



UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

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Independent Auditors' Report

The Board of Trustees
University of Colorado Health and Welfare Trust:

We have audited the accompanying basic financial statements of the University of Colorado Health and Welfare Trust (Trust), as of and for the year ended June 30, 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the University of Colorado Health and Welfare Trust as of June 30, 2011, and the changes in its financial position and its 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 on pages 2 – 4 and the Ten-Year Loss Development Information on page 13 are not a required part of the basic financial statements 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 the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University of Colorado Health and Welfare Trust's basic financial statements. The accompanying supplementary schedules, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

April 13, 2012

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Management's Discussion and Analysis (unaudited)

June 30, 2011

We are pleased to present this financial discussion and analysis of the University of Colorado Health and Welfare Trust (the Trust). It is intended to make the Trust's financial statements easier to understand and communicate its financial status in an open, transparent, and accountable manner. It provides an analysis of the Trust's position and results of operations for the year ended June 30, 2011. Comparative information for the year ended June 30, 2010 is not available as the Trust began operating as of July 1, 2010. Trust management is responsible for the completeness and fairness of this discussion and analysis and for the financial statements.

Understanding the Financial Statements

Statement of Net Assets presents the assets, liabilities, and net assets of the Trust at a point in time (June 30, 2011). Its purpose is to present a financial snapshot of the Trust. It aids readers in determining the assets available to continue the Trust's operations; how much the Trust owes to pay claims and vendors; and resulting net assets. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or will become due within twelve months of the statement date.

Statement of Revenues, Expenses, and Changes in Net Assets presents the total revenues and expenses of the Trust for operating and nonoperating activities during the fiscal year ended June 30, 2011. Its purpose is to assess the Trust's operating and nonoperating results. The major source of operating revenues are member and participant contributions and the major sources of operating expenses are incurred claims and administrative and claims processing expenses.

Statement of Cash Flows presents cash receipts and payments of the Trust during the fiscal year ended June 30, 2011. Its purpose is to assess the Trust's ability to generate net cash flows and meet its obligations as they come due.

Notes to the Financial Statements present additional information to support the financial statements and are commonly referred to as "notes." Their purpose is to clarify and expand on the information in the financial statements.

Required Supplementary Information (RSI) presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes this management discussion and analysis as well as Ten-Year Loss Development Information. Note that only one year is presented in the Ten-Year Loss Development Information as this is the first year of Trust operations.

Supplemental Schedules present additional information required by the Employee Retirement Income Security Act of 1974. This additional information provides more detail on the Trust's 2a-7-money market account.

Financial Highlights

- The Trust ended the year with \$2,105,719 in net assets
- Incurred but not reported claims, as estimated by an outside actuary, amounted to \$5,618,631 of incurred claims of \$8,017,312.
- Total Trust premium revenues were \$109,851,032
- Incurred claims expenses were \$101,376,495

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Management's Discussion and Analysis (unaudited)

June 30, 2011

- Administrative and claims processing expenses were \$6,661,194

Statement of Net Assets

Approximately 58% of total assets are held in cash and cash equivalents. Another 42% represents short-term receivables, the majority of which have been collected as of the date of the auditors' report.

Approximately 58% of total liabilities represent the estimate of incurred but not reported claims. This amount has been actuarially determined by an outside actuary. Another 25% represents claims submitted to the third-party administrator that are pending final payment.

Figure 1 illustrates the Trust's summary of net assets.

Figure 1. Summary of Assets, Liabilities, and Net Assets as of June 30, 2011:

Current assets:		
Cash and cash equivalents	\$	6,773,751
Receivables		<u>4,939,625</u>
Total current assets	\$	<u><u>11,713,376</u></u>
Current liabilities:		
Incurred claims	\$	8,017,312
Other current liabilities		<u>1,590,345</u>
Total current liabilities		9,607,657
Unrestricted net assets		<u>2,105,719</u>
Total net assets and liabilities	\$	<u><u>11,713,376</u></u>

Statement of Revenues, Expenses, and Changes in Net Assets

Premium revenues for the Trust totaled \$109,851,032. Of this amount, \$96,706,116 (88%) was earned from Trust members and \$13,144,916 (12%) was earned from employees of the members.

