

Caring for Colorado Foundation

**Financial Statements
October 31, 2004 and 2003**

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

Board of Directors Caring for Colorado Foundation:

We have audited the accompanying statements of financial position of Caring for Colorado Foundation (the Foundation) as of October 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 the Foundation as of October 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

December 17, 2004

Caring for Colorado Foundation
Statements of Financial Position
October 31, 2004 and 2003

	2004	2003
Assets:		
Cash and cash equivalents	\$ 170,488	84,969
Investments (note 2)	145,994,161	141,258,878
Prepaid expenses	2,799	4,133
Furniture and equipment, net (note 3)	80,052	98,513
Investments--deferred compensation	21,720	-
Total assets	\$ 146,269,220	141,446,493
 Liabilities:		
Grants payable (note 4)	\$ 1,845,931	2,534,472
Accounts payable and accrued expenses	140,933	80,561
Investments--deferred compensation	21,720	-
Total liabilities	2,008,584	2,615,033
 Net Assets:		
Unrestricted	144,260,636	138,831,460
Total net assets	144,260,636	138,831,460
Commitments and contingencies (notes 4, 5, 6 and 7)		
Total liabilities and net assets	\$ 146,269,220	141,446,493

See accompanying notes to financial statements.

Caring for Colorado Foundation
Statements of Activities
Years Ended October 31, 2004 and 2003

	2004	2003
Revenue:		
Interest and dividends	\$ 1,600,224	2,973,240
Net realized and unrealized gain on investments	10,509,299	16,985,837
Less investment expenses	(458,482)	(516,874)
Total revenue	11,651,041	19,442,203
Expenses:		
Program services:		
Grants (note 4)	5,119,289	5,347,826
Grant making expenses	695,252	627,251
Total program services	5,814,541	5,975,077
Supporting services--general and administrative expenses	407,324	413,562
Total expenses	6,221,865	6,388,639
 Change in net assets	 5,429,176	 13,053,564
Net assets, beginning of year	138,831,460	125,777,896
Net assets, end of year	\$ 144,260,636	138,831,460

See accompanying notes to financial statements.

Caring for Colorado Foundation
Statements of Cash Flows
Years Ended October 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,429,176	13,053,564
Adjustments to reconcile change in net assets to cash (used in) operating activities:		
Depreciation	29,873	36,214
Net realized and unrealized gain on investments	(10,509,299)	(16,985,837)
Change in:		
Prepaid expenses	1,334	(875)
Grants payable	(688,541)	(360,632)
Accounts payable and accrued expenses	<u>60,372</u>	<u>(71,355)</u>
Net cash used in operating activities	<u>(5,677,085)</u>	<u>(4,328,921)</u>
Cash flows from investing activities:		
Purchases of investments	(1,600,224)	(2,973,240)
Sales of investments	7,374,240	7,181,049
Purchases of property and equipment	<u>(11,412)</u>	<u>(7,959)</u>
Net cash provided by investing activities	<u>5,762,604</u>	<u>4,199,850</u>
Net increase (decrease) in cash and cash equivalents	85,519	(129,071)
Cash and cash equivalents at beginning of year	<u>84,969</u>	<u>214,040</u>
Cash and cash equivalents at end of year	<u><u>\$ 170,488</u></u>	<u><u>84,969</u></u>

See accompanying notes to financial statements.

Caring for Colorado Foundation

Notes to Financial Statements

Years Ended October 31, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) General

The mission of the Caring for Colorado Foundation (the Foundation) is to provide grants and develop programs that help meet and serve the health care needs of the citizens of Colorado utilizing funds received as a result of the conversion of Blue Cross and Blue Shield of Colorado and Blue Cross and Blue Shield of Nevada (BCBS) into a for-profit corporation. Pursuant to Colorado Revised Statute Section 10-16-324, the proceeds from the sale of BCBS to Anthem Insurance Company were transferred to the Foundation.

The Foundation is not a private foundation as defined by the IRS. However, the Foundation is required by its Articles of Incorporation to make distributions (as defined) each year in an amount equal to or greater than 5% of the aggregate fair market value of all assets. This calculated distribution can be adjusted by the board of directors if it determines that, because of the depressed condition of the market for investment securities in any one or more years, it would be ill-advised to make such distributions. The Articles of Incorporation and bylaws cannot be changed without the approval of the Colorado Attorney General.

(b) Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted (there were no temporarily or permanently restricted net assets at October 31, 2004 and 2003).

Caring for Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of investment securities. The Foundation places its cash and temporary investments with creditworthy, high quality institutions. A significant portion of the funds are not insured by the FDIC or related institutions. The Foundation's investments in fixed income and equity securities are managed by investment advisors who are engaged by the directors and are subject to the investment policy of the board of directors. These investments are subject to the risk of fluctuations in market value but, in the opinion of the directors, the risk is appropriate in view of the amount and term of the investment funds.

(f) Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less, and which are not held by investment managers as a part of an investment portfolio, to be cash equivalents.

(g) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statement of financial position. Net unrealized gains and losses are included in the change in net assets in the statements of activities.

(h) Furniture and Equipment

Purchases of furniture, equipment and leasehold improvements in excess of \$500 are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which are generally 3-7 years.

