UNIVERSITY OF COLORADO INSURANCE POOL

Statutory Financial Statements and
Auditors' Comments

June 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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KPMG

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 Insurance Pool 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 INSURANCE POOL

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UNIVERSITY OF COLORADO INSURANCE POOL

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 statutory financial statements of the University of Colorado Insurance Pool (the Pool) 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 statutory financial statements and the notes thereto are presented in conformity with accounting practices prescribed or permitted by the Division of Insurance of the State of Colorado (the Division). The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.

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

Scope

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

Management's 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 that are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Estimating the reserve for losses and loss adjustment expenses of an insurance company is a subjective and judgmental process, particularly for long-tail lines of business such as workers' compensation insurance. To estimate the reserve for losses and loss adjustment expenses, management of the Pool utilizes the independent actuarial consulting services of Tillinghast, a Towers Perrin Company. In order for us to satisfy the requirements of auditing standards generally accepted in the United States of America when a specialist has been utilized, a KPMG LLP actuary obtained an 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 statutory financial statements.

Other Considerations

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

Financial Audit Report

We have completed our audit of the statutory financial statements and have issued our report thereon dated August 29, 2003, which states that the statutory financial statements of the Pool present fairly, in all material respects, the financial position of the Pool as of June 30, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting practices prescribed or permitted by the Division.

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

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 INSURANCE POOL

Organization and Functions of the Pool

Description of University of Colorado Insurance Pool

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

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

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

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Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statutory statements of admitted assets, liabilities, and surplus of the University of Colorado Insurance Pool (the Pool) as of June 30, 2003 and 2002, and the related statutory statements of income, surplus, and cash flows for the years then ended. These statutory financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these statutory financial statements based on our audits.

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

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

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the statutory financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Insurance Pool as of June 30, 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.

Also, in our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the University of Colorado Insurance Pool as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in note 1.

The reconciliation of reserves for losses and loss adjustment expenses by type of coverage and the claims development information on pages 18 and 19 are not required parts of the basic statutory financial statements of the University of Colorado Insurance Pool, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

August 29, 2003

UNIVERSITY OF COLORADO INSURANCE POOL

Statutory Statements of Admitted Assets, Liabilities, and Surplus

June 30, 2003 and 2002

Admitted Assets		**2003**	**2002**
Investments:			
Debt securities, at amortized cost	$	1,101,916	3,224,591
Cash and short-term investments		328,607	970,858
Total investments		1,430,523	4,195,449
Reinsurance receivable		2,225,719	532,767
Accrued investment income		13,508	56,555
Total admitted assets	$	3,669,750	4,784,771
Liabilities and Surplus			
Liabilities:			
Reserve for losses and loss adjustment expenses	$	1,409,744	1,355,312
Accounts payable and accrued expenses		116,665	143,261
Total liabilities		1,526,409	1,498,573
Surplus:			
Surplus contribution certificates		4,000,000	4,000,000
Paid-in surplus		1,500,000	1,500,000
Unassigned deficit		(3,356,659)	(2,213,802)
Total surplus		2,143,341	3,286,198
Commitments and contingencies (notes 4 and 5)			
Total liabilities and surplus	$	3,669,750	4,784,771

See accompanying notes to statutory financial statements.

UNIVERSITY OF COLORADO INSURANCE POOL

Statutory Statements of Income

Years ended June 30, 2003 and 2002

		2003	2002
Losses and loss adjustment expenses incurred	$	(685,042)	(5,213)
Other underwriting expenses incurred, net		(600,063)	(581,555)
Underwriting loss		(1,285,105)	(586,768)
Net investment income		142,248	223,475
Net loss	$	(1,142,857)	(363,293)

See accompanying notes to statutory financial statements.

UNIVERSITY OF COLORADO INSURANCE POOL

Statutory Statements of Surplus

Years ended June 30, 2003 and 2002

		Surplus contribution certificates	Paid-in surplus	Unassigned surplus (deficit)	Total
Balance at June 30, 2001	$	4,000,000	1,500,000	(1,850,509)	3,649,491
Net loss		—	—	(363,293)	(363,293)
Balance at June 30, 2002		4,000,000	1,500,000	(2,213,802)	3,286,198
Net loss		—	—	(1,142,857)	(1,142,857)
Balance at June 30, 2003	$	4,000,000	1,500,000	(3,356,659)	2,143,341

See accompanying notes to statutory financial statements.