Incurred claims expense (including incurred but not reported claims) totaled \$101,376,495 while administrative and claims processing expenses totaled \$6,661,194.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Management's Discussion and Analysis (unaudited)

June 30, 2011

There were approximately 13,600 employees participating in the Trust as of June 30, 2011.

Figure 2 illustrates the Trust's Summary of Revenues, Expenses, and Changes in Net Assets

Figure 2. Summary of Revenues, Expenses, and Changes in Net Assets as of June 30, 2011:

Operating revenues	\$ 109,851,032
Operating expenses	<u>108,037,689</u>
Operating income	1,813,343
Nonoperating revenues	<u>292,356</u>
Increase in net assets	2,105,699
Net assets, beginning of year	<u>20</u>
Net assets, end of year	<u><u>\$ 2,105,719</u></u>

Discussion of Currently Known Facts, Decisions, or Conditions

Please see note 7 in the basic financial statements for a discussion on the possible impacts of Health Care Reform on the Trust.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Statement of Net Assets

June 30, 2011

Assets (all current):	
Cash, noninterest bearing, medical	\$ 202,741
Cash equivalents:	
BlackRock Temp Fund #24	6,571,010
Total cash and cash equivalents	<u>6,773,751</u>
Receivables:	
Premiums	45,947
Pharmacy rebate	1,799,826
Premium assessment due from member	2,670,000
Other	423,852
Total receivables	<u>4,939,625</u>
Total assets	<u>11,713,376</u>
Liabilities (all current):	
Incurred claims	8,017,312
Accrued liabilities	487,855
Accounts payable	1,102,490
Total liabilities	<u>9,607,657</u>
Unrestricted net assets	<u>\$ 2,105,719</u>

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

Operating revenues:		
Premiums:		
Member	\$	96,706,116
Participant, including COBRA and retiree		<u>13,144,916</u>
Total operating revenues		<u>109,851,032</u>
Operating expenses:		
Incurred claims		101,376,495
Administrative and claims processing		<u>6,661,194</u>
Total operating expenses		<u>108,037,689</u>
Operating income		<u>1,813,343</u>
Nonoperating revenues:		
Interest		5,731
Wellness initiative		<u>286,625</u>
Total nonoperating revenues		<u>292,356</u>
Increase in net assets		2,105,699
Unrestricted net assets:		
Beginning of year		<u>20</u>
End of year	\$	<u><u>2,105,719</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activities:	
Premiums	\$ 106,711,233
Paid claims	(95,159,009)
Administrative and claims processing	(5,070,849)
	<hr/>
Net cash flows provided by operating activities	6,481,375
Cash flows from noncapital financing activity – Wellness initiative grant received	286,625
Cash flows from investing activities – interest income received	5,731
	<hr/>
Net increase in cash and cash equivalents	6,773,731
Cash, beginning of year	20
	<hr/>
Cash and cash equivalents, end of year	\$ <u><u>6,773,751</u></u>
Reconciliation of net operating income to net cash from operating activities:	
Operating income	\$ 1,813,343
Adjustments to reconcile operating income to cash flows provided by operating activities:	
Changes in assets and liabilities:	
Premiums	(45,947)
Pharmacy rebate	(1,799,826)
Premium assessment from member	(2,670,000)
Other	(423,852)
Incurred claims	8,017,312
Accrued liabilities	487,855
Accounts payable	1,102,490
	<hr/>
Net cash flows provided by operating activities	\$ <u><u>6,481,375</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Notes to Financial Statements

June 30, 2011

(1) Description of the Trust

The University of Colorado Health and Welfare Trust (the Trust) was established June 28, 2010 with an initial capital contribution of \$20 to administer and manage certain health and welfare benefits for participating employees and retirees of the University of Colorado (the University), the University of Colorado Hospital Authority (UCH), and University Physicians, Incorporated (UPI) (collectively, the Members). It is intended that the Trust shall qualify as a “voluntary employees’ beneficiary association” under Section 501 (c)(9) of the Internal Revenue Code of 1986, as amended.

