difficulties were encountered in dealing with management related to the performance of our audit.

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Organization and Functions of the Fund

June 30, 2003

Description of University of Colorado Risk and Insurance Management Fund

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

As management of the University of Colorado Risk and Insurance Management Fund (the Fund), we offer to readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal year ended June 30, 2003.

Financial Highlights

After decreasing premium requirements to the campuses for the past five years, premiums remained stable in FY2003, despite the increase in excess insurance costs. The Fund was able to absorb the increased insurance costs with its adequate surplus, without the need for mid-year assessments to the campuses.

Overview of the Financial Statements

This report consists of a series of financial statements and notes to the financial statements. The statements of net assets provide information about the assets and liabilities of the Fund, and they reflect the Fund's net assets as of June 30, 2003 and 2002. The statements of revenue, expenses, and changes in net assets present the Fund's result of operations for the years ended June 30, 2003 and 2002. The statements of cash flows outline the cash inflows and outflows related to the operation of the Fund for the years ended June 30, 2003 and 2002. The notes to the financial statements provide additional information essential to a full understanding of the data provided in the financial statements.

The following is a summary of the Fund's statements of net assets at June 30, 2003, 2002, and 2001:

Assets	2003	2002	Change	2002	2001	Change
Current assets:						
Cash and cash equivalents	$ 10,199,916	7,407,493	2,792,423	7,407,493	4,660,982	2,746,511
Accrued investment income	228,091	283,136	(55,045)	283,136	345,517	(62,381)
Accounts receivable	100,090	126,164	(26,074)	126,164	137,750	(11,586)
Prepaid expenses	1,040,001	564,445	475,556	564,445	382,564	181,881
Reinsurance recoverable	91,302	—	91,302	—	—	—
Debt securities, at fair value	4,575,165	4,942,384	(367,219)	4,942,384	4,789,135	153,249
Total current assets	16,234,565	13,323,622	2,910,943	13,323,622	10,315,948	3,007,674
Debt securities, at fair value	9,662,650	12,668,181	(3,005,531)	12,668,181	17,034,457	(4,366,276)
Total assets	25,897,215	25,991,803	(94,588)	25,991,803	27,350,405	(1,358,602)
Liabilities						
Current liabilities:						
Accounts payable	82,940	111,641	(28,701)	111,641	84,890	26,751
Reserves for losses and loss adjustment expenses	10,623,667	9,530,905	1,092,762	9,530,905	9,719,620	(188,715)
Total liabilities	10,706,607	9,642,546	1,064,061	9,642,546	9,804,510	(161,964)
Net assets	$ 15,190,608	16,349,257	(1,158,649)	16,349,257	17,545,895	(1,196,638)

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Financial Statement Analysis

Assets

Cash and Cash Equivalents

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

Debt Securities

As debt securities mature, the majority of funds have been held in a money market account as discussed above. As a result, investments in debt securities have decreased.

Accrued Investment Income

The amount of accrued investment income is lower in 2003 due to the decrease in debt securities discussed above.

Accounts Receivable

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

Prepaid Expenses

Prepaid expenses represent the cost of excess insurance for the three-month period of July through September each fiscal year. The increase in 2003 is primarily due to an increase in the premium for excess general liability coverage. This was the first year for renewal after a three-year price guarantee, and the increases that occurred in all other lines of coverage in 2002 were now applicable to general liability. A hardening of the insurance market, the downturn of the investment market, and the events of September 11, 2001 were contributing factors to the increase in excess insurance premiums in 2002 and 2003.

Liabilities and Net Assets

Loss Reserves

The increase in reserves for losses and loss adjustment expenses reflects an increase in the general liability line of coverage. Several employment related claims have been filed with high dollar damage exposures. On some of these claims it has been necessary to hire outside legal counsel to represent individual defendants. Other than a small increase in auto physical damage, reserves in all other lines of coverage decreased in 2003.

