

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
Denver, Colorado

BASIC FINANCIAL STATEMENTS
June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Colorado Health and Welfare Trust
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Colorado Health and Welfare Trust (Trust) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Colorado Health and Welfare Trust as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and ten-year loss development information on pages 3 through 6 and 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The other 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.

The other supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
February 3, 2015

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014 and 2013**

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 basic 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 years ended June 30, 2014 and 2013, with comparative information for the year ended June 30, 2012. Trust management is responsible for the completeness and fairness of this discussion and analysis and for the basic financial statements.

UNDERSTANDING THE FINANCIAL STATEMENTS

Statements of Net Position present the assets, liabilities, and net position of the Trust at a point in time (June 30, 2014 and 2013). Its purpose is to present a financial snapshot. 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 the resulting net position. For purposes of the basic 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.

Statements of Revenues, Expenses, and Changes in Net Position present the total revenues and expenses of the Trust for operating and nonoperating activities during the fiscal years ended June 30, 2014 and 2013. 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.

Statements of Cash Flows present cash receipts and payments of the Trust during the fiscal years ended June 30, 2014 and 2013. 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 basic 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 four years are presented in the Ten-Year Loss Development Information as this is the fourth year of Trust operations.

Supplementary Schedules present additional information required by the Employee Retirement Income Security Act of 1974. This additional information provides more detail on the Trust's cash equivalents and investments.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014 and 2013**

FINANCIAL HIGHLIGHTS

Selected financial highlights for the fiscal year ended June 30, 2014 include:

- The Trust ended the year with \$13,156,938 in unrestricted net position.
- Incurred but not reported claims, as estimated by an outside actuary, amounted to \$16,621,815 of total incurred claims payable of \$22,752,405.
- Total Trust premium revenues were \$285,888,735.
- Incurred claims expenses were \$259,679,648.
- Claims processing expenses were \$21,355,653. Administrative expenses were \$4,275,128.

STATEMENTS OF NET POSITION

At June 30, 2014, approximately 52% of total assets are held in cash and cash equivalents and noncurrent investments. Another 47% represents short-term receivables, the majority of which have been collected as of the date of the auditor's report. At June 30, 2013, these amounts were approximately 76% held in cash and cash equivalents, with another 24% in short-term receivables. At June 30, 2012, these amounts were approximately 72% held in cash and cash equivalents, with another 28% in short-term receivables. The increase in receivables from fiscal year 2013 to 2014 is partially due to the expansion of the University of Colorado Hospital Authority (UCH) to include Poudre Valley Health System, with a resulting increase in monthly premiums. The increase in cash and cash equivalents from fiscal year 2012 to 2013 is primarily attributable to the increasing operating activities of the Trust which included the expansion of UCH to include Memorial Hospital.

At June 30, 2014, approximately 57% of total liabilities represent the estimate of incurred but not reported claims. This amount has been actuarially determined by an outside party. Another 21% represents claims submitted to the third party administrator that are pending final payment. At June 30, 2013, 62% of total liabilities represented the estimate of incurred but not reported claims, with another 19% representing claims submitted to the third party administrator that were pending final payment. At June 30, 2012, 60% of total liabilities represented the estimate of incurred but not reported claims, with another 19% representing claims submitted to the third party administrator that were pending final payment. The increase in incurred claims from fiscal year 2013 to 2014 is due to the expansion of the UCH to include Poudre Valley Health System and its employees, along with the trend of increased medical costs. The increase in incurred claims from fiscal year 2012 to 2013 was due to more participants in the Trust from Memorial Hospital and increased medical costs.

Figure 1, on next page, illustrates the Trust's summary of net position.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014 and 2013**