The Trust is self-insured and is financed through premiums collected from the Members and their employees or participants. Participant eligibility is determined pursuant to the terms of each Component Plan. Insurance coverage is provided through the following Component Plans: the UA Net Plan (which includes Blue View Vision), the UA Net Plan – Colorado Springs, the BlueAdvantage HMO Plan (which includes Blue View Vision), the Lumenos High Deductible Health (HSA – Compatible) Plan, the Medicare Primary Plan (the Medical Plan), the University of Colorado Flexible Benefits Plan, and the University of Colorado Hospital Authority Cafeteria Plan (the Health Care Spending and Pretax Premium Component – Flex Plan). The self-insured Medical Plan is administered by Anthem Blue Cross Blue Shield and provides employees and their eligible dependents group health benefits including group medical expense benefits. Under the self-insured Medical Plan, Express Scripts provides employees and their eligible dependents prescription drug expense benefits. Finally, the Flex Plan allows employees to set aside their own pre-tax dollars to pay for certain medical expenses and is administered by Application Software, Inc. or PayFlex Systems USA, Inc.

Participants and the Members share the cost of coverage, based on actuarially determined premium rates. Participants are responsible for copayments, deductibles, coinsurance amounts, if applicable, and dependent on the level of coverage selected, as further described in each Component Plan document. The Flex Plan is funded with employee pre-tax dollars.

Although the Members intend to maintain the Trust for an indefinite period, the Members reserve the right to amend the Trust for any reason. The Members have the right to modify the benefits provided to and premiums required of participants under the terms of the Trust or under the terms of a Component Plan, to discontinue its premiums at any time, and/or to terminate the Trust.

(2) Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

As defined by U.S. generally accepted accounting principles (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit’s board and either (a) the ability to impose will by the primary government or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Notes to Financial Statements

June 30, 2011

The Trust is administered by a Trust Committee, consisting of five members; two designated by the President of the University, two designated by UCH and one designated by UPI. Based upon the application of the above criteria, and the requirement for a supermajority vote of the trustees on key operating and fiduciary decisions, the Trust has no component units and is not a component unit of any other entity.

(b) *Basis of Accounting*

The accounting policies of the Trust conform to GAAP as applicable to governmental entities. For financial reporting purposes, the Trust is considered a special-purpose government engaged only in business-type activities. Accordingly, the Trust's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Trust Accounting*, the Trust applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Trust also has the option of following FASB guidance issued after November 30, 1989, but has elected not to do so.

(c) *Classification of Revenues and Expenses*

Operating revenues are derived from activities associated with providing services of the Trust. For the Trust, this includes both member and members' employees' premiums. Operating expenses are paid to produce the services provided by the Trust in return for operating revenues. Operating expenses include incurred claims and administrative and claims processing expenses.

Nonoperating revenues include all revenues that do not meet the definition of operating revenues or capital revenues.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents include amounts in demand deposits, as well as amounts held in a money market account with a weighted average maturity date of less than 90 days.

(e) *Premiums*

Premiums are recognized in the period when the insurance coverage is provided. Premiums are due monthly from the Members, employees, and participants based on the rates adopted by the Members.