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Accounts Payable

The decrease in accounts payable in 2003 is due to a decrease in the workers' compensation self insurance surcharge from the Division of Workers' Compensation. This decrease is a result of an improvement of the experience modification rating of 0.76 in 2002 to 0.58 in 2003.

Net Assets

Although the net assets decreased from June 30, 2002 to June 30, 2003, this reflects management's decision to absorb the increased excess insurance charges with surplus funds.

The following is a summary of the Fund's statements of revenue, expenses, and changes in net assets for the years ended June 30, 2003, 2002, and 2001:

	2003	2002	Change	2002	2001	Change
Revenue:						
Premiums earned	$ 4,223,307	5,819,914	(1,596,607)	5,819,914	6,930,888	(1,110,974)
Net investment income	895,576	1,580,861	(685,285)	1,580,861	2,315,953	(735,092)
	5,118,883	7,400,775	(2,281,892)	7,400,775	9,246,841	(1,846,066)
Expenses:						
Losses and loss adjustment expenses incurred	4,084,108	2,691,977	1,392,131	2,691,977	1,899,598	792,379
General and administrative expenses	2,193,424	1,905,436	287,988	1,905,436	1,834,559	70,877
	6,277,532	4,597,413	1,680,119	4,597,413	3,734,157	863,256
Excess of revenue over expenses	(1,158,649)	2,803,362	(3,962,011)	2,803,362	5,512,684	(2,709,322)
Surplus distribution	—	(4,000,000)	4,000,000	(4,000,000)	—	(4,000,000)
Net assets at beginning of year	16,349,257	17,545,895	(1,196,638)	17,545,895	12,033,211	5,512,684
Net assets at end of year	$ 15,190,608	16,349,257	(1,158,649)	16,349,257	17,545,895	(1,196,638)

Revenue

Premiums Earned

Direct Earned Premium

Gross premiums charged to the campuses did not increase in 2003.

Ceded Earned Premium

Ceded earned premiums are those premiums paid for the purchase of excess insurance above the Fund's self-insured retention. Ceded premiums are an offset to direct earned premiums. The amount of ceded earned premium increased significantly in 2003, particularly for excess general liability. As stated above, this was the first year for renewal after a three-year price guarantee for general liability coverage, and the increases that occurred in all other lines of coverage in 2002 were now applicable to general liability.

Investment Income

The decrease in investment income in 2003 is due to fewer dollars invested in long-term debt securities, and lower rates of return available for maturing investments. Lower rates of return are reflective of the slow economy and other adverse conditions in the equity markets during 2003.

Expenses

Losses and Loss Adjustment Expense

The amounts paid on losses and loss adjustment expenses for property, auto physical damage, auto liability and workers compensation all decreased in 2003, while general liability increased. The increase in general liability claims is a result of several employment related claims with high dollar damage exposures. On some of these claims it has been necessary to hire outside legal counsel to represent individual defendants.

General and Administrative Expenses

There was an overall increase of 15% to administrative expenses in 2003. This increase is reflective of annual salary increases in 2003; and the position of financial analyst was filled for the entire year of 2003 and only nine months in 2002. Other increases in 2003 related to the contracting for appraisal services, an increase in rent, an increase in broker fees, and four months of campus related expenses as a result of the consolidated risk management program. Travel expenses, the workers' compensation surcharge fee, and risk management information system technical support expenses all decreased in 2003.

Surplus Distribution

The distribution of $4,000,000 excess surplus to the campuses in 2002 was based on an analysis of the fund balance in relation to the liabilities of the Fund. Management's funding goal is to maintain a 1:1 ratio of surplus to liabilities. As surplus was used to absorb the increase in excess insurance premiums in 2003, there was no excess surplus available for distribution during that year.