Figure 1. Summary of Assets, Liabilities, and Net Position as of June 30, 2014, 2013, and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets			
Cash and cash equivalents	\$ 18,962,766	\$ 25,796,354	\$ 17,291,108
Receivables	19,986,539	8,173,670	6,881,603
Prepaid expenses	176,316	-	-
Total current assets	<u>39,125,621</u>	<u>33,970,024</u>	<u>24,172,711</u>
Noncurrent assets			
Investments	3,019,596	-	-
Total assets	<u>\$ 42,145,217</u>	<u>\$ 33,970,024</u>	<u>\$ 24,172,711</u>
Current liabilities			
Incurred claims	\$ 22,752,405	\$ 16,160,946	\$ 13,119,969
Other current liabilities	6,235,874	3,809,961	3,435,321
Total current liabilities	<u>28,988,279</u>	<u>19,970,907</u>	<u>16,555,290</u>
Unrestricted net position	<u>13,156,938</u>	<u>13,999,117</u>	<u>7,617,421</u>
Total liabilities and net position	<u>\$ 42,145,217</u>	<u>\$ 33,970,024</u>	<u>\$ 24,172,711</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2014, premium revenues for the Trust totaled \$285,888,735. Of this amount, \$251,980,677 (88%) was earned from Trust members and \$33,908,058 (12%) was contributed by participants. For the year ended June 30, 2013, premium revenues totaled \$199,935,416, with \$170,643,800 (85%) earned from Trust members and \$29,291,616 (15%) contributed by participants. For the year ended June 30, 2012, premium revenues totaled \$154,525,981, with \$128,738,224 (83%) earned from Trust members and \$25,787,757 (17%) contributed by participants.

For the year ended June 30, 2014, operating expenses for the Trust totaled \$285,310,429. Of this amount, incurred claims (including incurred but not reported claims) totaled \$259,679,648 (91%) while claims processing and administrative expenses totaled \$25,630,781 (9%). For the year ended June 30, 2013, operating expenses totaled \$193,336,717, with incurred claims of \$174,463,648 (90%) and administrative and claims processing expenses of \$18,873,069 (10%). For the year ended June 30, 2012, operating expenses totaled \$148,872,751, with incurred claims of \$136,757,473 (92%) and administrative and claims processing expenses of \$12,115,278 (8%).

The increases in total operating revenues and expenses are due to (1) the inclusion of more plans as of July 1, 2011, (2) the expansion of UCH to include employees of Memorial Hospital as of October 1, 2012, and (3) the expansion of UCH to include employees of Poudre Valley Health System on July 1, 2013.

The increase in administrative expenses from fiscal year 2013 to 2014 is primarily due to accruing for the upcoming payment of the Transitional Reinsurance Fee as required by the Affordable Care Act, and additional administrative staff at the University.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2014 and 2013**

As of June 30, 2014, 2013, and 2012, there were approximately 29,000, 23,000 and 18,000 employees and retirees, respectively, participating in the Trust which amounted to approximately 61,000, 48,000, and 36,000 lives covered during those years, respectively.

Figure 2 illustrates the Summary of Revenues, Expenses, and Changes in Net Position.

Figure 2. Summary of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2014, 2013, and 2012 .

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 286,207,568	\$ 200,129,110	\$ 154,712,744
Operating expenses	<u>285,310,429</u>	<u>193,336,717</u>	<u>148,872,751</u>
Operating income	897,139	6,792,393	5,839,993
Nonoperating revenues (expenses)	<u>(1,739,318)</u>	<u>(410,697)</u>	<u>(328,291)</u>
Increase (decrease) in net position	(842,179)	6,381,696	5,511,702
Net position, beginning of year	<u>13,999,117</u>	<u>7,617,421</u>	<u>2,105,719</u>
Net position, end of year	<u><u>\$ 13,156,938</u></u>	<u><u>\$ 13,999,117</u></u>	<u><u>\$ 7,617,421</u></u>

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

For the new Trust plan year, started July 1, 2014, Trust management anticipates relatively stable member and participant populations. Uncertainty remains, however, regarding the requirements for administration of the Patient Protection and Affordable Care Act (also known as ACA or "health care reform") due to the evolving political landscape. Payment of the calendar year 2014 Transitional Reinsurance Fee will occur in 2015 and will be calculated from participant counts that cross two plan years (six month period from January 1, 2014 to June 30, 2014 and the six -month period from July 1, 2014 to December 31, 2014). Appropriate costs for these fees were built into the corresponding member annual premiums.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS:		
Current assets:		
Cash, noninterest bearing, medical	\$ 198	\$ 2,305,767
Restricted cash - Flexible spending accounts	1,806,643	1,657,700
Cash equivalents	<u>17,155,925</u>	<u>21,832,887</u>
Total cash and cash equivalents	<u>18,962,766</u>	<u>25,796,354</u>
Receivables:		
Premiums	12,653,605	3,143,062
Pharmacy rebates	4,333,320	1,799,564
Performance guarantee	953,000	-
Withholding refund	2,046,245	-
Premium assessment due from member	-	3,200,000
Other	<u>369</u>	<u>31,044</u>
Total receivables	<u>19,986,539</u>	<u>8,173,670</u>
Prepaid expenses	<u>176,316</u>	<u>-</u>
Total current assets	<u>39,125,621</u>	<u>33,970,024</u>
Noncurrent assets:		
Investments	<u>3,019,596</u>	<u>-</u>
Total assets	<u>42,145,217</u>	<u>33,970,024</u>
LIABILITIES (all current):		
Incurred claims	22,752,405	16,160,946
Accrued liabilities	1,577,001	1,412,606
Accounts payable	3,033,598	799,902
Flexible spending accounts payable	<u>1,625,275</u>	<u>1,597,453</u>
Total liabilities	<u>28,988,279</u>	<u>19,970,907</u>
Unrestricted net position	<u>\$ 13,156,938</u>	<u>\$ 13,999,117</u>