Members may, but are not required to, pay additional premiums or amounts to make up for any shortfall caused by adverse claims experience of their employees and/or participants.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Notes to Financial Statements

June 30, 2011

The American Recovery and Reinvestment Act of 2010 (the Recovery Act) imposed temporary COBRA rules for Members sponsoring group health plans. The Recovery Act reduced the amount to be paid by a former employee to 35% of the COBRA premium, with the remaining 65% of the premium to be paid by the federal government through a payroll tax credit to the employer (COBRA premium subsidy). The COBRA premium subsidy applies to certain former employees who became eligible for, and who elected, COBRA coverage between February 17, 2009 and May 31, 2010. The COBRA premium subsidy paid by the federal government for the year ended December 31, 2010 is included in the statement of revenues, expenses, and changes in net assets as participant premiums.

(f) *Pharmacy Rebates*

The Trust receives rebates from its in-house prescription drug program. Pharmacy rebates are recognized in the period corresponding to the period that the participant fills the prescription. Rebates are recorded as a reduction of incurred claims in the statement revenues, expenses, and changes in net assets.

(g) *Net Assets*

The Trust's net assets are classified as unrestricted and are expendable in accordance with the requirements stated in the Trust Agreement.

(h) *Administrative Expenses*

All third-party expenses, including trustee's fees and expenses, are paid by the Trust.

(i) *Income Tax Status*

The Trust Committee has applied to the Department of Labor for an opinion as to the Trust's qualification as a governmental plan. Until the Department of Labor delivers its opinion on the Trust's governmental status, the Trust is operating under the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The VEBA Trust was established pursuant to Section 501(c)(9) of the Internal Revenue Code of 1986, as amended (IRC), and accordingly, the VEBA Trust's net investment income is exempt from income taxes. The Trust obtained an exemption letter from the Internal Revenue Service (IRS) on August 29, 2011, in which the IRS stated that the VEBA Trust was in compliance with applicable requirements of the IRC and the Trust sponsor believes that the VEBA Trust continues to qualify and to operate in accordance with applicable provisions of the IRC.

(j) *Use of Estimates*

The preparation of the Trust's financial statements in conformity with U.S. generally accepted accounting principles requires the Trust administrator to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Notes to Financial Statements

June 30, 2011

(3) Cash and Cash Equivalents

The Trust is authorized to invest the Trust's financial assets primarily in cash equivalents and fixed-income securities using internal resources as well as external managers and commingled and mutual funds, where appropriate, in accordance with the Trust Investment Policy as adopted by the Trust Committee.

Cash consists of amounts held in noninterest bearing deposit accounts, none of which exceed the FDIC limit.

Cash equivalents consist of a 2a-7-money market account held in the BlackRock Temp Fund #24 (ticker symbol TMPXX), which has a credit rating of AAAM and a weighted average maturity of less than 90 days. Cash equivalents are reported at amortized cost, which approximates fair value. The BlackRock Temp Fund #24 is an open-ended mutual fund and is, therefore, not exposed to custodial credit risk.

(4) Unpaid Claims Liability

The Trust establishes a liability based on the ultimate estimated cost of settling claims that have been reported but not settled, and of claims that have been incurred but not yet reported. This liability is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors and is reviewed by the Trust's independent consulting actuary. This includes a liability for claim processing expenses associated with paying claims, which have been incurred, but not yet paid.

The following represents changes in the unpaid claims liability during the year ended June 30, 2011:

Claims liability, beginning of year	\$	—
Incurred claims		101,376,495
Payments on claims		(95,159,009)
Pharmacy rebate received		<u>1,799,826</u>
Claims liability, end of year	\$	<u><u>8,017,312</u></u>

At June 30, 2011, unpaid claims are not discounted. Payments of claims under the Trust are made according to a schedule of benefits, upon submission of a proof of claim by an independent claims processor. The Trust is fully self-insured and is subject to increased claims expense due to higher than anticipated utilization or a higher than anticipated number of catastrophic claims. See note 5 for discussion of amounts receivable from UCH as a result of adverse claims experience during the year.

(5) Related-Party Transactions

The University provides certain accounting and administrative services to the Trust for which fees are charged at cost. The Trust's cash is maintained in a wholly separate operating banking account.