Contacting the Fund's Financial Management

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

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

Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of the University of Colorado Risk and Insurance Management Fund (the Fund) as of June 30, 2003 and 2002, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Risk and Insurance Management Fund as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

KPMG LLP

August 29, 2003

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Statements of Net Assets

June 30, 2003 and 2002

Assets		**2003**	**2002**
Current assets:			
Cash and cash equivalents	$	10,199,916	7,407,493
Accounts receivable		100,090	126,164
Accrued investment income		228,091	283,136
Prepaid expenses		1,040,001	564,445
Reinsurance recoverable		91,302	—
Debt securities, at fair value		4,575,165	4,942,384
Total current assets		16,234,565	13,323,622
Other assets:			
Debt securities, at fair value		9,662,650	12,668,181
Total assets		25,897,215	25,991,803
Liabilities			
Current liabilities – accounts payable		82,940	111,641
Reserve for losses and loss adjustment expenses		10,623,667	9,530,905
Total liabilities		10,706,607	9,642,546
Net assets	$	15,190,608	16,349,257

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

		2003	2002
Revenue:			
Premiums earned	$	4,223,307	5,819,914
Net investment income		895,576	1,580,861
		5,118,883	7,400,775
Expenses:			
Losses and loss adjustment expenses incurred		4,084,108	2,691,977
General and administrative expenses		2,193,424	1,905,436
		6,277,532	4,597,413
Excess (deficit) of revenue over expenses		(1,158,649)	2,803,362
Surplus distribution		—	(4,000,000)
Net assets at beginning of year		16,349,257	17,545,895
Net assets at end of year	$	15,190,608	16,349,257

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Statements of Cash Flows

Years ended June 30, 2003 and 2002

		2003	**2002**
Operating activities:			
Premiums collected	$	3,747,751	5,638,033
Losses and loss adjustment expenses paid		(3,082,649)	(2,880,691)
Net investment income received		933,371	1,065,269
General and administrative and other expenses paid		(2,196,050)	(1,867,100)
Net cash (used by) provided by operating activities		(597,577)	1,955,511
Investing activities:			
Sales and maturities of investments		4,910,000	4,791,000
Purchase of investments		(1,520,000)	—
Net cash provided by investing activities		3,390,000	4,791,000
Financing activities:			
Surplus distribution		—	(4,000,000)
Net increase in cash and cash equivalents		2,792,423	2,746,511
Cash and cash equivalents at beginning of year		7,407,493	4,660,982
Cash and cash equivalents at end of year	$	10,199,916	7,407,493
Reconciliation of excess of revenue over expenses to net cash provided by operating activities:			
Excess of revenue over expenses	$	(1,158,649)	2,803,362
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:			
Unrealized gain		(17,250)	(577,973)
Changes in operating assets and liabilities:			
Accrued investment income		55,045	62,381
Accounts receivable		26,074	11,586
Prepaid expenses		(475,556)	(181,881)
Reinsurance recoverable		(91,302)	—
Reserve for losses and loss adjustment expenses		1,092,762	(188,714)
Accrued liabilities		(28,701)	26,750
Net cash (used by) provided by operating activities	$	(597,577)	1,955,511

See accompanying notes to financial statements.

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

(a) Organization

The University of Colorado Risk and Insurance Management Fund (the Fund) was established by the board of regents on June 27, 1996, effective October 1, 1996, to provide funding for the University of Colorado's program of self-insurance encompassing its risks of general liability, including automobile liability and errors and omissions liability; property, including crime; and workers' compensation. The Fund is an asset of the Regents of the University of Colorado and is held and accounted for separately within the Treasury of the Regents of the University of Colorado. Through September 30, 1996, the University provided this coverage through the University of Colorado Insurance Pool (the Pool). Coverages provided by the Fund are essentially the same as those that were provided by the Pool. Employers' liability coverage is provided up to a limit of $2 million during the years ended June 30, 2003 and 2002 for each accident and each employee disease and workers' compensation coverage is provided up to the statutory requirements for the State of Colorado. Through September 30, 1999, the Fund retained the first $300,000 for each accident or each employee disease and ceded the excess. Effective October 1, 1999, the Fund increased its retention for each accident and each employee disease to $500,000.

