

CoverColorado

Financial Statements
December 31, 2004 and 2003

COVERCOLORADO

Because everyone needs health insurance

May 11, 2005

The Honorable Bill Owens
Governor of Colorado
Executive Chambers
State Capitol
Denver, CO 80203

Dear Governor Owens:

Attached is the annual financial report of CoverColorado for fiscal year 2004. The 2004 report includes a copy of CoverColorado's 2004 financial statements, audited by Anton Collins Mitchell LLP, including management's discussion and analysis. The following information highlights two of the key activities undertaken by CoverColorado in the last year.

During 2004, CoverColorado's membership decreased from 5,018 to 4,710 Coloradoans; an approximate 6.1% decrease in one year. CoverColorado's aggressive Advanced Care Management System continues to be successful. Savings in the program go to the participants and the program with approximately 30% going to the participants and 70% going to CoverColorado.

The Board and staff of CoverColorado appreciate the opportunity to fulfill the program's mission of providing a health insurance program that preserves access to health care for Coloradoans whose health prohibits or substantially limits access to commercial health insurance.

Sincerely,

Barbara Brett
Executive Director

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Independent Auditors' Report

The Board of Directors
CoverColorado
Glendale, Colorado

We have audited the accompanying balance sheets of CoverColorado (the "Program"), a component unit of the State of Colorado, as of December 31, 2004 and 2003 and the related statements of revenues and expenses and change in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. 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 and *Government Auditing Standards* issued by the Controller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CoverColorado at December 31, 2004 and 2003 and the results of its revenues and expenses and change in fund net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2005 on our consideration of CoverColorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Accountants & Consultants

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Our audits were performed for the purpose of forming an opinion on the basic financial statements of CoverColorado taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Anton Collins Mitchell LLP

May 11, 2005

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Management's Discussion and Analysis

Overview of the Basic Financial Statements

Management's discussion and analysis is intended to provide a narrative introduction to CoverColorado's (the "Program") basic financial statements. The Program's basic financial statements consist of the balance sheet, statement of revenues and expenses and changes in fund net assets, statement of cash flows and notes to the financial statements. The notes to the financial statements provide additional information relative to the basic financial statements.

Financial Analysis

Summary of Condensed Balance Sheet

<i>December 31,</i>	2004	2003
Current assets	\$ 43,987,953	\$ 21,033,549
Furniture and equipment, net	12,503	13,924
Total assets	\$ 44,000,456	\$ 21,047,473
Current liabilities	\$ 13,860,245	\$ 10,514,768
Fund net assets	30,140,211	10,532,705
Total liabilities and fund net assets	\$ 44,000,456	\$ 21,047,473

Management's Discussion and Analysis

All of the program's assets are restricted as to their use; to pay claims of the Program's members and to pay for costs associated with the administration of the Program. Current assets consist of \$3,537,414 of cash and cash equivalents, \$39,066,372 of short-term investments, \$966,965 of accounts receivable, \$178,116 of premiums receivable, and \$239,086 of accrued interest receivable at December 31, 2004 compared to \$625,345 of cash and cash equivalents, \$20,213,163 of investments, \$138,905 of accounts receivable and \$56,136 of accrued interest receivable at December 31, 2003. The Program's most significant source of funds during the years ended December 31, 2004 and 2003 were premiums earned from the Program's members of \$21,930,259 and \$20,559,263, respectively and funds from the State of Colorado of \$10,707,681 and \$11,634,457, respectively. The Program also received \$2,026,974 in 2004 from federal grants as well as \$24,420,548 and \$8,650,928 of funds from health insurance companies resulting from the Program's assessment to the health insurance companies in accordance with Colorado House Bill 01-1319 during the years ended December 31, 2004 and 2003. These sources of funds are reflected in the Statements of Cash Flows.

The Program has furniture and equipment, which it uses at the office in which it conducts operations. Furniture and equipment totaling \$12,503 consists of \$39,012 of cost and \$26,509 of accumulated depreciation at December 31, 2004; and furniture and equipment totaling \$13,924 consists of \$45,675 cost and \$31,751 of accumulated depreciation at December 31, 2003. Furniture and equipment are depreciated over a five year life.

