

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
Denver, Colorado

BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the University of Colorado Health and Welfare Trust (the Trust), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Trust'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.

Auditor's 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 auditor's 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.

Board of Trustees
University of Colorado Health and Welfare Trust

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Health and Welfare Trust as of June 30, 2020 and 2019, 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 as listed in the table of contents 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 as 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.

BKD, LLP

Denver, Colorado
February 17, 2021

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020 and 2019**

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 as of and for the years ended June 30, 2020 and 2019, with comparative information as of and for the year ended June 30, 2018. 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, 2020 and 2019). 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, 2020 and 2019. 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, 2020 and 2019. 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 nine years are presented in the Ten-Year Loss Development Information as this is the ninth 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, 2020 and 2019**

FINANCIAL HIGHLIGHTS

Selected financial highlights for the fiscal year ended June 30, 2020 include:

- The Trust ended the year with \$58,942,219 in unrestricted net position.
- Incurred but not reported claims, as estimated by an outside actuary, amounted to \$58,815,112 of total incurred claims payable of \$59,190,617.
- Total Trust premium revenues were \$560,468,281.
- Incurred claims expenses were \$507,032,627.
- Claims processing expenses were \$26,978,282. Administrative expenses were \$3,014,274.

STATEMENTS OF NET POSITION

At June 30, 2020, approximately 49% of total assets are held in cash and cash equivalents and noncurrent investments. Another 51% represents short-term receivables, the majority of which have been collected as of the date of the auditor's report. At June 30, 2019, these amounts were approximately 48% held in cash and cash equivalents and noncurrent investments, with another 52% in short-term receivables. At June 30, 2018, these amounts were approximately 62% held in cash and cash equivalents, with another 38% in short-term receivables. The increase in receivables from 2019 to 2020 was due to the payment terms being adjusted for a terminated employer. The increase in the receivables ratio from 2018 to 2019 was due to an increase in the number of participants.

At June 30, 2020, approximately 91% of total liabilities represent the estimate of incurred but not reported claims. This amount has been actuarially determined by an outside party. Another 1% represents claims submitted to the third party administrator that are pending final payment. At June 30, 2019, 88% of total liabilities represented the estimate of incurred but not reported claims, with another 2% representing claims submitted to the third-party administrator that were pending final payment. At June 30, 2018, 74% of total liabilities represented the estimate of incurred but not reported claims, with another 16% representing claims submitted to the third-party administrator that were pending final payment. The increase in incurred claims liability from fiscal years 2019 and 2020 was from an increase in participation and the timing of claims payments.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020 and 2019**

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

Figure 1. Summary of Assets, Liabilities, and Net Position as of June 30, 2020, 2019, and 2018.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets			
Cash and cash equivalents	\$ 46,893,935	\$ 34,716,007	\$ 46,803,663
Receivables	63,215,480	50,665,455	32,291,075
Prepaid expenses	272,148	256,083	139,326
Total current assets	<u>110,381,563</u>	<u>85,637,545</u>	<u>79,234,064</u>
Noncurrent assets			
Investments	13,215,889	12,585,501	6,156,644
Total assets	<u>\$ 123,597,452</u>	<u>\$ 98,223,046</u>	<u>\$ 85,390,708</u>
Current liabilities			
Incurred claims	\$ 59,190,617	\$ 57,028,707	\$ 43,595,650
Other current liabilities	5,464,616	5,252,024	5,162,699
Total current liabilities	<u>64,655,233</u>	<u>62,280,731</u>	<u>48,758,349</u>
Unrestricted net position	58,942,219	35,942,315	36,632,359
Total liabilities and net position	<u>\$ 123,597,452</u>	<u>\$ 98,223,046</u>	<u>\$ 85,390,708</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended June 30, 2020, 2019, and 2018, premium revenues for the Trust totaled \$560,468,281, \$522,943,466, and \$471,417,456, respectively.