Property coverage is provided up to a limit of $300 million per occurrence during 2003 and 2002. The Fund retained the first $500,000 and $250,000 ($400,000 for gas turbine generator units) per occurrence during 2003 and 2002, respectively, and cedes the excess.

Liability insurance, including general liability, auto liability, errors, and omissions and school leaders' coverage, is also provided by the Fund. The coverage under this policy is limited to $10 million per occurrence or wrongful act through March 27, 2000 and $25 million per occurrence or wrongful act effective March 28, 2000. Through September 30, 1999, the Fund retained the first $250,000 per occurrence or wrongful act ($500,000 for employment practices liability), ceding the excess. Effective October 1, 1999 through September 30, 2002, the Fund decreased its retention level to $150,000 per occurrence or wrongful act ($450,000 for employment practices liability), plus a $100,000 annual aggregate corridor retention, ceding the excess. Effective October 1, 2002, the Fund increased its retention to $500,000 for each occurrence or wrongful act.

(b) Reporting Entity and Fund Type

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

(c) Basis of Presentation

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

(Continued)

date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Investments

Investments in debt securities consist of United States government obligations and are carried at fair value, which is based upon quoted market prices. Investments whose maturities at the time of acquisition are one year or less are classified as short-term investments. Short-term investments are carried at cost which approximates fair value.

The amortization of premium or discount is calculated using the interest method taking into consideration specified interest and principal provisions over the life of the bond. Debt securities containing call provisions are amortized to the call or maturity value or date which produces the lowest asset value.

All investment income, including changes in the fair value of investments, is recognized as revenue (or expense) in the statement of revenue and expenses. Gains and losses on investments sold are realized in operations and are computed based on the specific identification method.

(e) Cash and Cash Equivalents

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

(f) Premiums

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

(g) Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated net liability for claims reported, plus claims incurred and not reported and the related loss adjustment expenses, including the effects of inflation and other societal and economic factors. The Fund does not discount reserves for losses and loss adjustment expenses. The reserve for losses and loss adjustment expenses is estimated by an independent third-party actuary using individual case-basis valuations and statistical analysis. Those estimates are subject to inherent variability caused by the effects of trends in loss severity and frequency. 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 also contribute to this variability. The reserve 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. Since the ultimate disposition of claims is subject to uncertainty, the actual losses may vary significantly from the estimate in the financial statements. Although considerable variability is inherent in such

(Continued)

estimates, management believes that the reserves for losses and loss adjustment expenses are adequate.

(h) Reinsurance

Reinsurance premiums, losses, and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the 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 in accordance with accounting principles generally accepted in the United States of America. Should the reinsurers be unable to fulfill their obligations under the reinsurance contracts, the Fund would remain liable for claims and expenses associated with the ceded business.

(i) Income Taxes

The Fund is an asset of the Regents of the University of Colorado. As an organization described in Internal Revenue Code Section 501(c)(3), the University of Colorado is exempt from federal income tax on its related income under Section 501(a). The Fund has no material unrelated income in the years ended June 30, 2003 and 2002.

(j) Recently Issued Accounting Standards

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

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

(2) Cash Deposits and Investments

(a) Cash Deposits

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

The carrying amount of the Fund's deposits in the collateral pool was $10,199,916 and $7,407,493 at June 30, 2003 and 2002, respectively. The bank balances were $10,328,814 and $7,580,159 at June 30, 2003 and 2002, respectively. The 2003 and 2002 bank balances were fully insured by the

Federal Deposit Insurance Corporation or covered by collateral held in the bank's trust department in the Fund's name.

(b) Investments

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

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

Category 1: Includes investments that are insured or registered or for which the securities are held by the Fund or its agent in the Fund's name.

Category 2: Includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent in the Fund's name.

Category 3: Includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Fund's name.