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Premiums:		
Member	\$ 251,980,677	\$ 170,643,800
Participant, including COBRA and retiree	<u>33,908,058</u>	<u>29,291,616</u>
Total premiums	285,888,735	199,935,416
Miscellaneous	<u>318,833</u>	<u>193,694</u>
Total operating revenues	<u>286,207,568</u>	<u>200,129,110</u>
OPERATING EXPENSES		
Incurring claims	259,679,648	174,463,648
Claims processing	21,355,653	17,314,300
Administrative	<u>4,275,128</u>	<u>1,558,769</u>
Total operating expenses	<u>285,310,429</u>	<u>193,336,717</u>
Operating income	<u>897,139</u>	<u>6,792,393</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	29,756	10,333
Wellness initiative revenue	-	31,505
Wellness initiative expenses	<u>(1,769,074)</u>	<u>(452,535)</u>
Total nonoperating revenues (expenses)	<u>(1,739,318)</u>	<u>(410,697)</u>
INCREASE (DECREASE) IN NET POSITION	(842,179)	6,381,696
UNRESTRICTED NET POSITION		
Beginning of year	<u>13,999,117</u>	<u>7,617,421</u>
End of year	<u>\$ 13,156,938</u>	<u>\$ 13,999,117</u>

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums	\$ 279,609,236	\$ 197,605,101
Paid claims	(257,668,190)	(170,384,423)
Claims processing	(20,074,957)	(17,469,522)
Administrative	(4,162,924)	(1,206,513)
Miscellaneous revenue	318,833	193,694
Net cash flows provided (used) by operating activities	(1,978,002)	8,738,337
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wellness initiative funds received	-	31,505
Wellness initiative funds disbursed	(1,893,199)	(452,535)
Flexible spending account receipts	8,227,239	6,333,834
Flexible spending account payments	(8,199,417)	(6,156,228)
Net cash flows used by noncapital financing activities	(1,865,377)	(243,424)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,014,077)	-
Investment income	23,868	10,333
Net cash flows provided (used) by investing activities	(2,990,209)	10,333
Net increase (decrease) in cash and cash equivalents	(6,833,588)	8,505,246
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	25,796,354	17,291,108
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,962,766	\$ 25,796,354

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 897,139	\$ 6,792,393
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Changes in assets and liabilities:		
Premiums receivable	(9,510,543)	(2,592,081)
Pharmacy rebate	(2,533,756)	1,038,248
Performance guarantee	(953,000)	-
Withholding refund	(2,046,245)	-
Premium assessment due from member	3,200,000	141,338
Other receivables	31,044	120,428
Prepaid expenses	(52,191)	-
Incurred claims	6,591,459	3,040,977
Accrued liabilities	164,395	(155,222)
Accounts payable	2,233,696	352,256
Net cash flows provided (used) by operating activities	\$ (1,978,002)	\$ 8,738,337
 Noncash Transactions:		
Unrealized gains on investments	\$ 5,519	\$ -

The accompanying notes are an integral part of the financial statements.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - DESCRIPTION OF THE TRUST

The University of Colorado Health and Welfare Trust (the Trust) was established June 28, 2010 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, Inc. (UPI) (collectively, the Members). It is intended that the Trust shall qualify as a "voluntary employees' beneficiary association" (VEBA) 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 employer members and their participants. Participant eligibility is determined pursuant to the terms of each Component Plan.

In the years ended June 30, 2013 and 2014, insurance coverage was provided through the following Component Plans:

- CU Health Plan – Exclusive Plan, which includes Blue View Vision,
- CU Health Plan – Access Network, which includes Blue View Vision,
- CU Health Plan – High Deductible,
- CU Health Plan – Medicare,
- CU Health Plan – Kaiser,
- CU Health Plan – Vision,
- 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).

