

UNIVERSITY OF COLORADO  
HEALTH AND WELFARE TRUST  
Denver, Colorado

BASIC FINANCIAL STATEMENTS  
June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 17 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**

Greenwood Village, Colorado  
September 23, 2016

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2015 and 2014**

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, 2015 and 2014, with comparative information for the year ended June 30, 2013. 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, 2015 and 2014). 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, 2015 and 2014. 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, 2015 and 2014. 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 five years are presented in the Ten-Year Loss Development Information, as this is the fifth 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, 2015 and 2014**

**FINANCIAL HIGHLIGHTS**

Selected financial highlights for the fiscal year ended June 30, 2015 include:

- The Trust ended the year with \$14,909,890 in unrestricted net position.
- Incurred but not reported claims, as estimated by an outside actuary, amounted to \$17,979,608 of total incurred claims \$24,129,610.
- Total Trust premium revenues were \$316,420,838.
- Incurred claims expenses were \$285,667,944.
- Claims processing expenses were \$21,420,197. Administrative expenses were \$5,575,694.

**STATEMENTS OF NET POSITION**

At June 30, 2015, approximately 61% of total assets are held in cash and cash equivalents and noncurrent investments. Another 39% represents short-term receivables, the majority of which have been collected as of the date of the auditor's report. At June 30, 2014, these amounts were approximately 52% held in cash and cash equivalents and noncurrent investments, with another 48% in short-term receivables. At June 30, 2013, these amounts were approximately 76% held in cash and cash equivalents, with another 24% in short-term receivables. The decrease in receivables from fiscal year 2014 to 2015 was partially due to administrative service organizations meeting performance goals, thereby eliminating performance guarantee receivables. The increase in receivables from fiscal year 2013 to 2014 was 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.

At June 30, 2015, approximately 63% of total liabilities represent the estimate of incurred but not reported claims. This amount has been actuarially determined by an outside party. Another 22% represents claims submitted to the third party administrator that are pending final payment. At June 30, 2014, 57% of total liabilities represented the estimate of incurred but not reported claims, with another 21% representing claims submitted to the third party administrator that were 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. The increase in incurred claims from fiscal year 2014 to 2015 was partially due to an increase in participation along with the trend of increased medical costs. The increase in incurred claims from fiscal year 2013 to 2014 was due to the expansion of the UCH to include Poudre Valley Health System and its employees, along with the trend of increased medical costs.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2015 and 2014**

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

**Figure 1. Summary of Assets, Liabilities, and Net Position  
as of June 30, 2015, 2014, and 2013.**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets			
Cash and cash equivalents	\$ 20,248,331	\$ 18,962,766	\$ 25,796,354
Receivables	16,807,988	19,986,539	8,173,670
Prepaid expenses	157,082	176,316	-
Total current assets	<u>37,213,401</u>	<u>39,125,621</u>	<u>33,970,024</u>
Noncurrent assets			
Investments	6,067,992	3,019,596	-
Total assets	<u>\$ 43,281,393</u>	<u>\$ 42,145,217</u>	<u>\$ 33,970,024</u>
Current liabilities			
Incurred claims	\$ 24,129,610	\$ 22,752,405	\$ 16,160,946
Other current liabilities	4,241,893	6,235,874	3,809,961
Total current liabilities	<u>28,371,503</u>	<u>28,988,279</u>	<u>19,970,907</u>
Unrestricted net position	<u>14,909,890</u>	<u>13,156,938</u>	<u>13,999,117</u>
Total liabilities and net position	<u>\$ 43,281,393</u>	<u>\$ 42,145,217</u>	<u>\$ 33,970,024</u>

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the year ended June 30, 2015, premium revenues for the Trust totaled \$316,420,838. For the year ended June 30, 2014, premium revenues totaled \$285,888,735. For the year ended June 30, 2013, premium revenues totaled \$199,935,416.