Caring for Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(i) Grant Expense

The Foundation accounts for grant awards in accordance with the requirements of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, grant awards are recorded as expense by the Foundation when the awards are approved by the board of directors and the grant recipients have met the conditions of the grant award.

(j) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and supporting services.

(k) Income Taxes

The Foundation is exempt from federal income taxes on its exempt function income under the provisions of Section 501(c)(4) of the Internal Revenue Code.

(2) Investments

Investments are stated at fair value and consisted of the following at October 31:

	<u>2004</u>	<u>2003</u>
International equity funds	\$ 17,648,922	16,550,693
Hedged equity funds	18,172,942	9,384,356
Limited partnerships	1,694,007	2,187,562
Fixed income funds	32,626,801	46,119,001
Large cap equity funds	38,733,786	36,115,826
Real estate funds	6,501,216	6,190,897
Small/mid cap funds	15,170,423	10,221,527
Absolute return funds	14,595,450	13,542,093
Money market fund	850,614	946,923
	<u>\$ 145,994,161</u>	<u>141,258,878</u>

Caring for Colorado Foundation

Notes to Financial Statements, Continued

(3) Furniture and Equipment

Furniture and equipment consisted of the following at October 31:

	<u>2004</u>	<u>2003</u>
Office furniture	\$ 84,188	80,863
Equipment	77,893	72,990
Leasehold improvements	30,074	30,074
Software	<u>21,964</u>	<u>18,780</u>
	214,119	202,707
Less accumulated depreciation	<u>(134,067)</u>	<u>(104,194)</u>
	\$ <u>80,052</u>	<u>98,513</u>

(4) Grants

Grants awarded by the Foundation fall into two categories: *unconditional* grants, which are recorded as expense when approved by the board of directors; and *conditional* grants, which are not recorded as expense until the grantee fulfills the conditions associated with the grant award. Grant expense of \$5,119,289 and \$5,347,826 for the years ended October 31, 2004 and 2003, respectively, consists of unconditional grants awarded during the year plus conditional grants for which the grantee fulfilled all conditions.

Grants payable at October 31, 2004 and 2003 of \$1,845,931 and \$2,534,472, respectively, consist of the unpaid portion of unconditional grants awarded by the Foundation. At October 31, 2004, grants are scheduled for payment as follows:

<u>Year Ending</u>	<u>Amount</u>
October 31, 2005	\$ 1,013,431
October 31, 2006	370,000
October 31, 2007	370,000
October 31, 2008	<u>92,500</u>
	\$ <u>1,845,931</u>

Amounts payable more than one year in the future have not been discounted to present value because the effect is not material.

Conditional grants awarded by the Foundation generally fall into two categories: conditions requiring the grantee to obtain matching funds, and conditions requiring the grantee to submit performance reports to the Foundation for review before funding is approved for the 2nd or 3rd installments of the grant. At October 31, 2004 and 2003, conditional grants outstanding totaled \$2,298,247 and \$2,172,202, respectively.

Caring for Colorado Foundation

Notes to Financial Statements, Continued

(5) Employee Retirement Plan

The Foundation provides a 401(k) plan for all eligible employees. The Foundation matches 100% of the employee's contribution up to 7% of the employee's compensation. During 2004, the Foundation's 401(k) plan was amended for new employees, in which the Foundation's contribution becomes gradually vested over a five-year period. During the years ended October 31, 2004 and 2003, Foundation contributions totaled \$24,990 and \$17,919, respectively.

(6) Lease Commitment

The Foundation is obligated under an operating lease for rental of office space through July 31, 2005. The remaining rental commitments under this lease for future fiscal year 2005 is \$59,309. Rent expense was \$98,127 in 2004 and \$97,111 in 2003.

(7) Litigation

The Foundation is party to a legal action entitled *Taylor Hawes et al. V. Colorado Division of Insurance et al*, in which attorneys for intervenors in the conversion proceeding that funded the Foundation are seeking an award of attorneys' fees from the Foundation for their work in the conversion. The Commissioner of Insurance had denied the fee application, and that denial was affirmed by the Colorado Court of Appeals. The Colorado Supreme Court reversed the decision of the Commissioner of Insurance and the Court of Appeals and held that the Commissioner of Insurance had the implied authority to award attorneys' fees if the Commissioner of Insurance made certain determinations. Following that decision, the intervenors filed a revised fee application seeking to recover fees and costs in the amount of at least \$757,000. The intervenors and the Foundation engaged in settlement negotiations with the assistance of the Colorado Attorney General and agreed to a settlement that provided that the Foundation would pay \$330,000 to the intervenors in full and complete satisfaction of their claims. Prior to the hearing, the intervenors agreed that if the Commissioner determined that they were entitled to fees in excess of \$330,000, the intervenors would not accept more than the settlement amount of \$330,000 from the Foundation. A hearing on the intervenors' claim for attorney fees was held on December 19, 2003 before the Commissioner. On April 30, 2004, the Commissioner issued his Final Agency Order regarding Attorneys Fees. By that order, the Commissioner denied the intervenors' fee application(s) and did not approve the settlement agreement. The intervenors filed an appeal of the Commissioner's Order. The appeal is pending in the Colorado Court of Appeals. The intervenors opening brief is due on or before February 14, 2005. We are not in a position to predict the decision that the Colorado appellate courts will render on the Commissioner's April 30, 2004 Order, the settlement, or the intervenors; entitlement to fees.