All of the Program's liabilities are current and consist of \$11,295,079 of reserve for health policy claims, \$1,177,936 of advance premiums, \$1,089,484 of assessment overpayments and accruals, and \$297,746 of accrued expenses as December 31, 2004 and \$8,797,545 of reserve for health policy claims, \$642,636 of advance premiums, \$618,585 of checks written in excess of deposits and \$456,002 of accrued expenses as of December 31, 2003. The reserve for health policy claims provides for claims that have been reported and not yet paid, as well as an estimate for claims that have been incurred and not yet reported. An independent actuary determines the reserve for health policy claims. The reserve for health policy claims is a significant estimate and the actual costs the Program ultimately incurs could differ from the amounts recorded. Advance premiums consist of premiums that have been received from the Program's members. These premiums have been received prior to their policy effective date and have therefore not been earned. The most significant component of accrued expenses as of December 31, 2004 and 2003 is an accrual for management fees payable to the Program's third-party administrator, in the amount of \$274,118 and \$359,681, for services provided to the Program for November and December 2004 and 2003, respectively.

The Program's fund net assets at December 31, 2004 and 2003 of \$30,140,211 and \$10,532,705 represent the Program's total assets of \$44,000,456 and \$21,047,473 less total liabilities of \$13,860,245 and \$10,514,768, respectively.

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Management's Discussion and Analysis

Statements of Revenues and Expenses and Changes in Fund Net Assets

<i>Year Ended December 31,</i>	2004	2003
Operating revenues	\$ 59,376,162	\$ 40,948,477
Operating expenses	39,768,656	31,789,582
Excess of revenues over expenses	19,607,506	9,158,895
Fund net assets, beginning of year	10,532,705	1,373,810
Fund net assets, end of year	\$ 30,140,211	\$ 10,532,705

As stated in the footnotes to the financial statements, the Program provides access to health insurance for those Colorado residents who are unable to obtain health insurance, or who are unable to obtain health insurance except at prohibitive rates with restrictive exclusions. The Program charges members health insurance premiums, and during the year ended December 31, 2004 and 2003, the Program earned \$21,930,259 and \$20,559,263 of premiums, respectively. Earned premiums are composed of premiums collected from members, plus or minus the change in unearned premiums from the beginning of the year to the end of the year. During the year ended December 31, 2004 and 2003 the Program collected \$22,287,443 and \$20,369,774 and unearned premiums increased/(decreased) \$535,300 and (\$189,491), respectively. During the year ended December 31, 2004, the program received \$10,707,681 of funds from the State of Colorado and earned \$290,700 of investment income, primarily interest on its cash and investments, compared to \$11,634,457 of funds from the State of Colorado and earned \$103,829 of investment income, primarily interest on its cash and investments during the year ended December 31, 2003. On June 5, 2001, the General Assembly of the State of Colorado approved House Bill 01-1319 ("HB 1319") that allowed the Program to assess a special fee against insurers. In July 2002, the Program notified insurers of an assessment of approximately \$9.3 million and in July 2003, the Program notified insurers of another assessment of approximately \$29.8 million. During the year ended December 31, 2004 and 2003, the Program recognized \$24,420,548 and \$8,650,928 of assessment revenue from the assessments. During the years ended December 31, 2004 and 2003, the Program collected \$24,666,098 and \$8,512,023 of the assessments from insurers. Total revenues for the year ended December 31, 2004 and 2003 of \$59,376,162 and \$40,948,477, consisting of the aforementioned components, is reflected in the statement of revenues and expenses and changes in fund net assets.

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Management's Discussion and Analysis

During the year ended December 31, 2004, the Program incurred \$39,768,656 of operating expenses compared to \$31,789,582 during the year ended December 31, 2003. The largest component of this amount was health policy benefits of \$36,619,970 and \$28,782,284. Health policy benefits include \$34,122,436 and \$27,577,931 of benefits paid plus an increase in the reserve for health policy claims of \$2,497,534 and \$1,204,353. The Program incurred general and administrative expenses of \$3,138,677 and \$2,997,917. The most significant components of general and administrative expenses were administrative fees to the Program's third party administrator of \$1,644,943 and \$1,530,026, salaries paid to employees of \$199,905 and \$200,986 and case management consulting fees of \$589,532 and \$602,711 and disease management consulting fees of \$126,857 and \$140,689, respectively. Depreciation expense for the year ended December 31, 2004 and 2003 was \$10,009 and \$9,381, respectively.