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

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
At June 30, 2003:				
U.S. Treasury securities and obligations	$ 396,515	29,237	—	425,752
Mortgage-backed securities	13,087,239	724,824	—	13,812,063
Total fixed maturities	$ 13,483,754	754,061	—	14,237,815
At June 30, 2002:				
U.S. Treasury securities and obligations	$ 4,432,312	227,369	—	4,659,681
Mortgage-backed securities	12,292,541	658,343	—	12,950,884
Total fixed maturities	$ 16,724,853	885,712	—	17,610,565

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The amortized cost and fair value of debt securities at June 30, 2003, by contractual maturity, are shown below. Current maturities of mortgage-backed securities were $4,575,165 and $4,942,384 at June 30, 2003 and 2002, respectively. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities		Amortized cost	Fair value
Due after one through five years	$	396,515	425,752
Mortgage-backed securities		13,087,239	13,812,063
Total debt securities	$	13,483,754	14,237,815

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

		2003	2002
Debt securities	$	916,639	1,152,691
Cash and cash equivalents		121,786	94,525
Net (decrease) increase in the fair value of investments		(131,650)	344,695
Total investment income		906,775	1,591,911
Investment expenses		(11,199)	(11,050)
Net investment income	$	895,576	1,580,861

There were no realized gains or losses on sales of debt securities during 2003 and 2002.

(3) Reinsurance

The Fund has entered into various excess insurance contracts to limit large losses and minimize exposure on large risks, as described in note 1.

The Fund does not have a legal obligation to pay loses or loss adjustment expenses in excess of the amounts recoverable under excess specific and aggregate insurance contracts. Losses and loss adjustment expenses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the Fund. The Fund evaluates and monitors the financial condition of its excess insurers to minimize its exposure to loss from excess insurer insolvency. Management of the Fund believes its excess insurers are financially sound and will continue to meet their contractual obligations.

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

	Year ended December 31	
	2003	2002
Member contributions earned	$ 3,684,333	2,075,788
Loss and loss adjustment expenses paid	91,302	—
Loss and loss adjustment expenses unpaid	683,698	—

The Agency has the following excess insurance recoverables at June 30:

	2003	2002
Hartford Steam Boiler	$ 165,000	—
United National	610,000	—
	$ 775,000	—

(4) Reserve for Losses and Loss Adjustment Expenses

As discussed in note 1, the Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses. The following represents changes in those aggregate liabilities, excluding any reinsurance recoverables for the Fund during the years ended June 30, 2003 and 2002:

	2003	2002
Reserve for losses and loss adjustment expenses at beginning of year	$ 9,530,905	9,719,620
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	5,771,766	5,574,278
Decrease in provision for insured events of prior years	(1,687,658)	(2,882,302)
Total incurred losses and loss adjustment expenses	4,084,108	2,691,976
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	1,460,851	1,205,495
Losses and loss adjustment expenses attributable to insured events of prior years	1,530,495	1,675,196
Total payments	2,991,346	2,880,691
Total reserve for losses and loss adjustment expenses at end of year	$ 10,623,667	9,530,905

The provisions for losses and loss adjustment expenses pertaining to prior years decreased during the years ended June 30, 2003 and 2002 due to lower than anticipated settlement costs of certain prior year claims. The reserve for losses and loss adjustment expenses is presented net of reinsurance recoverable on unpaid losses, which totaled $683,698 and $0 at June 30, 2003 and 2002, 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.

(5) Related-Party Transactions

The Fund paid fees of $1,064,996 and $740,609 to the University of Colorado during the years ended June 30, 2003 and 2002, respectively, for risk management services.

(6) Summary of Premiums and Losses

The following is a summary of premiums earned and losses incurred by type of coverage for the year ended June 30, 2003.

