UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Basic Financial Statements and Auditors' Comments and Recommendations

June 30, 2006

(With Independent Auditors' Report Thereon)

Anton Collins Mitchell LLP

AN INDEPENDENT MEMBER OF BDO SEIDMAN ALLIANCE

UNIVERSITY OF COLORADO
SELF-INSURANCE
AND RISK MANAGEMENT TRUST

Basic Financial Statements and
Auditors' Comments and Recommendations

June 30, 2006

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Anton Collins Mitchell LLP
Contract Auditors

September 20, 2006

Members of the Legislative Audit Committee:

We have completed the financial audit of University of Colorado Self-Insurance and Risk Management Trust for the year ended June 30, 2006. 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 the state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Contents

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Report Summary
June 30, 2006

Authority and Purpose/Scope of the Audit

This audit was conducted under Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of the state government. The primary purpose of our engagement was to audit the basic financial statements of the University of Colorado Self-Insurance and Risk Management Trust (the Trust) as of and for the year ended June 30, 2006, in accordance with auditing standards generally accepted in the United States of America and express an opinion on those financial statements and the notes thereto. The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

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

We examined, on a test basis, evidence supporting the amounts and disclosures in the Trust's financial statements as of June 30, 2006. The accounting practices used by the Trust to prepare the financial statements are in conformity with accounting principles generally accepted in the United States.

Required Communications to the Legislative Audit Committee

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

1. **Auditors' Responsibility Under Generally Accepted Auditing Standards** — Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with generally accepted auditing standards does not provide absolute assurance or guarantee the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, have not been detected. Such standards also require that we obtain a sufficient understanding of the Trust's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control or material misstatement.

2. **Significant Accounting Policies** — We have reviewed the accounting policies that management identified to be the most critical, and concur with management's assessment. These include the estimates for reserves for losses and loss adjustment expenses.

3. **Management Judgments and Accounting Estimates** — Certain accounting estimates 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. We have made tests of management's estimates and deemed them to be appropriate. The major accounting estimates are as follows:

Unpaid Losses and Loss Adjustment Expenses — Estimating the reserve for losses and loss adjustment expenses of an insurance company is a subjective and judgmental process, particularly for long-tail lines of business such as medical malpractice insurance. To estimate the reserve for losses and loss adjustment expenses, management of the Trust utilizes the independent actuarial consulting services of Tillinghast, a Towers Perrin Company. The reserve for losses and loss adjustment expenses at June 30, 2006, was computed by the actuary based upon several methods; such amounts represent management's best estimates of the ultimate loss to be incurred. The Trust discounts its liabilities for unpaid losses and loss adjustment expenses. The funding level required at a 90% confidence level has been discounted on a nontabular basis at 5.563%. A nontabular discount is calculated with reference to an estimated payout pattern and an interest rate, and without reference to actuarial tables. The Trust's selection of the discount rate is based on a weighted average of third-party capital market projections by asset class. We concur that management's 2006 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.

4. **Significant Audit Adjustments and Uncorrected Misstatements** — For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the Trust because they are not material to the current financial statements but might be potentially material to future financial statements. During our audit we proposed two audit adjustments relating to the recording of the reinsurance receivable, for a total of $317,077.

5. **Disagreements With Management** — For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Trust's financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

6. **Consultation With Other Accountants** — There may be circumstances where the Trust considers consulting with other accountants about accounting and auditing matters. We are not aware of any situation where this occurred during the period.

7. **Major Issues Discussed with Management Prior to Our Retention** — Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management.

8. **Difficulties Encountered in Performing the Audit** — We are pleased to inform you that there were no difficulties encountered during the course of the audit. All records and information requested by ACM were freely available for inspection. Management and other personnel provided full cooperation.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Report Summary
June 30, 2006

Summary of Major Audit Findings

Tracking of Reinsurance Reimbursements

The Trust receives reimbursement from its reinsurance carrier for all losses and loss adjustment expenses (settlements and legal and other expenses) for an individual claimant in excess of $150,000. The Trust knows when it meets the $150,000 limit; however, the Trust does not communicate this information to the University of Colorado at Denver and Health Sciences Center (UCDHSC) Finance Office. The Trust and the UCDHSC Finance Office should record an accounts receivable on its records and submit a claim for reimbursement to its reinsurance carrier when a claimant reaches the $150,000 limit.