As part of the self-insured Medical Plan, employees and their eligible dependents are provided prescription drug benefits through Express Scripts Inc., University of Colorado Health, or Kaiser Permanente, depending on the respective plan. The flexible spending plans noted above allow employees to set aside their own pre-tax dollars to pay for certain medical expenses and is administered by Application Software, Inc. (ASI) for the University of Colorado Flexible Benefits Plan, and United Medical Alliance, Inc. for the University of Colorado Hospital Authority Cafeteria Plan.

Participants and Members share the cost of coverage, based on actuarially determined premium rates. Each Member determines the amount that will be paid by the Member and its participants. Participants are responsible for copayments, deductibles, coinsurance amounts, if applicable, and are dependent on the level of coverage selected, as further described in each Component Plan document. The flexible spending plans noted above are funded with employee pre-tax dollars.

The intent of the Trust is to maintain it for an indefinite period. However, Members reserve the right to amend the Trust for any reason.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The Trust is administered by a Trust Committee, consisting of seven members; three designated by the President of the University, three 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.

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.

Classification of Revenues and Expenses

Operating revenues are derived from activities associated with providing services of the Trust. For the Trust, this includes premiums paid by both members and participants. 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 and expenses include all revenues and expenses that do not meet the definition of operating revenues and expenses or capital revenues.

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.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair market value, which is determined based on quoted market prices as of June 30, 2014. The classification of investments as current or noncurrent is based on the underlying nature and restricted use of the asset. Current investments are those without restrictions imposed by third parties that can be used to pay current obligations of the Trust. Noncurrent investments include investments with a maturity in excess of one year, restricted investments, and those investments designated to be used for long-term obligations. The Trust's investment policy permits investments in mutual funds and highly rated fixed-income securities with effective maturities of 10 years or less.

Premiums

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

Members may pay additional premiums or amounts to make up for any shortfall caused by adverse claims experience of their participants.

Flexible Spending Account Forfeitures

Federal regulations require that participants use the entire amount in their health care flexible spending account by the end of each plan year or during the following 75-day grace period. After the close of the grace period, an additional 60-day claims run-out period is provided for participants to submit claims for services performed during the previous plan year or grace period. At the end of the appeals process related to the plan year-end, participants' unused balances are permanently forfeited. The Trust uses these forfeitures to offset reasonable administrative costs incurred during the plan year. These forfeitures are recorded as miscellaneous operating revenue on the statement of revenues, expenses, and changes in net position.

Pharmacy Rebates

The Trust receives rebates from its prescription drug programs. 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 of revenues, expenses, and changes in net position. In fiscal year 2014, there were rebates received from two programs.

Performance Guarantee

The Trust may receive a performance guarantee related to failure to meet contract obligations from its vendors. Performance guarantees are recognized upon which the contractual settlement occurs with the vendor. Guarantees are recorded as a reduction of claims processing expenses in the statement of revenues, expenses, and changes in net position.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

Administrative Expenses

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

Income Tax 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 Trust management believes that the VEBA Trust continues to qualify and to operate in accordance with applicable provisions of the IRC.

Use of Estimates

The preparation of the Trust's financial statements in conformity with GAAP requires Trust management 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.

New Accounting Pronouncements

Effective July 1, 2013, the Trusts adopted the following provisions of the Governmental Accounting Standards Board (GASB): (1) Statement No. 65 "Items Previously Reported as Assets and Liabilities" which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting; (2) Statement No. 66 "Technical Corrections—2012" which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting; and (3) Statement No. 70 "Financial Reporting for Nonexchange Financial Guarantees" (GASB No. 70) which establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. The adoption of these statements had no impact on the financial statements of the Trust

Reclassifications

Reclassifications of certain prior year balances have been made to conform to the current year's financial statement presentation.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 - CASH AND CASH EQUIVALENTS, AND INVESTMENTS

The Trust's financial assets are authorized for investment 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 and restricted cash consist of amounts held in three noninterest bearing demand deposit accounts at Wells Fargo Bank, N.A. The Federal Deposit Insurance Corporation's limit of \$250,000 applies to the Trust's balances held at this bank. Therefore, the total of the cash and restricted cash in excess of \$250,000 is not insured by the FDIC.

Cash equivalents consist of shares of a 2a-7-money market fund held in the BlackRock TempFund #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 TempFund #24 is an open-ended mutual fund and is, therefore, not exposed to custodial credit risk.

Investments consist of shares of the JP Morgan Short Duration Bond Fund, which is an unrated mutual fund with an average duration of 1.85 years for the underlying investments, also not exposed to custodial credit risk.