Coverage	Premiums earned	Losses and loss adjustment expenses incurred
Workers' compensation (net of $285,759 of premiums ceded)	$ 3,350,233	1,070,650
Property (net of $2,184,028 of premiums ceded)	(7,511)	563,575
General liability (net of $1,128,150 of premiums ceded)	668,168	2,375,325
Auto liability (net of $86,396 of premiums ceded)	212,417	32,528
ULAE reserves (decrease of $68,202 related to workers' compensation and an increase of $110,232 related to liability and property)	—	42,030
	$ 4,223,307	4,084,108

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

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

(7) Surplus Distribution

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

(8) Contingencies

In the normal course of operations, the Fund is involved in litigation related principally to claims made under insurance contracts. Those actions are considered by the Fund 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 Fund's financial position, results of operations or liquidity.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

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

Years ended June 30, 2003 and 2002

The schedule below presents the changes in reserves for losses and loss adjustment expenses for the years ended June 30, 2003 and 2002 for the Fund's two types of coverage: workers' compensation and liability and property.

	Workers' compensation		Liability and property	
	2003	**2002**	**2003**	**2002**
Reserve for losses and loss adjustment expenses at beginning of year	$ 5,202,574	5,694,473	4,328,331	4,025,147
Incurred losses and loss adjustment expenses:				
Provision for insured events of current year	2,964,000	3,175,000	2,807,766	2,399,278
Decrease in provision for insured events of prior years	(1,961,552)	(1,883,029)	273,894	(999,273)
Total incurred losses and loss adjustment expenses	1,002,448	1,291,971	3,081,660	1,400,005
Payments:				
Losses and loss adjustment expenses attributable to insured events of the current year	827,446	705,844	633,405	499,652
Losses and loss adjustment expenses attributable to insured events of prior years	1,026,965	1,078,026	503,530	597,169
Total payments	1,854,411	1,783,870	1,136,935	1,096,821
Total reserve for losses and loss adjustment expenses at end of year	$ 4,350,611	5,202,574	6,273,056	4,328,331

Unaudited – see accompanying independent auditors' report.

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Required Supplementary Information –
Reconciliation of Claims Development Information

June 30, 2003

Ten-Year Claims Development Information

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

Ten-Year Claims Development Information (in thousands)

	1997	1998	1999	2000	2001	2002	2003
1. Net earned premium and investment revenue	$ 6,320	8,342	10,336	8,724	9,247	7,401	5,119
2. Unallocated expenses	558	807	1,280	1,695	1,835	1,905	2,193
3. Estimated incurred claims and expense, end of policy period	5,402	7,054	6,529	5,791	4,971	5,574	5,550
4. Paid (cumulative) as of:							
End of policy period	603	1,374	799	844	888	1,205	1,461
One year later	1,618	2,319	1,913	1,821	1,801	2,200	—
Two years later	2,073	2,693	2,457	2,201	2,127	—	—
Three years later	2,211	2,925	2,483	2,391	—	—	—
Four years later	2,381	2,951	2,538	—	—	—	—
Five years later	2,346	3,000	—	—	—	—	—
Six years later	2,355	—	—	—	—	—	—
5. Reestimated incurred claims and expense:							
End of policy period	5,402	7,054	6,529	5,791	4,971	5,574	5,550
One year later	4,282	7,301	4,690	4,240	3,710	4,671	—
Two years later	4,233	3,939	4,070	3,421	3,598	—	—
Three years later	2,870	3,723	3,118	2,984	—	—	—
Four years later	2,823	3,616	2,968	—	—	—	—
Five years later	2,713	3,839	—	—	—	—	—
Six years later	2,675	—	—	—	—	—	—
6. Increase (decrease) in estimated incurred claims and expense from the period ended	(2,727)	(3,215)	(3,561)	(2,807)	(1,373)	(903)	—

Unaudited – see accompanying independent auditors' report.

Suite 2700
707 Seventeenth Street
Denver, CO 80202

August 29, 2003

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Colorado Risk and Insurance Management Fund (the Fund), for the year ended June 30, 2003 and have issued our report thereon dated August 29, 2003. In planning and performing our audit of the financial statements of the Fund, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be a material weakness as defined above.

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

Very truly yours,

KPMG LLP

UNIVERSITY OF COLORADO RISK AND INSURANCE MANAGEMENT FUND

Audited Financial Statements

June 30, 2003

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