Tracking of Losses and Loss Adjustment Expenses by Current versus Prior Year Activity

As part of the required financial reporting, the Trust includes in its audit report a reconciliation of the Reserves for Losses and Loss Adjustment Expenses. The standards require that the information be segregated into insured events for the current year and prior year for both losses and loss adjustment expenses. Currently, the Trust accounts for all losses and loss adjustments expenses as one number on its financial statements.

Check Printing Software

The Trust uses software to print checks for losses and loss adjustment expenses. The software is several years old and does not have necessary edit checks that would prevent the printing of duplicate check numbers.

Reconciliation of Claims Data

The Trust submits detailed losses and loss adjustment expenses to its actuary to use in the preparation of its actuarial report. The Trust should reconcile the data it submits to the actuary to the losses and loss adjustment expenses reported in the actuarial report to ensure the actuarial report includes complete information.

Summary of the Trust's Responses

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

Summary of Progress in Implementing Prior Audit Recommendation

The audit report for the fiscal year ended June 30, 2004, included one recommendation. The Trust partially implemented the audit recommendation as of September 20, 2006.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Recommendation Locator
June 30, 2006

Recommendation number	Page number	Recommendation summary	Trust response	Implementation date
1.	6	The Trust should inform the UCDHSC Finance Office when losses and loss adjustment expenses for an individual claimant exceeds $150,000.	Agree	December 2006
2.	6	The Trust should record separately the losses and loss adjustment expenses for current and prior loss years.	Agree	December 2006
3.	7	The Trust should consider upgrading its check printing software.	Agree	January 2007
4.	7-8	The Trust should reconcile the data submitted to its actuary to the losses and loss adjustment expenses reported by the actuary in the Trust's actuarial report.	Agree	December 2006

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Organization and Functions of the Trust
June 30, 2006

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

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

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

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

Finding No. 1 - Tracking of Reinsurance Reimbursements

The Trust receives reimbursement from its reinsurance carrier for all losses and loss adjustment expenses (settlements and legal and other expenses) for an individual claim in excess of $150,000. The Trust has a system in place to track when the losses and loss adjustment expenses exceed $150,000, however the Trust does not communicate this information to the UCDHSC Finance Office. When the Trust incurs expenses in excess of the $150,000 limit for an individual claimant, it should record an accounts receivable on its records, submit a claim for reimbursement to its reinsurance carrier, and notify the UCDHSC Finance Office of the amount of the claim for reimbursement. The UCDHSC Finance Office is responsible for recording the accounting transactions on the Trust's records. If the Trust does not notify the UCDHSC Finance Office, the accounts receivable is not recorded on the Trust's financial statements which may misstate the Trust's financial activity.

Recommendation No. 1:

We recommend that the Trust communicate to the UCDHSC Finance Office when a claimant meets the reinsurance limit of $150,000 and the amount of any claims submitted for the reimbursement to its reinsurance carrier. The UCDHSC Finance Office should record an accounts receivable on the Trust's records to ensure the accounting records are accurately recorded.

Response No. 1

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

Agree. Implemented in December 2006. The Trust and the UCDHSC Finance Office have implemented procedures to ensure that a corresponding account receivable will be recorded in the general ledger when a claimant meets the reinsurance limit of $150,000.

Finding No. 2 - Tracking of Losses and Loss Adjustment Expenses by Current versus Prior Year Activity

As part of the required financial reporting, the Trust includes in its audit report a reconciliation of the Reserves for Losses and Loss Adjustment Expenses. The accounting standards require that the Trust segregate this information into insured events for the current year and prior year for both losses and loss adjustment expenses. Currently, the Trust accounts for all losses and loss adjustment expenses in total. However, the tracking is necessary as the actuarial report covers all losses and loss adjustment expenses on a calendar year basis, while the Trust issues its financial statements with a fiscal year end of June 30th. The actuarial report coves a different twelve month reporting period than the Trust's financial reporting. If the Trust segregates the data between insured events of the current year versus prior years, this information will allow the Trust to estimate the activity for the reporting period not covered by the actuarial report.

Recommendation No. 2:

We recommend that the Trust change its accounting code structure to segregate the costs by insured year for both losses and loss adjustment expenses. The Trust should report the activity for the current year in a separate account from activity related to prior years to allow for more accurate estimates.