At June 30, 2011, the Trust recorded receivables from UCH for \$1,799,826 for prescription drug rebates and \$2,670,000 for an additional premium assessment related to adverse claims experience during the year.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Notes to Financial Statements

June 30, 2011

(6) Reconciliation to Schedule H of Form 5500

There are no differences between the balances contained in the Trust's financial statements and those reported in Schedule H of Form 5500.

(7) Health Care Reform

The Trust has applied to the U.S. Department of Health and Human Services (the Department) for reimbursement under the Early Retiree Reinsurance Program (the Program), established by the Patient Protection and Affordable Care Act (PPACA), which was signed into law on March 23, 2010. If the Trust receives reimbursement, it will use it toward one or a combination of the following: to reduce increases in the Members' health benefits costs for self-insured retiree medical programs; to reduce participant copayments; to reduce participant deductibles; to reduce participant coinsurance obligations; or to lower participant out of pocket costs. If the Members use the funds to reduce health benefit costs, the Members will maintain at least the same level of contributions towards the Trust as before initiation of the Program, determined using the baseline year as defined by the Department.

The PPACA and the Health Care and Education Reconciliation Act were signed into law on March 30, 2010 (collectively referred to as the Affordable Care Act). Under both prior law and the Affordable Care Act, Members who provide retiree prescription drug coverage that is at least as valuable as Medicare-Part D are entitled to a subsidy from the federal government to help offset the cost of the coverage. This subsidy is not treated as income to the employer, and the employer is currently able to deduct the full cost of the retiree prescription drug coverage for income tax purposes (including the portion that is offset by the subsidy). Under the Affordable Care Act, for tax years beginning after December 31, 2012, companies will no longer be able to deduct the portion of the retiree prescription drug coverage cost that is subsidized by the federal government. Although companies will still be allowed to exclude the entire amount of the subsidy from their taxable income, Members will only be allowed to deduct the portion of the coverage that they pay with employer funds.

In addition, the Affordable Care Act imposes an excise tax on high-value health plans (often referred to as Cadillac plans). Although this tax burden lies primarily on health insurance issuers, the tax is expected to affect many Members through increases in premiums and/or fees charged by insurance companies.

It is anticipated that these law changes will result in an increase in the total cost of retiree medical coverage. The Trust is currently evaluating the impact of these law changes on the level of benefits offered by the Trust and the associated impact on premium rates. The impact on the Trust is not known at this time.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

Required Supplementary Information
Ten-Year Loss Development Information

June 30, 2011

(Unaudited)

	Fiscal and report year ended 2011
Gross premium and investment revenue earned	\$ 109,856,763
Unallocated claims adjustment expenses	6,661,194
Gross incurred claims as of end of report year	101,376,495
Net paid claims as of end of report year	95,159,009

See accompanying independent auditors' report.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

EIN: 27-6690619

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

June 30, 2011

(a)	(b) Identity of issue, borrower, lessor or similar party	(c) Description of investment	(d) Cost	(e) Current value
	BlackRock: AIM Short-term Treasury Fund	Money Market Fund	\$ 6,571,010	6,571,010

See accompanying independent auditors' report.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST

EIN: 27-6690619

Schedule H, Line 4j – Schedule of Reportable Transactions

Year ended June 30, 2011

(a) Identity of party involved	(b) Description of assets	(c) Purchase price	(d) Selling price	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)
Category (iii) – A series of transactions which exceed 5% of net assets as of the beginning of the Trust year:						
VP8799919 Blackrock	Temp Fund B #24	\$ 72,619,010	—	72,619,010	72,619,010	—
VP8799919 Blackrock	Temp Fund B #24	—	66,048,000	66,048,000	66,048,000	—

There were no Category (i), (ii) or (iv) reportable transactions during the year ended June 30, 2011.

Columns (e) and (f) have not been presented, as this information is not applicable.

See accompanying independent auditors' report.