NOTE 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.

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 ended June 30, 2013.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 - UNPAID CLAIMS LIABILITY (CONTINUED)

The following represents changes in the unpaid claims liability during the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Claims payable, beginning of year	\$ 16,160,946	\$ 13,119,969
Provision for claims expenses		
Provision for covered events of the current year	260,104,673	175,180,914
Decrease in provisions for covered events of prior years	<u>(425,025)</u>	<u>(717,266)</u>
Total provision for claims expenses	<u>259,679,648</u>	<u>174,463,648</u>
Payments		
Claims expenses attributable to covered events of the current year	237,394,883	159,032,382
Claims expenses attributable to covered events of prior years	<u>15,693,306</u>	<u>12,390,289</u>
Total payments	<u>253,088,189</u>	<u>171,422,671</u>
Claims payable, end of year	<u>\$ 22,752,405</u>	<u>\$ 16,160,946</u>

NOTE 5 - RELATED PARTY TRANSACTIONS

The University provides certain accounting and administrative services to the Trust for which fees are charged at cost, \$1,378,000 and \$550,000 for the years ended June 30, 2014 and 2013, respectively. The Trust's cash and investments are maintained in wholly separate accounts.

At June 30, 2014 and 2013, the Trust recorded receivables from UCH of \$0 and \$3,200,000, respectively, for an additional premium assessment related to adverse claims experience during the year. In addition, at June 30, 2014 and 2013, the Trust recorded a pharmacy rebate receivable from UCH of \$2,855,920 and \$1,799,564, respectively.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Trust is exposed to various risks of loss related to torts and errors and omissions. The Trust has in place errors and omissions insurance coverage. Any losses related to torts are self-insured by the Trust. As a governmental trust, the Trust is immune from suit in tort, though the Trust's status as a governmental entity has not been finally determined. Under any circumstances, tort claims would be covered by the errors and omissions and the fiduciary policy. No claims against the Trust have been filed.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 - RECONCILIATION OF 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.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION (UNAUDITED)

June 30, 2014

	Fiscal and Report Year Ended		
	2011	2012	2013
1) Net earned required contribution and investment revenue	\$ 109,856,763	\$ 154,540,480	\$ 199,945,749
2) Unallocated claims adjustment expenses	6,661,194	12,115,278	18,873,069
3) Estimated incurred claims as of end of report year	101,797,391	136,620,429	175,180,914
4) Net paid (cumulative) claims as of			
End of incurred year	93,780,079	123,926,182	159,032,382
One year later	101,239,051	136,344,651	175,300,683
Two years later	101,657,283	136,240,052	-
Three years later	101,657,288	-	-
5) Reestimated incurred claims			
End of incurred year	101,797,391	136,620,429	175,180,914
One year later	101,664,770	136,357,060	175,332,273
Two years later	101,657,288	136,251,076	-
Three years later	101,657,288	-	-
6) Increase (decrease) in estimated incurred claims (5 less 3)	(140,103)	(369,353)	151,359
7) Net claim reserve (5 less 4)	-	11,024	31,591
			22,709,790

SUPPLEMENTARY SCHEDULES

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
EIN: 27-6690619, PLAN #501
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
June 30, 2014

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment	(d) Cost	(e) Current Value
	BlackRock: TempFund	Money Market Fund	\$ 17,155,925	\$ 17,155,925
	JP Morgan: Short Duration Bond Fund	Defensive Fixed-Income Mutual Fund	3,014,077	3,019,596
	Total		<u>\$ 20,170,002</u>	<u>\$ 20,175,521</u>

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
 EIN: 27-6690619, PLAN #501
 SCHEDULE H, LINE 4j - SCHEDULE OF REPORTABLE TRANSACTIONS
 Year Ended June 30, 2014

(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)
VP8799919 BlackRock	TempFund B #24	\$ 242,907,337	\$ -	\$ 242,907,337	\$ 242,907,337	\$ -
VP8799919 BlackRock	TempFund B #24	\$ -	\$ 247,583,699	\$ 247,583,699	\$ 247,583,699	\$ -
4812C1330 JP Morgan	Short Duration Bond Fund	\$ 3,014,077	\$ -	\$ 3,014,077	\$ 3,014,077	\$ -

Category (iii) - A series of transactions which exceed 5% of net position as of the beginning of the Plan year:

There were no Category (i), (ii) or (iv) reportable transactions during the year ended June 30, 2014. Columns (e) and (f) have not been presented, as this information is not applicable.