Response No. 2

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

Agree. Implemented in December 2006. The UCDHSC Finance Office has created general ledger coding that will segregate the loss and loss adjustment expense by current year vs. prior year activity.

Finding No. 3 – Check Printing Software

The Trust uses its own software (purchased several years ago) to print checks for losses and loss adjustment expenses, however, the existing software does not have built in edit checks to prevent printing checks with the same check number. The number of checks issued by the Trust for losses and loss adjustment expenses is minimal and the Trust has established internal control procedures including a proper segregation of duties surrounding the review and approval of all losses and loss adjustment disbursements. Through its review process, the Trust identified two checks that were printed with the same check number for payments of different invoices. Without the appropriate edits in place to prevent checks from being printed with duplicate check numbers, the Trust risks losing accountability over disbursements by issuing duplicate checks that may go undetected.

The Trust should use check printing software that provides edit checks which would prevent more than one check being printed with the same check number. This upgraded software will improve the internal control framework surrounding the disbursement of losses and loss adjustment expenses.

Recommendation No. 3:

We recommend that the Trust upgrade the software used to print checks that provide edit checks that will prevent more than one check being printed with the same check number.

Response No. 3:

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

Agree. Implemented in January 2007. The Trust has purchased check writing software that will prevent the issuance of duplicate checks.

Finding No. 4 – Reconciliation of Claims Data

The Trust maintains its information for losses and loss adjustment expenses on a claims-made basis, which includes information in the order the claim was reported to the Trust. The Trust reports losses and loss adjustment expenses information to its third-party actuary who prepares an actuarial report for the Trust. The actuarial report provides information on losses and loss adjustment expenses in the order that the claim occurred or on an occurrence basis.

The June 30, 2004 audit included a recommendation regarding the documentation of a reconciliation performed between claims made on an occurrence basis, used by the actuary, and the claims made on a claims-made basis, used by the Trust. This should include evidence that paid losses and case reserves on a claims-made basis agree to paid losses and case reserves on an occurrence basis as presented in the actuarial report. As a result of the prior year recommendation, the Trust and the third-party actuary worked together to develop a format for the Trust to use to report the information for losses and loss adjustment expenses on an occurrence basis to the actuary. However, we noted that the Trust did not reconcile the paid losses and case reserves as presented in the actuarial report to the paid losses and case reserves on a claims-made basis.

Because the Trust maintains its loss information on a claims-made basis, it is important that the occurrence basis and the claims-made basis are reconciled to ensure that the actuary has complete information on which to base its actuarial projection for reserves. If the two sets of information are not reconciled, then the actuarial report may not accurately reflect the projected reserves required by the Trust.

The Trust should prepare and document an annual reconciliation between claims made on an occurrence basis and on a claims-made basis to ensure the accuracy of the actuarial report.

Recommendation No. 4

We recommend that the Trust reconcile the data submitted to the actuary to the losses and loss adjustment expenses reported in the actuarial report to ensure that the actuarial report includes complete information. The Trust should retain documentation of this reconciliation to demonstrate that the amounts reported in the actuarial report for losses and loss adjustments expenses agrees to the Trust's internal records on a claims-made basis.

Response No. 4:

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

Agree. Implemented in December 2006. As a clarification of a prior year finding, the Trust and the UCDHSC Finance Office will coordinate the documented reconciliation of claims data to ensure the actuarial report contains the complete claims information.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Disposition of Prior Audit Recommendation
June 30, 2006

The following audit recommendation is form the University of Colorado Self-Insurance and Risk Management Trust financial audit for the fiscal year ended June 30, 2004.

Recommendation	Disposition
The Trust should improve its process for the reconciliation of the loss information to the actuarial report by retaining documentation of the occurrence basis claim list and retaining documentation for the reconciliation performed between the occurrence basis claim list and the claims-made basis list, including evidence that paid loses and case reserves on a claims-made basis agree to paid losses and case reserves on an occurrence basis as presented in the actuarial report.	Partially implemented and resolved with current year recommendation No. 4. The Trust reports information to the actuary on an occurrence basis, however, the Trust does not reconcile the occurrence basis with the claims-made basis.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Management Discussion and Analysis
June 30, 2006

The University of Colorado Self-Insurance and Risk Management Trust (Trust) herein sets forth a narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2006. This analysis will focus on the activities for the 2006 and 2005 fiscal years in accordance with Government Auditing Standards. Management is responsible for the completeness and fairness of this discussion and analysis and the financial statements.