UNIVERSITY OF COLORADO INSURANCE POOL

Statutory Statements of Cash Flows

Years ended June 30, 2003 and 2002

		2003	2002
Operating activities:			
Losses and loss adjustment expenses paid, net of reinsurance receivables	$	(2,323,562)	(776,100)
Underwriting expenses paid		(626,659)	(596,039)
Net investment income received		217,970	229,488
Net cash used by operating activities		(2,732,251)	(1,142,651)
Investing activities:			
Maturity or repayment of investments		3,800,000	2,800,000
Purchase of investments		(1,710,000)	(1,800,000)
Net cash provided by investing activities		2,090,000	1,000,000
Net decrease in cash and short-term investments		(642,251)	(142,651)
Cash and short-term investments at beginning of year		970,858	1,113,509
Cash and short-term investments at end of year	$	328,607	970,858
Reconciliation of net income to net cash used by operating activities:			
Net loss	$	(1,142,857)	(363,293)
Adjustments to reconcile net income to net cash used by operating activities:			
Net amortization of debt securities premiums and discounts		32,675	(16,365)
Changes in operating assets and liabilities:			
Reinsurance receivable		(1,692,952)	(460,202)
Accrued investment income		43,047	22,378
Reserve for losses and loss adjustment expenses		54,432	(310,685)
Accounts payable and accrued expenses		(26,596)	(14,484)
Net cash used by operating activities	$	(2,732,251)	(1,142,651)

See accompanying notes to statutory financial statements.

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

(a) Organization

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

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

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

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

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

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

The preparation of statutory financial statements in conformity with accounting practices prescribed or permitted by the Division requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Basis of Presentation

The Pool prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Division of Insurance of the State of Colorado (the Division). Prescribed statutory accounting practices are those practices that are incorporated directly or by reference to state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Colorado has adopted the National Association of Insurance Commissioners' (NAIC) statutory accounting practices as described in the NAIC Accounting Practices and Procedures Manual (the Manual) as the basis for its statutory accounting practices.

Statutory accounting practices contained in the Manual vary in some respects from accounting principles generally accepted in the United States of America. The more significant statutory practices include: (1) bonds are carried at amortized cost instead of at fair value and (2) assets are included in the statement of admitted assets, liabilities, and surplus at "admitted asset value," and "non-admitted assets" are excluded through a charge against unassigned surplus. The effects on the financial statements of the variances between statutory accounting practices and accounting principles generally accepted in the United States of America are as follows:

		2003		2002	
		Net loss	**Surplus**	**Net loss**	**Surplus**
Statutory basis	$	(1,142,857)	2,143,341	(363,293)	3,286,198
Record investments at fair value		(21,426)	11,770	(11,927)	33,196
GAAP	$	(1,164,283)	2,155,111	(375,220)	3,319,394

(c) Investments

The Pool follows the general investment philosophy of the University of Colorado. Investment transactions are recorded on trade date and are valued on the basis prescribed by the Committee on Valuation of Securities of the NAIC, which principally are as follows:

- Investments in debt securities consist of United States government obligations and are carried at amortized cost and are adjusted for other-than-temporary declines in estimated fair values. Estimated fair values are obtained from published sources. Amortization of mortgage and asset–backed debt securities is based on anticipated prepayments at the date of purchase, with significant changes in estimated cash flows from original purchase assumptions recognized using a retrospective method. Prepayment assumptions were obtained from published sources. Discount or premium on debt securities is amortized using the interest method taking into consideration specified interest and principal provisions over the life of the debt securities.

- Short-term investments include investments with maturities of less than one year at the date of acquisition and common funds reported at market value, which approximates cost.
- Realized investment gains and losses are determined using the specific-identification basis.

(d) Cash and Cash Equivalents

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

(e) 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 Pool 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 statutory financial statements. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate.

(f) Reinsurance

Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Losses, loss adjustment expenses, and the reserves for losses and loss adjustment expenses are reported net of reinsured amounts in accordance with the Manual. Should the reinsurers be unable to fulfill their obligations under the reinsurance contracts, the Pool would remain liable for claims and expenses associated with the ceded business.

(g) Income Taxes

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

(2) Cash Deposits and Investments

(a) Cash Deposits

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

The carrying amount of the Pool's deposits in the collateral pool was $2,555,490 and $970,858 at June 30, 2003 and 2002, respectively. The bank balances were $2,555,490 and $970,858 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 Pool's name.

Cash and short-term investments are presented net of a cash overdraft of $2,226,884 at June 30, 2003.