The excess of revenues over expenses for the year ended December 31, 2004 and 2003 of \$19,607,506 and \$9,158,895 was composed of revenues of \$59,376,162 and \$40,948,477 less expenses of \$39,768,656 and \$31,789,582, respectively. The excess of revenues over expenses represents the only change in the fund net assets.

Summary of Statement of Cash Flows

<i>Year Ended December 31,</i>	2004	2003
Net cash provided by operating activities	\$ 22,392,451	\$ 10,091,440
Net cash used in investing activities	(18,861,797)	(19,562,625)
Net cash provided by (used in) financing activities	(618,585)	618,585
Increase (decrease) in cash and cash equivalents	2,912,069	(8,852,600)
Cash and cash equivalents, beginning of year	625,345	9,477,945
Cash and cash equivalents, end of year	\$ 3,537,414	\$ 625,345

During the year ended December 31, 2004, cash and cash equivalent balances increased \$2,912,069 from \$625,345 to \$3,537,414, compared to a decrease of \$8,852,600 from \$9,477,945 to \$625,345, during the year ended December 31, 2003.

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Management's Discussion and Analysis

For the year ended December 31, 2004 cash provided from operations of \$22,392,451 is composed primarily of cash received including \$22,287,443 of premiums received, health insurer assessments of \$24,681,972, funds received from Federal TAA grant of \$2,026,974, funds received from the State of Colorado of \$10,707,681 and investment income received of \$107,749 for total cash received from operations of \$59,811,819. Cash used in operations of \$37,419,368 was composed of health policy claims paid of \$34,122,436 and \$3,296,932 of general and administrative expenses paid.

For the year ended December 31, 2003 cash provided from operations of \$10,091,440 is composed of cash received including \$20,369,774 of premiums received, health insurer assessments of \$8,512,023, funds received from the State of Colorado of \$11,634,457 and investment income received of \$55,903 for total cash received from operations of \$40,572,157. Cash used in operations of \$30,480,717 was composed of health policy claims paid of \$27,577,931 and \$2,902,786 of general and administrative expenses paid.

During the years ended December 31, 2004 and 2003, the Program purchased furniture and equipment of \$8,588 and \$2,073. During 2004 and 2003, the Program received proceeds from the maturity of investments of \$20,213,163 and \$652,611 and purchased \$39,066,372 and \$20,213,163 of U.S. Government agency bonds and had checks written in excess of deposits of \$618,585 in 2003.

Economic and Industry Considerations

As a result of the state budget shortfall, funds previously provided to the Program from the Unclaimed Property Fund have been significantly decreased. HB 1319 gave the Program the authority to assess insurance carriers for the difference between premiums collected, state monies received and interest earnings, and the cost of claims and administrative expenses. The first assessment of approximately \$9.8 million was due August 2003; the second assessment of approximately \$29.8 million was due May 2004. These funds will be used to pay claims and administrative expenses for the Program.

Enrollment increases have slowed compared to 2003, as the economic picture for Colorado appears to be improving slightly. However, this is offset by insurance carriers continuing to leave the state and new federal populations requiring coverage are created. The main factor that will slow growth will be the increasing cost of premiums and the un-affordability of the program for many individuals. Growth during 2004 remained level and no additional assessments are planned.

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Management's Discussion and Analysis

Long term funding considerations will continue to be a concern for the Program despite the passage of two bills in the 2004 legislative session. HB 1206 will allow insurance companies who pay premium taxes to receive a tax credit in the amount of their contribution to CoverColorado. The maximum amount of tax credits available is \$5 million per year. The first time money will be available to CoverColorado under HB 1206 will be 2005. The second bill is SB 211 that will make excess monies in the Unclaimed Property Fund available to the Program. Following the development of assessment projections, CoverColorado will submit the assessment amount to the State Treasurer for review. Any monies available in excess of liabilities and operating expenses left in the Unclaimed Property Fund will be transmitted to the Program. The estimated amount available is \$15 to \$16 million per year. Combined, both bills could possibly provide the potential of \$20 million per year to the Program, however, no assurances can be made of the actual amount that the Program will receive as a result of these two bills.