For the year ended June 30, 2020, operating expenses for the Trust totaled \$537,025,183. Of this amount, incurred claims (including incurred but not paid claims) were 94% while claims processing and administrative expenses were 6%. For the year ended June 30, 2019, operating expenses totaled \$523,121,370, with incurred claims of 94% and administrative and claims processing expenses of 6%. For the year ended June 30, 2018, operating expenses totaled \$458,646,760, with incurred claims of 94% and administrative and claims processing expenses of 6%.

The increases in total operating revenues and expenses from fiscal year 2019 to 2020 and 2018 to 2019 were due to additional participants.

The administrative expenses increased from 2019 to 2020 from additional consulting services. The administrative expenses were consistent between fiscal years 2018 to 2019.

As of June 30, 2020, 2019, and 2018, there were approximately 41,000, 40,000, and 37,000 employees and retirees, respectively, participating in the Trust which amounted to approximately 89,000, 84,000, and 80,000 lives covered during those years, respectively.

**UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2020 and 2019**

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, 2020, 2019, and 2018.**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 560,520,295	\$ 523,047,532	\$ 471,566,101
Operating expenses	<u>537,025,183</u>	<u>523,121,370</u>	<u>458,646,760</u>
Operating income (loss)	23,495,112	(73,838)	12,919,341
Nonoperating revenues (expenses)	<u>(495,208)</u>	<u>(616,206)</u>	<u>(2,241,444)</u>
Increase (decrease) in net position	22,999,904	(690,044)	10,677,897
Net position, beginning of year	<u>35,942,315</u>	<u>36,632,359</u>	<u>25,954,462</u>
Net position, end of year	<u>\$ 58,942,219</u>	<u>\$ 35,942,315</u>	<u>\$ 36,632,359</u>

DISCUSSION OF CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

For the new Trust plan year, started July 1, 2020, a decrease in member and participant populations occurred when an employer terminated its participation in the Trust. The Trust decreased by approximately 19,000 employees and approximately 42,000 lives. Also beginning July 1, 2020 prescription drug benefits were provided by CVS/Caremark instead of IngenioRx.

Uncertainty remains, however, regarding the requirements for administration of health care reform due to the evolving political landscape.

BASIC FINANCIAL STATEMENTS

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF NET POSITION
June 30, 2020 and 2019

	2020	2019
ASSETS:		
Current assets:		
Cash, noninterest bearing, medical	\$ 1,497	\$ 1,676
Restricted cash - Flexible spending accounts	1,197,136	1,034,013
Cash equivalents	<u>45,695,302</u>	<u>33,680,318</u>
Total cash and cash equivalents	<u>46,893,935</u>	<u>34,716,007</u>
Receivables:		
Premiums, net	36,066,956	20,944,174
Pharmacy rebates	14,939,454	11,169,866
Other rebates and refunds	713,866	78,647
Premium assessment due from member	11,466,028	18,416,528
Interest receivable	<u>29,176</u>	<u>56,240</u>
Total receivables	<u>63,215,480</u>	<u>50,665,455</u>
Prepaid expenses	<u>272,148</u>	<u>256,083</u>
Total current assets	<u>110,381,563</u>	<u>85,637,545</u>
Noncurrent assets:		
Investments	<u>13,215,889</u>	<u>12,585,501</u>
Total assets	<u>123,597,452</u>	<u>98,223,046</u>
LIABILITIES (all current):		
Incurred claims	59,190,617	57,028,707
Accrued liabilities	903,624	917,657
Accounts payable	3,773,963	3,786,389
Flexible spending accounts payable	<u>787,029</u>	<u>547,978</u>
Total liabilities	<u>64,655,233</u>	<u>62,280,731</u>
Unrestricted net position	<u>\$ 58,942,219</u>	<u>\$ 35,942,315</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, 2020 and 2019