(b) Investments

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

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

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

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
At June 30, 2003:					
Mortgage-backed securities	$	1,101,916	11,770	—	1,113,686
Total bonds	$	1,101,916	11,770	—	1,113,686

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
At June 30, 2002:					
U.S. Treasury securities and obligations	$	603,287	3,304	—	606,591
Mortgage-backed securities		2,621,304	31,089	(1,197)	2,651,196
Total bonds	$	3,224,591	34,393	(1,197)	3,257,787

The amortized cost and fair value of debt securities at June 30, 2003, by contractual maturity, are shown below. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities		Amortized cost	Fair value
Due after one through five years	$	—	—
Mortgage-backed securities		1,101,916	1,113,686
Total bonds	$	1,101,916	1,113,686

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

		2003	2002
Debt securities	$	132,785	208,400
Short-term investments		13,468	21,344
Total investment income		146,253	229,744
Investment expenses		(4,005)	(6,269)
Net investment income	$	142,248	223,475

Proceeds from sales of debt securities during 2003 and 2002 totaled $3,800,000 and $2,800,000, respectively. Gross realized gains and losses on sales of debt securities during 2003 and 2002 were $0.

At June 30, 2003, investments in debt securities, with an admitted asset value of $500,000 (fair value – $510,780), were on joint deposit with the Division to satisfy regulatory requirements.

(3) Reinsurance

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

The Pool does not have a legal obligation to pay losses 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 Pool. The Pool evaluates and monitors the financial condition of its excess insurers to minimize its exposure to loss from excess insurer insolvency. Management of the Pool believes its excess insurers are financially sound and will continue to meet their contractual obligations.

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

		Year ended June 30	
		2003	2002
Loss and loss adjustment expenses paid	$	2,225,719	532,767
Loss and loss adjustment expenses unpaid		613,910	1,051,219

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

		2003	2002
American Re-Insurance Company	$	2,619,099	1,198,292
Midwest Employers Casualty Company		220,530	384,695
	$	2,839,629	1,582,987

(4) Reserve for Losses and Loss Adjustment Expenses

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

		2003	2002
Reserve for losses and loss adjustment expenses at beginning of year	$	1,355,312	1,665,997
Incurred losses and loss adjustment expenses:			
Increase (decrease) in provision for insured events of prior years		685,042	5,213
Payments:			
Losses and loss adjustment expenses attributable to insured events of prior years		(630,610)	(315,898)
Total reserve for losses and loss adjustment expenses at end of year	$	1,409,744	1,355,312

The provisions for losses and loss adjustment expenses pertaining to prior years increased during the years ended June 30, 2003 and 2002 due to higher than anticipated settlement costs of certain prior years' claims. The reserve for losses and loss adjustment expenses is presented net of reinsurance recoverable on unpaid losses, which totaled $613,910 and $1,050,219 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) Surplus Requirements

In accordance with the requirements of the State of Colorado Regulation of Public Entity Self-Insurance Pools, the Pool is required to maintain a minimum surplus, as determined under statutory accounting practices, of $500,000 ($200,000, $200,000, and $100,000 for workers' compensation, casualty, and property coverages, respectively). At June 30, 2003 and 2002, the Pool had met these requirements.

Under insurance company regulations of the State of Colorado, the maximum dividends that may be paid by the Pool during any 12-month period without prior approval of the Division is limited to the lesser of net income (not including realized capital gains) or 10% of surplus as of the preceding December 31.

If necessary, the Pool has the ability to retrospectively assess premiums to meet statutory surplus requirements. No retrospective premiums were assessed during the years ended June 30, 2003 or 2002.

(6) Related-Party Transactions

The Pool incurred fees of $567,163 and $553,267 during 2003 and 2002, respectively, for risk management services provided by the University of Colorado.

(7) Contingencies

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

(8) Summary of Losses

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

Coverage		2003	2002
Workers' compensation	$	430,297	115,970
Property		(367)	(708)
General liability		253,018	(99,641)
Automobile liability		—	—
ULAE		2,094	(10,408)
	$	685,042	5,213

Losses and loss adjustment expenses incurred are presented net of reinsurance recoveries, which totaled $724,326 and $159,101 during 2003 and 2002, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO INSURANCE POOL

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

Years ended June 30, 2003 and 2002

The schedule below represents the changes in reserves for losses and loss adjustment expenses for the years ended June 30, 2003 and 2002 for the Pool's contracts of insurance: property and casualty. The Pool does not provide coverage for employee health and accident benefits.

		Property and casualty	
		2003	**2002**
Reserve for losses and loss adjustment expenses at beginning of year	$	1,355,312	1,665,997
Incurred losses and loss adjustment expenses:			
Decrease in provision for insured events of prior years		685,042	5,213
Payments:			
Losses and loss adjustment expenses attributable to insured events of prior years excluding reinsurance recoveries of $2,417,278 and $619,304 in 2003 and 2002, respectively		(630,610)	(315,898)
Total reserve for losses and loss adjustment expenses at end of year	$	1,409,744	1,355,312

Unaudited – See accompanying independent auditors' report.