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Balance Sheets

<i>December 31,</i>	2004	2003
Assets		
Current:		
Cash and cash equivalents	\$ 3,537,414	\$ 625,345
Short-term investments (Note 1)	39,066,372	20,213,163
Assessment receivable	966,965	138,905
Premiums receivable	178,116	-
Accrued interest receivable	239,086	56,136
Total current assets	43,987,953	21,033,549
Furniture and equipment, net accumulated depreciation of \$26,510 and \$31,751	12,503	13,924
Total assets	\$ 44,000,456	\$ 21,047,473
Liabilities and Fund Net Assets		
Current:		
Reserve for health policy claims (Note 2)	\$ 11,295,079	\$ 8,797,545
Assessment overpayments and appeals	1,089,484	-
Advance premiums	1,177,936	642,636
Checks written in excess of deposits	-	618,585
Accrued expenses	297,746	456,002
Total current liabilities	13,860,245	10,514,768
Commitments and contingencies (Notes 2, 4, 5 and 6)		
Fund net assets	30,140,211	10,532,705
Total liabilities and fund net assets	\$ 44,000,456	\$ 21,047,473

*See accompanying independent auditors' report, summary
of accounting policies and notes to financial statements.*

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Statements of Revenues and Expenses and Change in Fund Net Assets

<i>Year Ended December 31,</i>	2004	2003
Revenues:		
Premiums earned	\$ 21,930,259	\$ 20,559,263
Assessments	24,420,548	8,650,928
State of Colorado appropriations (Note 3)	10,707,681	11,634,457
Federal TAA grants	2,026,974	-
Investment income	290,700	103,829
Total revenues	59,376,162	40,948,477
Expenses:		
Health policy benefits (Note 2)	36,619,970	28,782,284
General and administrative expenses (Notes 4, 5 and 6)	3,138,677	2,997,917
Depreciation	10,009	9,381
Total expenses	39,768,656	31,789,582
Revenues over expenses	19,607,506	9,158,895
Fund net assets at beginning of year	10,532,705	1,373,810
Fund net assets at end of year	\$ 30,140,211	\$ 10,532,705

*See accompanying independent auditors' report, summary
of accounting policies and notes to financial statements.*

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Statements of Cash Flows

<i>Year Ended December 31,</i>	2004	2003
Cash flows from operating activities:		
Premiums received	\$ 22,287,443	\$ 20,369,774
Assessments	24,681,972	8,512,023
State of Colorado	10,707,681	11,634,457
Federal TAA grant	2,026,974	-
Health policy claims paid	(34,122,436)	(27,577,931)
General and administrative expenses paid	(3,296,932)	(2,902,786)
Investment income received	107,749	55,903
Net cash provided by operating activities	22,392,451	10,091,440
Cash flows from investing activities:		
Proceeds from maturity of investments	20,213,163	652,611
Purchase of investments	(39,066,372)	(20,213,163)
Purchase of furniture and equipment	(8,588)	(2,073)
Net cash used in investing activities	(18,861,797)	(19,562,625)
Cash flows from financing activities:		
Checks written in excess of deposits	(618,585)	618,585
Increase (decrease) in cash and cash equivalents	2,912,069	(8,852,600)
Cash and cash equivalents, beginning of year	625,345	9,477,945
Cash and cash equivalents, end of year	\$ 3,537,414	\$ 625,345

See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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Statements of Cash Flows

<i>Year Ended December 31,</i>	2004	2003
Reconciliation of revenues over expenses to net cash provided by operating activities:		
Revenues over expenses	\$ 19,607,506	\$ 9,158,895
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:		
Depreciation	10,009	9,381
Changes in operating assets and liabilities:		
Increase in assessment receivable	(828,060)	(138,905)
Increase in assessment overpayments and appeals	1,089,484	-
(Increase) in premium receivable	(178,116)	-
(Increase) in accrued interest receivable	(182,950)	(47,926)
Increase in reserve for health policy claims	2,497,534	1,204,354
Increase (decrease) in advance premiums	535,300	(189,491)
Increase (decrease) in accrued expenses	(158,256)	95,132
Net cash provided by operating activities	\$ 22,392,451	\$ 10,091,440

See accompanying independent auditors' report, summary of accounting policies and notes to financial statements.

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Summary of Accounting Policies

Organization and Nature of Business

CoverColorado (the “Program”) is a non-profit unincorporated public entity created pursuant to Colorado Revised Statute 10-8-501. The purpose of the statute is to provide access to health insurance for those Colorado residents who are unable to obtain health insurance, or who are unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The statute had a sunset provision provided that, if not otherwise extended, the statute would be repealed effective July 1, 1993. On June 2, 1993, the sunset provision was repealed by Senate Bill 93-55.