	2020	2019
OPERATING REVENUES		
Premiums	\$ 560,468,281	\$ 522,943,466
Miscellaneous	52,014	104,066
Total operating revenues	560,520,295	523,047,532
OPERATING EXPENSES		
Incurred claims	507,032,627	493,247,950
Claims processing	26,978,282	27,151,307
Administrative	3,014,274	2,722,113
Total operating expenses	537,025,183	523,121,370
Operating income (loss)	23,495,112	(73,838)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,194,294	1,272,055
Wellness initiative expenses	(1,689,502)	(1,888,261)
Total nonoperating revenues (expenses)	(495,208)	(616,206)
INCREASE (DECREASE) IN NET POSITION	22,999,904	(690,044)
UNRESTRICTED NET POSITION		
Beginning of year	35,942,315	36,632,359
End of year	\$ 58,942,219	\$ 35,942,315

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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums	\$ 552,296,000	\$ 508,253,758
Paid claims	(509,354,169)	(483,431,067)
Claims processing	(26,912,059)	(26,909,733)
Administrative	(3,044,371)	(2,949,327)
Miscellaneous revenue	<u>52,014</u>	<u>104,066</u>
Net cash flows provided by (used in) operating activities	<u>13,037,415</u>	<u>(4,932,303)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wellness initiative funds disbursed	(1,689,501)	(2,004,927)
Flexible spending account receipts	3,948,665	3,643,804
Flexible spending account payments	<u>(3,709,614)</u>	<u>(3,646,077)</u>
Net cash flows used in noncapital financing activities	<u>(1,450,450)</u>	<u>(2,007,200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(353,449)	(6,204,114)
Investment income	<u>944,419</u>	<u>1,055,961</u>
Net cash flows provided by (used in) investing activities	<u>590,970</u>	<u>(5,148,153)</u>
Net increase (decrease) in cash and cash equivalents	12,177,935	(12,087,656)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>34,716,007</u>	<u>46,803,663</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 46,893,942</u>	<u>\$ 34,716,007</u>

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

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 23,495,112	\$ (73,838)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Changes in assets and liabilities:		
Premiums receivable	(15,122,782)	(2,287,699)
Pharmacy rebate	(3,769,588)	(3,616,174)
Performance guarantee	-	1,500
Other rebates and refunds	(635,219)	(78,647)
Premium assessment due from member	6,950,500	(12,402,009)
Prepaid expenses	(16,065)	(91)
Incurred claims	2,161,910	13,433,057
Accrued liabilities	(14,033)	(227,123)
Accounts payable	(12,426)	318,721
Net cash flows provided by (used in) operating activities	\$ 13,037,409	\$ (4,932,303)
 Noncash Transactions:		
Unrealized gains on investments	\$ 276,939	\$ 224,743

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

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 of Colorado Medicine (CU Med) (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, 2020 and 2019, insurance coverage was provided through the following Component Plans:

- CU Health Plan – Exclusive Plan, which includes Blue View Vision,
- CU Health Plan – Extended,
- CU Health Plan – High Deductible/HSA Compatible,
- CU Health Plan – Medicare,
- CU Health Plan – Kaiser,
- CU Health Plan – Delta Dental EPO,
- CU Health Plan – Delta Dental PPO,
- CU Health Plan – Dental Dental Premier
- CU Health Plan – Vision, and
- the University of Colorado Flexible Benefits Plan

As part of the self-insured Medical Plan, employees and their eligible dependents are provided prescription drug benefits through Express Scripts Inc. (ending on February 28, 2020), IngenioRx (beginning March 1, 2020), 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 or terminate the Trust for any reason.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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 CU Med. 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 approximately 30 days.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair value. 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 statements 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 statements 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 \$0 as of June 30, 2020 and 2019.

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 statements of revenues, expenses, and changes in net position.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statements of revenues, expenses, and changes in net position. In fiscal year 2020 and 2019, 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 statements 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.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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.

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of bank failure, the Plan will not be able to recover the value of its deposits. The Trust does not have a formal policy for custodial credit risk.