Ten-Year Claims Development Information

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

Unaudited – See accompanying independent auditors' report.

UNIVERSITY OF COLORADO INSURANCE POOL

Required Supplementary Information –
Claims Development Information

Years ended June 30, 2003 and 2002

Ten-Year Claims Development Information (in thousands)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1.	Net earned premium and investment revenue	$ 9,972	9,956	9,089	4,220	840	649	398	340	223	142
2.	Unallocated expenses	977	1,223	1,317	895	939	534	751	672	582	600
3.	Estimated incurred claims and expense, end of policy year	6,615	7,344	8,995	2,166	—	—	—	—	—	—
4.	Paid (cumulative) as of:										
	End of policy year	931	1,329	1,437	347	—	—	—	—	—	—
	One year later	2,998	4,445	3,876	624	—	—	—	—	—	—
	Two years later	4,099	5,842	5,614	1,025	—	—	—	—	—	—
	Three years later	4,436	6,603	6,693	1,190	—	—	—	—	—	—
	Four years later	4,623	7,312	7,106	1,541	—	—	—	—	—	—
	Five years later	4,848	7,600	8,180	4,278	—	—	—	—	—	—
	Six years later	5,061	8,094	9,167	4,279	—	—	—	—	—	—
	Seven years later	5,771	9,239	11,695	—	—	—	—	—	—	—
	Eight years later	5,772	9,251	—	—	—	—	—	—	—	—
	Nine years later	6,234	—	—	—	—	—	—	—	—	—
5.	Reestimated incurred claims and expense:										
	End of policy year	6,615	7,344	8,995	2,166	—	—	—	—	—	—
	One year later	6,856	9,461	8,935	1,596	—	—	—	—	—	—
	Two years later	6,415	9,383	8,731	1,438	—	—	—	—	—	—
	Three years later	5,820	8,297	8,496	1,536	—	—	—	—	—	—
	Four years later	5,587	8,373	8,142	1,092	—	—	—	—	—	—
	Five years later	5,666	8,082	7,857	1,249	—	—	—	—	—	—
	Six years later	5,643	7,999	7,855	1,030	—	—	—	—	—	—
	Seven years later	6,011	7,747	8,321	—	—	—	—	—	—	—
	Eight years later	5,944	7,745	—	—	—	—	—	—	—	—
	Nine years later	6,254	—	—	—	—	—	—	—	—	—
6.	Increase (decrease) in estimated incurred claims and expense from end of policy year	(361)	401	(674)	(1,136)	—	—	—	—	—	—

Unaudited – See accompanying independent auditors' report.

KPMG

Suite 2700
707 Seventeenth Street
Denver, CO 80202

August 29, 2003

Members of the Legislative Audit Committee:

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

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. 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. However, we noted no matters involving internal control and its operation that we consider to be a material weakness as defined above.

* * * * * * *

This letter is intended solely for the information and use of the Legislative Audit Committee, board of directors, management of the Pool, and the Division of Insurance of the State of Colorado and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Suite 2700
707 Seventeenth Street
Denver, CO 80202

August 29, 2003

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of the University of Colorado Insurance Pool (the Pool) for the years ended June 30, 2003 and 2002, and have issued our report thereon dated August 29, 2003. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Pool and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Colorado State Board of Accountancy.

b. The engagement partner and engagement manager, who are certified public accountants, have 10 years and 5 years, respectively, of experience in public accounting and are experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and 50% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Pool intends to file its audited statutory financial statements and our report thereon with the Division of Insurance of the State of Colorado (the Division of Insurance) and the Insurance Commissioner will be relying on that information in monitoring and regulating the statutory financial condition of the Pool.

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

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

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

d. We will retain the workpapers prepared in the conduct of our audit until the Division of Insurance has filed a Report of Examination covering 2003, but not longer than seven years. After notification to the Pool and approval from the Office of the State Auditor, we will make them available for review by the Division of Insurance at the offices of the insurer, at our offices, at the Division of Insurance, or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Division of Insurance, photocopies of pertinent audit workpapers may be made (under the control of the accountant) and such copies may be retained by the Division of Insurance.

e. The engagement partner has served in that capacity with respect to the Pool since 2003, is licensed by the Colorado Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Model Rule (Regulation), Requiring Annual Audited Financial Reports, regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the members of the Legislative Audit Committee and management of the Pool and filing with the Division of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

UNIVERSITY OF COLORADO INSURANCE POOL

Audited Statutory Financial Statements

June 30, 2003

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