Financial Highlights

The Trust's financial position as a whole has remained stable. During the fiscal year ended June 30, 2005, net assets increased by approximately $.8 million, which was principally caused by losses and loss adjustment expenses being lower than anticipated. During the fiscal year ended June 30, 2006, net assets decreased by $1.1 million because investments exceeded the actuarially determined reserves for losses and loss adjustment expenses, allowing such investments to be used to support current operations instead of premium assessments.

Overview of the Financial Statements

This report consists of three basic financial statements:

- The balance sheet presents the assets, liabilities, and net assets of the Trust at a point in time (at the end of each fiscal year). Its purpose is to present a financial snapshot of the Trust.

- The statement of revenue, expenses, and changes in net assets presents the total revenue received and expenses incurred by the Trust for operating, non-operating, and other related activities during the period of time (the year ended June 30, 2006). Its purpose is to assess the Trust's operating results.

- The statement of cash flows presents receipts and payments of the Trust during a period of time (the year ended June 30, 2006). Its purpose is to assess the Trust's ability to generate future net cash flows and meet its obligations as they become due.

Balance Sheet

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

Net assets for the Trust at June 30, 2006 and 2005, were $3.7 million and $4.8 million, respectively, as identified below (in thousands):

	2006	2005	Change
Current assets	$ 995	1,194	(199)
Noncurrent assets	9,323	10,222	(899)
Total assets	10,318	11,416	(1,098)
Current liabilities	1,981	1,773	208
Noncurrent liabilities	4,646	4,841	(195)
Total liabilities	6,627	6,614	13
Net assets	$ 3,691	4,802	(1,111)

Net assets have decreased by $1.1 million from the prior year. This decrease in net assets resulted in a reduction of investments of $.9 million to support operations while the reserve for losses and loss adjustment remained stable.

Statements of Revenue, Expenses, and Changes in Net Assets

Another indicator of financial condition is the relationship between revenue and expenses. When revenue and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. A summary of revenue, expenses, and changes in net assets for the year ended June 30, 2006 and 2005, is provided below (in thousands):

	2006	2005	Change
Operating revenue	$ 1,198	1,185	13
Operating expenses	2,602	1,231	(1,371)
Operating loss	(1,404)	(46)	(1,358)
Non-operating income	293	806	(513)
Increase (decrease) in net assets	(1,111)	760	(1,871)
Net assets - beginning of year	4,802	4,042	760
Net assets - end of year	$ 3,691	4,802	(1,111)

Operating revenue, consisting of premiums and consulting income, remained stable. Premiums are assessed each fiscal year to participants to cover the operating expenses of managing the Trust as well as adjusting reserves to ensure sufficient funding levels for future claims that have been incurred but not reported. Premiums decreased 2% in fiscal year 2006 as compared to fiscal year 2005. The funding levels and reserves are determined by actuarial analysis and are based on a 90% confidence level. This decrease in premiums is due to loss experience being lower than expected, which allowed investments to be used to support the operations instead of participant premium assessments.

The most significant operating expense of the Trust is the provisions for losses and loss adjustment expenses. For the years ended June 30, 2006 and 2005 this amount was $1.6 million and $.3 million. Projections for these provisions were updated during the fiscal year based on an actuarial report dated March 24, 2006. As a result of the updated projections, the provisions were decreased based on actual claims history.

Nonoperating income decreased due to market influences on investment earnings.

Statements of Cash Flows

Net cash used in operating activities were $1.1 million and $1.4 million for the years ended June 30, 2006 and 2005. This is due to the fact that lower than expected loss experience indicated that investments in excess of required reserves for losses and loss expenses could be reduced, thus premiums did not fully cover operating expenses.