For the year ended June 30, 2015, operating expenses for the Trust totaled \$312,663,835. Of this amount, incurred claims (including incurred but not reported claims) were 91% while claims processing and administrative expenses were 9%. For the year ended June 30, 2014, operating expenses totaled \$285,310,429, with incurred claims of 91% and administrative and claims processing expenses of 9%. For the year ended June 30, 2013, operating expenses totaled \$193,336,717, with incurred claims of 90% and administrative and claims processing expenses of 10%.

The increases in total operating revenues and expenses from fiscal year 2014 to 2015 were due the inclusion of a new plan as of July 1, 2014. The increase in total operating revenues and expenses from fiscal year 2013 to 2014 were due to the expansion of UCH to include employees of Poudre Valley Health System on July 1, 2013.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
June 30, 2015 and 2014**

The increase in administrative expenses from fiscal year 2014 to 2015 is primarily due to the Patient Protection and Affordable Care Act (also known as ACA or "health care reform") creating a Transitional Reinsurance fee effective January 1, 2014. Fiscal year 2014 expenses included the Transitional Reinsurance fee for only six months, while fiscal year 2015 expenses included twelve months. 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.

As of June 30, 2015, 2014, and 2013, there were approximately 29,000, 29,000, and 23,000 employees and retirees, respectively, participating in the Trust which amounted to approximately 62,000, 61,000, and 48,000 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, 2015, 2014, and 2013.**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 316,847,880	\$ 286,207,568	\$ 200,129,110
Operating expenses	312,663,835	285,310,429	193,336,717
Operating income	4,184,045	897,139	6,792,393
Nonoperating revenues (expenses)	(2,431,093)	(1,739,318)	(410,697)
Increase (decrease) in net position	1,752,952	(842,179)	6,381,696
Net position, beginning of year	13,156,938	13,999,117	7,617,421
Net position, end of year	<u>\$ 14,909,890</u>	<u>\$ 13,156,938</u>	<u>\$ 13,999,117</u>

**DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

For the new Trust plan year, started July 1, 2015, Trust management anticipates relatively stable member and participant populations. As of July 1, 2015, three dental plans were added to the Trust.

Uncertainty remains, however, regarding the requirements for administration of health care reform due to the evolving political landscape. Payment of the calendar year 2015 Transitional Reinsurance Fee will occur in 2016 and will be calculated from participant counts that cross two plan years (six-month period from January 1, 2015 to June 30, 2015 and the six-month period from July 1, 2015 to December 31, 2015). 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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>ASSETS:</b>		
<b>Current assets:</b>		
Cash, noninterest bearing, medical	\$ 289,294	\$ 198
Restricted cash - Flexible spending accounts	637,774	1,806,643
Cash equivalents	19,321,263	17,155,925
Total cash and cash equivalents	20,248,331	18,962,766
Receivables:		
Premiums net of allowance of \$1,126,567 in 2015	11,997,508	12,653,605
Pharmacy rebates	3,403,605	4,333,320
Performance guarantee	-	953,000
Withholding refund	-	2,046,245
Other refunds	169,314	-
Premium assessment due from member	1,236,860	-
Interest receivable	701	369
Total receivables	16,807,988	19,986,539
Prepaid expenses	157,082	176,316
Total current assets	37,213,401	39,125,621
<b>Noncurrent assets:</b>		
Investments	6,067,992	3,019,596
Total assets	43,281,393	42,145,217
<b>LIABILITIES (all current):</b>		
Incurred claims	24,129,610	22,752,405
Accrued liabilities	2,965,346	3,033,598
Accounts payable	831,216	1,577,001
Flexible spending accounts payable	445,331	1,625,275
Total liabilities	28,371,503	28,988,279
Unrestricted net position	\$ 14,909,890	\$ 13,156,938