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. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The fair value of the collateral must be at least equal to the aggregate uninsured deposits. The State Commissioner for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At June 30, 2020 and 2019, cash equivalents consist of shares of a 2a-7-money market fund held in the Wells Fargo Government Money Market Fund (ticker symbol GVIXX), which has a credit rating of Aaam and a weighted average maturity of approximately 40 days. Cash equivalents are reported at amortized cost, which approximates fair value. The Wells Fargo Government Money Market Fund is an open-ended mutual fund and is, therefore, not exposed to custodial credit risk.

At June 30, 2020 and 2019, investments consist of the Vanguard Admiral Fund which invests in short term bonds and is an unrated mutual fund with an average duration of 2.7 years for the underlying investments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust has no formal policy for custodial credit risk. At June 30, 2020 and 2019, the Trust did not identify any investments subject to custodial credit risk.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Trust. The Trust has no formal policy for credit risk. At June 30, 2020 and 2019, the Trust believes the credit risk is minimal.

Interest rate risk is the risk that an investment's value will change due to a change in interest rates. The Trust has no formal policy for interest rate risk. At June 30, 2020 and 2019, the Trust believes the interest rate risk is minimal.

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. At June 30, 2020 and 2019, the mutual fund is more than 5% of unrestricted net position.

NOTE 4 – FAIR VALUE

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for an identical asset that a government can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Unobservable inputs for an asset.

The following table presents the fair value of measurements of assets recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
At June 30, 2020				
Cash equivalents				
Money Market Fund	\$ 45,695,302	\$ 45,695,302	\$ -	\$ -
Investments				
Mutual Fund	\$ 13,215,889	\$ 13,215,889	\$ -	\$ -
At June 30, 2019				
Cash equivalents				
Money Market Fund	\$ 33,680,318	\$ 33,680,318	\$ -	\$ -
Investments				
Mutual Fund	\$ 12,585,501	\$ 12,585,501	\$ -	\$ -

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 5 – 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 paid. 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 6 for discussion of amounts receivable from UCH as a result of adverse claims experience during the years ended June 30, 2020 and 2019.

The following represents changes in the unpaid claims liability during the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Claims payable, beginning of year	\$ 57,028,707	\$ 43,595,650
Provision for claims expenses		
Provision for covered events of the current year	514,203,848	490,876,600
Increase in provisions for covered events of prior years	(7,171,221)	2,371,350
Total provision for claims expenses	<u>507,032,627</u>	<u>493,247,950</u>
Payments		
Claims expenses attributable to covered events of the current year	456,724,222	437,548,938
Claims expenses attributable to covered events of prior years	48,146,495	42,265,955
Total payments	<u>504,870,717</u>	<u>479,814,893</u>
Claims payable, end of year	<u>\$ 59,190,617</u>	<u>\$ 57,028,707</u>

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

NOTE 6 – RELATED PARTY TRANSACTIONS

The University provides certain accounting and administrative services to the Trust for which fees are charged at cost, \$1,830,000 and \$1,763,000 for the years ended June 30, 2020 and 2019, respectively. The Trust's cash and investments are maintained in wholly separate accounts.

During years ended June 30, 2020 and 2019, the Trust recorded pharmacy rebates from UCH of \$5,434,000 and \$5,227,000, respectively.

NOTE 7 – 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 8 – 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.

NOTE 9 – SUBSEQUENT EVENT

Beginning July 1, 2020, prescription drug benefits will be provided by CVS/Caremark.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION (UNAUDITED)
June 30, 2020