Economic Factors

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

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

ACM
Anton Collins Mitchell LLP

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business type activities for the University of Colorado Self-Insurance and Risk Management Trust (the Trust) as of June 30, 2006, which comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over the financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of University of Colorado Self-Insurance and Risk Management Trust as of June 30, 2006, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Reconciliation of Reserves for Losses and Loss Adjustment Expenses by Type of Coverage, and Claims Development Information on pages 10 through 12 and 24 through 26 are not a required part of the basic financial statements of the University of Colorado Self-Insurance and Risk Management Trust, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 20, 2006, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Anton Collins Mitchell LLP

September 20, 2006

Accountants & Consultants

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UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Balance Sheet

June 30, 2006

Assets		
Current assets:		
Cash and cash equivalents	$	954,878
Accrued investment income		1,346
Reinsurance receivable		39,108
Total current assets		995,332
Noncurrent assets:		
Investments		9,322,943
Total assets		10,318,275
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses		66,217
Reserve for losses and loss adjustment expenses		1,915,000
Total current liabilities		1,981,217
Noncurrent liabilities:		
Reserves for losses and loss adjustment expenses		4,646,342
Total liabilities		6,627,559
Net assets:		
Unrestricted		3,690,716
Total liabilities and net assets	$	10,318,275

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

Operating revenue:		
Premium revenue, net of excess insurance premiums of $151,695	$	1,107,835
Other operating revenue		89,847
Total operating revenue		1,197,682
Operating expenses:		
Salaries and benefits		758,951
Other general and administrative expenses		272,953
Losses and loss adjustment expenses		1,570,329
Total operating expenses		2,602,233
Operating loss		(1,404,551)
Nonoperating revenue:		
Net investment income		292,954
Decrease in net assets		(1,111,597)
Net assets, beginning of year		4,802,313
Net assets, end of year	$	3,690,716

See accompanying notes to basic financial statements.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Statement of Cash Flows
Year Ended June 30, 2006

Cash flows from operating activities:		
Premium payments, net of excess insurance premiums	$	1,197,807
Payments to employees		(750,411)
Payments to suppliers		(273,088)
Legal and settlement expenses, net of excess insurance recoveries		(1,323,897)
Net cash used by operating activities		(1,149,589)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments		1,377,641
Interest on investments		533,872
Investment management fees paid		(40,117)
Purchase of investments		(602,599)
Net cash provided by investing activities		1,268,797
Net increase in cash and cash equivalents		119,208
Cash and cash equivalents, beginning of year		835,670
Cash and cash equivalents, end of year		954,878
Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss		(1,404,551)
Adjustments to reconcile operating loss to net cash used by operating activities		
Change in accounts payable and accrued expenses		8,530
Change in reserve for losses and loss adjustment expenses		4,891
Change in reinsurance receivable		241,541
Net cash used by operating activities	$	(1,149,589)

See accompanying notes to basic financial statements.

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

(a) Organization

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

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

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

(b) Reporting Entity and Fund Type

The Trust is a self-insurance fund and is accounted for as an enterprise fund (a business-type activity). The Trust applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In addition, the Trust has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. The Trust has no component units using the criteria as set forth in accounting principles generally accepted in the United States of America.

(c) **Basis of Presentation**

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

(d) **Use of Estimates**

The preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts revenue and expenses during the reporting period. Significant estimates include the reserves for losses and loss adjustment expenses. Management's estimates of insurance losses and loss adjustment expenses are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Actual results could differ from those estimates.

(e) **Net Assets**

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

(f) **Classification of Revenues and Expenses**

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

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

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

(g) **Cash and Cash Equivalents**

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

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

(h) Investments

Investments in mutual funds are reported at fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Unrealized gains and losses are included in investment income.

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

(i) Premiums

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

The Trust relies upon investment income and surplus to fund losses incurred. If the total losses incurred exceed investment income for a given year, the participants in the Trust may be assessed additional premiums on a pro rata basis. The Trust did not make any additional assessments in 2006.

(j) Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses represents the estimated ultimate net cost of all reported and unreported losses incurred through June 30, 2006. The reserve for losses and loss adjustment expenses is estimated using individual case-basis valuations and statistical analysis. These estimates are subject to the effects of trends in loss severity and frequency. The estimates are periodically reviewed by independent consulting actuaries and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. Although considerable variability is inherent in such estimates, management believes that the reserve for losses and loss adjustment expenses is adequate.

(k) Excess Insurance

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

(l) Income Taxes

As an organization described in Internal Revenue Code Section 501(c)(3), the Trust is exempt from federal income tax on income related to its exempt purposes under IRC Section 501(a). Income from activities not directly related to the Trust's tax-exempt purpose is subject to taxation as unrelated business income. The Trust had no material unrelated income; therefore no provision for income taxes is included in the financial statements.