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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>OPERATING REVENUES</b>		
Premiums, net of allowances of \$1,126,567	\$ 316,420,838	\$ 285,888,735
Miscellaneous	427,042	318,833
Total operating revenues	316,847,880	286,207,568
<b>OPERATING EXPENSES</b>		
Incurred claims	285,667,944	259,679,648
Claims processing	21,420,197	21,355,653
Administrative	5,575,694	4,275,128
Total operating expenses	312,663,835	285,310,429
Operating income	4,184,045	897,139
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	60,618	29,756
Wellness initiative expenses	(2,491,711)	(1,769,074)
Total nonoperating revenues (expenses)	(2,431,093)	(1,739,318)
<b>INCREASE (DECREASE) IN NET POSITION</b>	1,752,952	(842,179)
<b>UNRESTRICTED NET POSITION</b>		
Beginning of year	13,156,938	13,999,117
End of year	\$ 14,909,890	\$ 13,156,938

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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Premiums	\$ 315,840,075	\$ 279,609,236
Paid claims	(281,484,093)	(257,668,190)
Claims processing	(21,212,982)	(20,074,957)
Administrative	(5,672,857)	(4,162,924)
Miscellaneous revenue	427,042	318,833
Net cash flows provided (used) by operating activities	7,897,185	(1,978,002)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Wellness initiative funds disbursed	(2,443,566)	(1,893,199)
Flexible spending account receipts	3,429,018	8,227,239
Flexible spending account payments	(4,608,962)	(8,199,417)
Net cash flows used by noncapital financing activities	(3,623,510)	(1,865,377)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(3,045,651)	(3,014,077)
Investment income	57,541	23,868
Net cash flows used by investing activities	(2,988,110)	(2,990,209)
Net increase (decrease) in cash and cash equivalents	1,285,565	(6,833,588)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	18,962,766	25,796,354
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 20,248,331	\$ 18,962,766

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, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,184,045	\$ 897,139
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Changes in assets and liabilities:		
Premiums receivable	656,098	(9,510,543)
Pharmacy rebate	929,715	(2,533,756)
Performance guarantee	953,000	(953,000)
Withholding refund	2,046,245	(2,046,245)
Other rebates and refunds	(169,314)	-
Premium assessment due from member	(1,236,860)	3,200,000
Other receivables	-	31,044
Prepaid expenses	(28,912)	(52,191)
Incurred claims	1,377,205	6,591,459
Accrued liabilities	(68,252)	164,395
Accounts payable	(745,785)	2,233,696
Net cash flows provided (used) by operating activities	\$ 7,897,185	\$ (1,978,002)
 <b>Noncash Transactions:</b>		
Unrealized gains on investments	\$ 2,745	\$ 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, 2015 and 2014**

**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, 2015 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, and
- the University of Colorado Flexible Benefits Plan

Effective July 1, 2014, insurance coverage was provided by an additional Component Plan, CU Health Plan – Extended, and the University of Colorado Hospital Authority Cafeteria Plan (the Health Care Spending and Pretax Premium Component – Flex Plan) was no longer part of the Trust.

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 plan listed above allows 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.

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, 2015 and 2014**

**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, 2015 and 2014**

**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, 2015. 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. The Trust has an investment that is a cash equivalent on the statement of net position. The other investment of the Trust is classified as a noncurrent asset.

**Allowance for Doubtful Accounts**

Premiums receivable are presented on the statement of net position net of estimated uncollectible amounts. The Trust records an allowance for estimated uncollectible accounts in an amount approximating anticipated losses. Individual uncollectible accounts are written off against the allowance when collection of the individual accounts appears doubtful. The Trust recorded an allowance for doubtful accounts of \$1,126,567 and \$0 as of June 30, 2015 and 2014, respectively.

**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 2015 and 2014, there were rebates received from two programs.



**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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, 2014, the Trust adopted the following provisions of the Governmental Accounting Standards Board (GASB): (1) Statement No. 68 "Accounting and Financial Reporting for Pensions" which revises the accounting and disclosure requirements for pension plans, and (2) Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date" which addresses an issue regarding application of the transition provision of Statement No. 68. The adoption of these statements had no impact on the financial statements of the Trust.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**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 Aaa 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 1.87 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, 2015.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015 and 2014**