On June 5, 2001, the General Assembly of the State of Colorado approved House Bill 01-1319 (the “Bill”), which amended the Colorado Revised Statute 10-8-501. The Bill changed the plan name from “Colorado Uninsurable Health Insurance Plan” to “CoverColorado”. In addition, the Bill designated the Program as the state alternative mechanism for health care coverage under the federal “Health Insurance Portability and Accountability Act of 1996” and allowed the board of directors of the Program to assess a special fee against insurers for the financial solvency of the Program. The Bill also redefined certain program eligibility, coverage terms and the board of directors’ powers and duties.

The Program is an instrumentality of the State of Colorado (the “State”) and is considered to be a component unit of the State only for the purpose of the State’s annual financial reporting.

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Summary of Accounting Policies

Basis of Presentation	The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All applicable Governmental Accounting Standards Board (“GASB”) pronouncements, as well as all Financial Accounting Standards Board Statements and Interpretations that do not conflict with or contradict GASB pronouncements, have been implemented by the Program.
Use of Estimates	The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the reserve for health policy claims. Actual results could differ from those estimates.
Cash and Cash Equivalents	The Program considers all highly liquid investments with original maturities of three months or less to be cash equivalents.
Investments	Investments are carried at fair value in the accompanying balance sheet in accordance with GASB No. 131, <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i> . Fair value is determined using current market value. Investment income, including interest, dividends and realized and unrealized gains and losses, are included in the accompanying statements of revenues and expenses and change in fund net assets in the period in which they occur.
Furniture and Equipment	Furniture and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which is five years.

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Summary of Accounting Policies

Reserve for Health Policy Claims

The reserve for health policy claims provides for reported claims and incurred but not reported claims. The actuarial projections of ultimate losses on reported claims and claims incurred but not reported are based on a composite of the Program's experience. Adjustments to the probable ultimate liability for claims are made continually, based on subsequent developments and experience, and are included in operations as incurred. However, due to the Program's relatively small size, the actual cost of settling all remaining claims may be more or less than the reserve as of December 31, 2004.

Income Taxes

The Internal Revenue Service issued a favorable determination letter dated February 4, 1992 exempting the Program from income taxes pursuant to Section 115 of the Internal Revenue Code. Management believes that the Program continues to operate in accordance with tax-exempt requirements.

Advance Premiums

Advance premiums consist of premiums received prior to their policy effective date.

Revenues

The Program is funded by premiums charged to insureds, an allocated portion of the Unclaimed Insurance Moneys Fund and up to \$2.5 million annually from the Business Associations Unclaimed Moneys Funds ("BAUMF"). Moneys other than premiums charged to insureds are subject to annual appropriation by the General Assembly of the State of Colorado. The Program began receiving funds from the Unclaimed Insurance Moneys Fund in 1995. House Bill 93-1336, which was effective July 1, 1993, entitled the Program to receive amounts from the BAUMF, reduced for amounts required to pay claims as determined by the Administrator of the BAUMF. House Bill 93-1336 contained a sunset provision whereby the funds received by the Program from the BAUMF were to terminate on July 1, 1997. In early 1997, however, Senate Bill 97-041 was passed and signed by the Governor, whereby the allocations received by the Program from the BAUMF were extended indefinitely, effective July 1, 1997.

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Summary of Accounting Policies

In November 1992, the Colorado electorate approved Article X, Section 20 of the Colorado Constitution, which restricts the State's ability to increase existing taxes or impose new taxes. The effect of this Article on the future funding of the Program, if any, is uncertain.

Effective July 1, 2001, in accordance with Senate Bill 00-057, the Program no longer receives an allocated portion of the Unclaimed Insurance Monies Fund and the BAUMF. These amounts are put into the Unclaimed Property Trust Fund (the "Fund"). The Program receives interest derived from the Fund.

Effective March 2002, the balance in the Fund and related interest income will decrease significantly due to a decision made by the Joint Budget Committee to borrow money from the Fund to cover state budget shortfalls. Management has determined that the change of funding will create a significant decrease in Program revenues, resulting in a need to assess Colorado insurers for excess losses in order to maintain the financial solvency of the Program. As discussed below, the Program was granted authority under house Bill 01-1319 to assess a special fee against insurers.

