VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Portage Bay Insurance Annual Report

When the Board of Regents approved the creation of the University’s captive insurance company, Portage Bay Insurance (“PBI”) in June 2002, it requested that an annual report be made. On June 30, 2005, after three full years of operation, PBI was well along in implementation and was approaching maturity.

FY05 Asset/Liability Growth

PBI provides professional, general, automobile and employment practices liability insurance coverage for the University, its employees and students. Annual premiums are established through an independent actuarial study and are paid by the central administration and self-sustaining units. PBI will continue to be in a growth phase for the next few years of operation. At the end of FY05, assets were $27 million (up 58% from FY04) and liabilities were $13 million (up 61% from FY04). At year end, funds were invested in fixed income securities. Total return for the year was 8.15%, outperforming the Lehman Bros. government credit benchmark by 90 basis points. Milliman USA, the University’s independent actuary, has opined that PBI is adequately funded to meet its liabilities.

Reinsurance

PBI reinsures against catastrophic losses with London, Bermuda and Swiss reinsurers having A.M. Best ratings of A- or better. The competition to reinsure PBI is such that it enjoyed a modest decrease in reinsurance premium at the July 1, 2005 renewal. Currently, it purchases $75 million in limits above its self-insured retentions.

Regulatory and Audit

KPMG has issued its FY05 audit report with no findings. PBI is in full compliance with all regulatory requirements of Hawaii, its state of domicile. The IRS has ruled that PBI qualifies as a 501c3 tax-exempt corporation and that it is not required to file 990 forms.

Governance

The PBI Board of Directors now includes two outside directors as well as its captive manager and five University employees having significant responsibilities for risk management, liability management and asset management.

Coming year

In July 2005, the Board of Directors approved transferring the investment of PBI assets from a private investment manager to the University’s invested funds portfolio. The Board will be tracking performance closely. In addition, the Board will be considering whether and how PBI might promote innovative loss control initiatives throughout the University.