**NOTE 4 - UNPAID CLAIMS LIABILITY (CONTINUED)**

The following represents changes in the unpaid claims liability during the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Claims payable, beginning of year	\$ 22,752,405	\$ 16,160,946
Provision for claims expenses		
Provision for covered events of the current year	285,422,019	260,104,673
Decrease in provisions for covered events of prior years	<u>245,925</u>	<u>(425,025)</u>
Total provision for claims expenses	<u>285,667,944</u>	<u>259,679,648</u>
Payments		
Claims expenses attributable to covered events of the current year	261,646,108	237,394,883
Claims expenses attributable to covered events of prior years	<u>22,644,631</u>	<u>15,693,306</u>
Total payments	<u>284,290,739</u>	<u>253,088,189</u>
Claims payable, end of year	<u>\$ 24,129,610</u>	<u>\$ 22,752,405</u>

**NOTE 5 - RELATED PARTY TRANSACTIONS**

The University provides certain accounting and administrative services to the Trust for which fees are charged at cost, \$1,461,000 and \$1,378,000 for the years ended June 30, 2015 and 2014, respectively. The Trust's cash and investments are maintained in wholly separate accounts.

At June 30, 2015 and 2014, the Trust recorded receivables from UCH of \$1,236,860 and \$0, respectively, for an additional premium assessment related to adverse claims experience during the year. In addition, at June 30, 2015 and 2014, the Trust recorded a pharmacy rebate receivable from UCH of \$2,565,000 and \$2,855,920, 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.

**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, 2015**

	<b>Fiscal and Report Year Ended</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
1) Net earned required contribution and investment revenue	\$ 109,856,763	\$ 154,540,480	\$ 199,945,749	\$ 285,918,491	\$ 316,481,456
2) Unallocated claims adjustment expenses	6,661,194	12,115,278	18,873,069	25,630,781	26,995,891
3) Estimated incurred claims as of end of report year	101,797,391	136,620,429	175,180,914	260,104,673	285,422,019
4) Net paid (cumulative) claims as of					
End of incurred year	93,780,079	123,926,182	159,032,382	237,394,883	261,646,107
One year later	101,239,051	136,344,651	175,300,683	261,028,097	-
Two years later	101,657,283	136,240,052	175,313,650	-	-
Three years later	101,657,283	136,227,555	-	-	-
Four years later	101,657,288	-	-	-	-
5) Reestimated incurred claims					
End of incurred year	101,797,391	136,620,429	175,180,914	260,104,673	285,422,019
One year later	101,664,770	136,357,060	175,332,273	261,363,182	-
Two years later	101,657,288	136,251,076	175,332,263	-	-
Three years later	101,657,288	136,227,555	-	-	-
Four years later	101,657,288	-	-	-	-
6) Increase (decrease) in estimated incurred claims (5 less 3)	(140,103)	(392,874)	151,349	1,258,509	-
7) Net claim reserve (5 less 4)	-	-	18,613	335,085	23,775,912

**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, 2015**

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment	(d) Cost	(e) Current Value
	BlackRock: TempFund	Money Market Fund	\$ 19,321,263	\$ 19,321,263
	JP Morgan: Short Duration Bond Fund	Defensive Fixed-Income Mutual Fund	<u>6,059,728</u>	<u>6,067,992</u>
	Total		<u>\$ 25,380,991</u>	<u>\$ 25,389,255</u>

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST**  
**EIN: 27-6690619, PLAN #501**  
**SCHEDULE H, LINE 4j - SCHEDULE OF REPORTABLE TRANSACTIONS**  
**June 30, 2015**

(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 position as of the beginning of the Plan year:						
VP8799919 BlackRock	TempFund B #24	\$ 292,210,378	\$ -	\$ 292,210,378	\$ 292,210,378	\$ -
VP8799919 BlackRock	TempFund B #24	-	290,045,040	290,045,040	290,045,040	-
4812C1330 JP Morgan	Short Duration Bond Fund	3,045,651	-	3,045,651	3,045,651	-

There were no Category (i), (ii) or (iv) reportable transactions during the year ended June 30, 2015.  
Columns (e) and (f) have not been presented, as this information is not applicable.