In accordance with House Bill 01-1319, prior to the notice of the first assessment to be paid by the insurers, CoverColorado has obtained two actuarial evaluations of the amount of the assessment. As a result of such actuarial evaluations, which were obtained in May 2002, CoverColorado notified insurers of its first assessment was approximately \$9.3 million in July 2002, which was collected through August 2003. In July 2003, CoverColorado notified insurers of its second assessment of approximately \$29.8 million which was substantially collected in 2004.

Because there is no time requirement or restriction with respect to the use of funds received from the assessment, the Program recognizes revenue upon the receipt of funds, through August 1, 2003 for the first assessment (the assessment due date). On August 1, 2003, the Program recorded receivable and recognized revenue for the remaining amount of the first assessment anticipated to be collected.

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Summary of Accounting Policies

Management believes the program will be able to meet its claims obligations as they become due. At December 31, 2004 and 2003, \$1,556,982 and \$11,179,936 of restricted cash held by the State Treasurer is available to pay claims, if necessary (see Note 3).

Premiums collected and amounts appropriated which exceed net premiums required for the year are held primarily in highly liquid investments and can be used to offset future losses or reduce plan premiums for subsequent years as determined by the board of directors of the Program.

Premiums are prepaid primarily monthly, and are recognized as revenue during the month earned. Revenue from the State of Colorado is recognized when the funds are received by the State Treasurer.

Credit Risk Concentration

The Program maintains cash and cash equivalents at financial institutions. The Program maintains balances in excess of federally insured limits at financial institutions.

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Notes to Financial Statements

1. Investments

The Program's cash equivalents include highly liquid investments with maturities of three months or less. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which Colorado governmental units may invest.

The Program's investments are recorded at fair value. Category one includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Program's name. Category two includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Program's name. Category three includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Program's name. All investments held in the Program are classified as Category one.

A summary of the amortized cost and estimated fair value of investments is as follows:

<i>December 31, 2004</i>	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	\$ 39,271,794	\$ 39,066,372

<i>December 31, 2003</i>	Amortized Cost	Estimated Fair Value
U.S. Government agency bonds	\$20,213,163	\$20,213,163

Investment return consisted of interest income of \$482,125 and \$79,631 for the years ended December 31, 2004 and 2003. Unrealized losses were \$205,422 in 2004 and were not material in 2003.

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Notes to Financial Statements

The following represents the maturities of investments as of December 31, 2004:

	Amortized Cost	Estimated Fair Value
Within one year	\$ 23,768,154	\$ 23,669,802
After one year through five years	15,503,640	15,396,570
	\$ 39,271,794	\$ 39,066,372

2. Reserve for Health Policy Claims

The activity in the reserve for health policy claims is summarized as follows:

	2004	2003
Balance at January 1,	\$ 8,797,545	\$ 7,593,191
Incurred related to:		
Current year	33,446,476	28,440,390
Prior years	3,173,494	341,895
Total incurred	36,619,970	28,782,284
Paid related to:		
Current year	24,617,244	21,518,582
Prior years	9,505,192	6,059,349
Total paid	34,122,436	27,577,931
Balance at December 31,	\$ 11,295,079	\$ 8,797,545

As a result of changes in estimates of insured events in prior years, the provision for prior year health policy claims increased by \$2,497,534 in 2004 and \$1,204,353 in 2003. The changes in estimates resulted from higher than anticipated settlement costs of certain prior year claims.

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Notes to Financial Statements

3. Funds Held by the State Treasurer

Funds held by the State Treasurer are as follows:

<i>December 31,</i>	2004	2003
Funds held by the State Treasurer at beginning of year	\$ 11,179,936	\$ 16,488,598
Special grant from the Governor's office	-	5,000,000
Unclaimed Insurance Moneys Fund	836,007	944,682
Interest income, net of investment fees	248,720	381,113
	12,264,663	22,814,393
Less amounts transferred to the Program	10,707,681	11,634,457
Funds held by the State Treasurer	\$ 1,556,982	\$ 11,179,936

Funds of \$1,556,982 and \$11,179,936 represent the unused amounts allocated to the Program by the General Assembly of the State of Colorado totaling \$1,556,982 and \$6,179,936 as of December 31, 2004 and 2003 and a special grant from the Governor's office of the State of Colorado totaling \$5,000,000 as of December 31, 2003. These funds held by the State Treasurer are not reflected on the balance sheet of the Program as they are not assets of the Program until appropriated and advanced to the Program by the State.