	Fiscal and Report Year Ended				
	2011	2012	2013	2014	2015
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 and reported other costs	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 and allocated claim adjustment expenses	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	290,252,967
Two years later	101,657,283	136,240,052	175,313,650	261,319,966	290,048,207
Three years later	101,657,288	136,227,555	175,313,650	261,152,342	290,040,253
Four years later	101,657,288	136,227,555	175,313,650	261,152,342	290,040,253
Five years later	101,657,288	136,227,555	175,313,650	261,152,342	290,178,405
Six years later	101,657,288	136,227,555	175,313,650	261,156,480	-
Seven years later	101,657,288	136,227,555	175,313,650	-	-
Eight years later	101,657,288	136,227,556	-	-	-
Nine 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	290,252,967
Two years later	101,657,288	136,251,076	175,332,263	261,319,966	290,048,207
Three years later	101,657,288	136,227,555	175,313,650	261,152,342	290,040,253
Four years later	101,657,288	136,227,556	175,313,650	261,152,342	290,040,253
Five years later	101,657,288	136,227,556	175,313,650	261,152,342	290,178,405
Six years later	101,657,288	136,227,556	175,313,650	261,156,480	-
Seven years later	101,657,288	136,227,556	175,313,650	-	-
Eight years later	101,657,288	136,227,556	-	-	-
Nine years later	101,657,288	-	-	-	-
6) Increase (decrease) in estimated incurred claims (5 less 3)	(140,103)	(392,873)	132,736	1,051,807	4,756,386
7) Net claim reserve (5 less 4)	-	-	-	-	-

UNIVERSITY OF COLORADO HEALTH AND WELFARE TRUST
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION (UNAUDITED) (CONTINUED)
June 30, 2020

	Fiscal and Report Year Ended				
	2016	2017	2018	2019	2020
1) Net earned required contribution and investment revenue	\$ 365,546,362	\$ 402,990,316	\$ 471,944,505	\$ 524,319,587	\$ 561,714,589
2) Unallocated claims adjustment expenses and reported other costs	28,689,606	28,396,292	31,406,145	31,761,681	31,682,058
3) Estimated incurred claims as of end of report year and allocated claim adjustment expenses	324,928,970	364,311,674	429,744,903	490,876,600	514,203,848
4) Net paid (cumulative) claims as of					
End of incurred year	293,611,962	362,890,120	387,623,927	437,548,938	456,724,222
One year later	328,062,766	363,020,197	431,997,169	486,036,445	-
Two years later	327,923,421	365,799,156	429,562,594	-	-
Three years later	328,421,994	365,110,916	-	-	-
Four years later	328,221,155	-	-	-	-
Five years later	-	-	-	-	-
Six years later	-	-	-	-	-
Seven years later	-	-	-	-	-
Eight years later	-	-	-	-	-
Nine years later	-	-	-	-	-
5) Reestimated incurred claims					
End of incurred year	324,928,970	364,311,674	429,744,903	490,876,600	514,203,848
One year later	327,866,104	364,441,751	432,077,791	487,666,814	-
Two years later	327,976,541	365,799,156	429,643,216	-	-
Three years later	328,421,994	365,110,916	-	-	-
Four years later	328,221,155	-	-	-	-
Five years later	-	-	-	-	-
Six years later	-	-	-	-	-
Seven years later	-	-	-	-	-
Eight years later	-	-	-	-	-
Nine years later	-	-	-	-	-
6) Increase (decrease) in estimated incurred claims (5 less 3)	3,292,185	799,242	(101,687)	(3,209,786)	-
7) Net claim reserve (5 less 4)	-	-	80,622	1,630,369	57,479,626

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, 2020

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, or Maturity Value	(d) Cost	(e) Current Value
	Wells Fargo: Government	Money Market Fund	\$ 45,695,302	\$ 45,695,302
	Vanguard: Vanguard Admiral Fund Short Duration Bond Fund	Defensive Fixed-Income Mutual Fund	12,859,904	13,215,889
	Total		<u>\$ 58,555,206</u>	<u>\$ 58,911,191</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, 2020

(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 plan assets:						
Wells Fargo Bank	Government Money Market Fund	\$ 516,450,971	\$ -	\$ 516,450,971	\$ 516,450,971	\$ -
Wells Fargo Bank	Government Money Market Fund	\$ -	\$ 504,435,987	\$ 504,435,987	\$ 504,435,987	\$ -

There were no Category (i), (ii) or (iv) reportable transactions during the year ended June 30, 2020.
Columns (e) and (f) have not been presented, as this information is not applicable.