(2) Investments and Deposits

(a) Cash Deposits

The Trust's cash and cash equivalents consist of cash deposits with financial institutions and deposits with the University of Colorado Treasurer.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. To manage custodial credit risk, deposits with financial institutions are made in accordance with the Trust's policy, including the Colorado Public Deposit Protection Act (PDPA) of 1975. PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having a market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under PDPA are considered to be collateralized with securities held by the pledging institution in the Trust's name. Deposits held in money market funds are not PDPA eligible deposits and thus are exposed to custodial credit risk.

As of June 30, 2006, $450,701 of the Trust's bank balances of $550,701 were not exposed to custodial credit risk. The Trust held $431,820 in money market accounts that were exposed to custodial credit risks at June 30, 2006. The carrying amount of the Trust's deposit was $523,058 at June 30, 2006.

Cash and cash equivalents are presented net of outstanding checks of $27,439 at June 30, 2006.

(b) Investments

The investments of the Trust generally include direct obligations of the U.S. Government and its agencies, money market funds, mutual funds and equities.

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, are not registered in the Trust's name, and are held by either the counterparty to the investments purchase or the counterparty's trust department or agent, but not in the Trust's name. Open-ended mutual funds are not subject to custodial risk because ownership of the investment is not evidenced by a security. The Trust does not have a policy covering custodial credit risk.

At June 30, 2006, all of the Trust's investments were in SEC regulated mutual funds. The mutual funds are all open-ended and are not subject to custodial risk disclosures because ownership of the investments is not evidenced by securities.

Interest rate risk is the risk that the changes in the market rate of interest will adversely affect the value of an investment. Interest rate risk only applies to debt investments. The Trust manages interest rate risk in its investment portfolio by managing the duration of the maximum maturity. There are debt investments in two mutual funds. One of these is exempt from Governmental Accounting Standards Board (GASB) 40, ***Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3,*** interest rate risk disclosure because it complies with rule 2a-7 of the Investment Company Act of 1940, as amended. The other mutual fund did have interest rate risk that needs to be disclosed.

This investment grade bond mutual fund is benchmarked against the Lehman Brothers Aggregate Bond Index. It had duration of 5.0 years. Its market value on June 30, 2006, was $7,348,628.

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Credit is measured by the assignment of a rating by a nationally recognized statistical rating organization. GASB 40's credit quality risk disclosures also only apply to debt investments. As above, debt investments in the portfolio are in two mutual funds. The first, the Vanguard common stock mutual funds held $1,974,315 of value on June 30, 2006 and the other fund, the Frontegra Investment Grade Bond Fund, held $7,348,628 and both were not rated.

Major categories of investment income for the year ended June 30, 2006, are summarized as follows:

Fixed income	$	400,239
Equity securities		36,648
Cash equivalents		20,183
Net decrease in the fair value of investments		(123,999)
Total investment income		333,071
Investment expenses		40,117
Net investment income	$	292,954

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

(3) Reserve for Losses and Loss Adjustment Expenses

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

The following represents changes in those aggregate liabilities for the Trust for the year ended June 30, 2006.

Reserve for losses and loss adjustment expenses at beginning of year	$	6,556,451
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year		2,394,122
Decrease in provision for insured events of prior years		(823,793)
Total incurred losses and loss adjustment expenses		1,570,329
Payments:		
Losses and loss adjustment expenses attributable to insured events of current year		(75,510)
Losses and loss adjustment expenses attributable to insured events of prior years		(1,489,928)
Total payments		(1,565,438)
Total reserve for losses and loss adjustment expenses at end of year	$	6,561,342

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and loss adjustment expenses. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and are modified if necessary.

Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Trust discounts its liabilities for unpaid losses and loss adjustment expenses. The funding level required at a 90% confidence level has been discounted on a non-tabular basis at 5.563%. A non-tabular discount is calculated with reference to an estimated payout pattern and an interest rate, and without reference to actuarial tables. The Trust's selection of the discount rate is based on a weighted-average of third-party capital market projections by asset class.

At June 30, 2006, the Trust accrued $6,561,342 for unpaid losses and loss adjustment expenses. The amount of the discount (computed at 5.563%) for unpaid losses and loss adjustment expenses as of June 30, 2006, is $1,076,725.