4. Administrative Agreement

The Program has entered into multi-year agreements with third-party administrators for its general administration, including processing of claims and collection of premiums. Fees for such services were \$1,644,943 and \$1,530,026 for the years ended December 31, 2004 and 2003.

CoverColorado

Notes to Financial Statements

5. Public Employees' Retirement Association of Colorado

The Program participates in the State Division Trust Fund (the "Trust"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado ("PERA"). The Trust provides retirement and disability and death benefits for its members or their beneficiaries. All employees and board members are members of the Trust. State statutes have assigned the Colorado Legislature the authority to establish benefit provisions of the Trust.

Plan members and the Program are required to contribute at rates set by State statutes. The current contribution rate for members is 8% of covered salary. The Program's contributions to the Trust for the years ended December 31, 2004 and 2003 were \$27,601 and \$22,866, respectively, which was equal to the Program's required contributions for year-end.

6. Commitments and Contingencies

Operating Lease

The Program leases office facilities under an operating lease, which expires in 2007. Total rental expense for the year ended December 31, 2004 and 2003 was \$23,473 and \$20,908, respectively. The future minimum annual rental commitment under this lease is as follows:

Year Ending December 31,

2005	\$ 28,300
2006	29,200
2007	30,100
	<hr/>
	\$ 87,600

CoverColorado

Notes to Financial Statements

Litigation

The Program is involved in litigation incurred in the normal settlement of claims liabilities.

In addition, the Program, the State of Colorado, the Colorado Division of Insurance and the Commissioner of Insurance (“the Parties”) were involved in litigation with a stop-loss insurance carrier relating to the assessments. The parties reached a mediated settlement in 2004, and the Program has no liability to the carrier with regard to this action.

Line of Credit Agreement

In September, 2003, the Program entered in to a line of credit agreement with a bank for a \$4,000,000 revolving line of credit. The agreement requires monthly interest only payments at the prime rate (4.0% at December 31, 2004), matures in November 2005 and is secured by short term investments held by the Program. No amounts were borrowed against the line of credit during the year ended December 31, 2004 and 2003.

Government Grants and Funding

The Program receives certain revenues from a contract with a governmental agency. The disbursement of funds received under this contract generally requires compliance with terms and conditions specified in the contract and are subject to audit by the contracting agency. The amount of charges to this contract that may be disallowed, if any, by such audits cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

CoverColorado

Schedule of Expenditures of Federal Awards Year Ended December 31, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
Grants to States for Operations of Qualified High Risk Pools	93.781	11-P-91920/8-01	\$ 2,026,974
Total expenditures of federal awards			\$ 2,026,974

*See accompanying independent auditors' report
and note to schedule of expenditures of federal awards.*

CoverColorado

Note to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of CoverColorado and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
CoverColorado
Denver, Colorado

We have audited the financial statements of CoverColorado as of and for the year ended December 31, 2004, and have issued our report thereon dated May 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether CoverColorado's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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Board of Directors
CoverColorado
Denver, Colorado

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CoverColorado's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of CoverColorado, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anton Collins Mitchell LLP

May 11, 2005



Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
CoverColorado
Denver, Colorado

Compliance

We have audited the compliance of CoverColorado with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that are applicable to its federal programs for the year ended December 31, 2004. CoverColorado's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of CoverColorado's management. Our responsibility is to express an opinion on CoverColorado's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CoverColorado's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of CoverColorado's compliance with those requirements.

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Board of Directors
CoverColorado
Denver, Colorado

In our opinion, CoverColorado complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of CoverColorado is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered CoverColorado's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management of CoverColorado, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anton Collins Mitchell LLP

May 11, 2005

CoverColorado

Schedule of Findings and Questioned Costs Year Ended December 31, 2004

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal awards

Internal control over major programs:

- Material weakness(es) identified _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to major program(s) noted? _____ Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of *Circular A-133*? _____ Yes X No

CoverColorado

Schedule of Findings and Questioned Costs Year Ended December 31, 2004

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.781 Trade Adjustments Assistance Reform Act of 2002	Grants to States for Operations of Qualified High Risk Pools
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

Section II – Financial Statement Findings

No matters were identified that required reporting in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

No matters were identified that required reporting in accordance with *Government Auditing Standards*.