(4) Excess Insurance

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

Excess insurance has reduced premiums earned and losses and loss adjustment expenses by the following amounts in fiscal year 2006:

Premiums earned	$	151,695
Loss and loss adjustment expenses paid	$	36,428

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

(5) Contingencies

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

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

(6) Accrued Compensated Absences

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

(7) Related-Party Transactions

The Trust, which is an auxiliary enterprise of the University of Colorado, paid the University approximately $111,413 for administrative services during 2006.

Required Supplementary Information

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Required Supplementary Information - Reconciliation of Reserves for Losses and Loss Adjustment Expenses by Type of Coverage June 30, 2006 and 2005

The schedule below represents the changes in loss and loss adjustment expense reserves for the years ended June 30, 2006 and 2005, for the Trust's one line of coverage: medical malpractice.

	2006	2005 (unaudited)
Reserve for losses and loss adjustment expenses at beginning of year	$ 6,556,451	$ 7,638,766
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	2,394,122	2,267,220
Decrease in provision for insured events of prior years	(823,793)	(1,940,670)
Total incurred losses and loss adjustment expenses	1,570,329	326,550
Payments:		
Losses and loss adjustment expenses attributable to insured events of current year	(75,510)	(2,000)
Losses and loss adjustment expenses attributable to insured events of prior years	(1,489,928)	(1,406,865)
Total payments	(1,565,438)	(1,408,865)
Total reserve for losses and loss adjustment expenses at end of year	$ 6,561,342	$ 6,556,451

See accompanying independent auditors' report.

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Required Supplementary Information - Claims Development Information
June 30, 2006

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

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Required Supplementary Information - Claims Development Information
June 30, 2006

Ten-Year Claims Development Information (in thousands):

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Net earned premium and investment revenue	2,480	2,164	1,901	1,049	1,830	2,689	2,930	3,252	1,992	1,769
2. Unallocated expenses	709	698	957	730	852	954	865	825	904	1,032
3. Estimated incurred claims and expenses end of policy year	2,933	2,575	2,350	2,680	2,500	2,450	2,760	2,247	2,192	2,299
4. Paid (cumulative) as of:										
End of policy year	28	252	70	232	6	8	135	15	2	34
One year later	203	502	488	445	65	440	370	392	352	--
Two years later	544	1,213	368	681	203	611	923	399	--	--
Three years later	793	1,124	596	1,106	362	1,237	1,385	--	--	--
Four years later	1,074	1,501	1,118	1,008	510	1,477	--	--	--	--
Five years later	1,165	1,703	1,621	1,014	590	--	--	--	--	--
Six years later	1,142	1,980	1,542	1,014	--	--	--	--	--	--
Seven years later	1,202	2,076	1,587	--	--	--	--	--	--	--
Eight years later	1,203	2,088	--	--	--	--	--	--	--	--
Nine years later	1,204	--	--	--	--	--	--	--	--	--
5. Reestimated incurred claims and expense as of:										
End of policy year	2,933	2,575	2,350	2,680	2,500	2,450	2,760	2,247	2,192	2,299
One year later	2,438	2,300	2,275	2,400	2,000	2,500	2,405	1,579	1,528	--
Two years later	1,850	2,350	1,700	2,000	1,530	2,343	2,409	1,545	--	--
Three years later	1,500	1,925	1,450	1,875	929	2,000	2,196	--	--	--
Four years later	1,550	2,075	1,710	1,401	700	1,930	--	--	--	--
Five years later	1,500	2,225	2,067	1,262	730	--	--	--	--	--
Six years later	1,420	2,100	1,981	1,196	--	--	--	--	--	--
Seven years later	1,375	2,150	1,939	--	--	--	--	--	--	--
Eight years later	1,290	2,175	--	--	--	--	--	--	--	--
Nine years later	1,287	--	--	--	--	--	--	--	--	--
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(1,646)	(400)	(411)	(1,484)	(1,770)	(520)	(564)	(702)	(664)	--

Unaudited – See accompanying independent auditors' report.

ACM
Anton Collins Mitchell LLP

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

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

We have audited the basic financial statements of University of Colorado Self-Insurance and Risk Management Trust (the Trust) as of and for the year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Anton Collins Mitchell LLP

September 20, 2006

UNIVERSITY OF COLORADO SELF-INSURANCE AND RISK MANAGEMENT TRUST

Audited Basic Financial Statements

June 30, 2006

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