UNIVERSITY OF COLORADO HEALTH

Basic Financial Statements
For the Years Ended
June 30, 2016 and 2015
(With Independent Auditors' Report Thereon)

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UNIVERSITY OF COLORADO HEALTH

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UNIVERSITY OF COLORADO HEALTH

Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015
($s in thousands)

This discussion and analysis of the financial performance of University of Colorado Health ("UCHealth" or the "Health System") provides an overall review of UCHealth's financial activities as of and for the years ended June 30, 2016 and 2015.

The Management's Discussion and Analysis is designed to focus on the current fiscal year while providing comparison information for the previous fiscal year, resulting changes, and currently known facts; therefore, please read it in conjunction with the Health System's basic financial statements.

UCHealth Overview

- Effective July 1, 2012, UCHealth was created through a joint operating agreement with Poudre Valley Health Care Inc. ("PVHS") and the University of Colorado Hospital Authority ("UCHA"). Together, UCHA and PVHS are member organizations in UCHealth. UCHealth previously applied for and received its 501(c)(3) designation from the IRS on June 29, 2013. The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions.

- The initial term of the joint operating agreement is 50 years, with renewals or extensions anticipated. The agreement includes significant hurdles for termination other than by mutual agreement. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other's master trust indenture and, thereby, pledge their gross revenues to secure each member's obligations.

- UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board of Directors approves the operating and capital budgets of each entity throughout the system. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission, and oversight of other day-to-day operating activities.

- Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs (the "City") was executed with the purpose of leasing Memorial Health System ("MHS"). UCHealth created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS. The original lease is for a 40-year term, with renewals or extensions anticipated.

- Effective October 1, 2012, all employees of MHS became employees of UCHA. Effective January 4, 2013, all employees of PVHS became employees of UCHA. All staff working at UCHealth facilities or working in UCHealth system operations are employees of UCHA.

- The acquisition cost of MHS to UCHealth was $400,000, with $290,000 paid in cash at closing and $110,000 in lease payments to be paid over 30 years. Effective October 1, 2012, a sublease agreement was executed with Children's Hospital Colorado to operate the pediatric units located at MHS and was valued at 15% of the organization. Children's Hospital Colorado paid the corresponding amount of the upfront payment and is responsible for its percentage of the ongoing lease payments to the City. The net acquisition cost to UCHealth after sublease to Children's Hospital Colorado was $340,000. On June 4, 2015, MHS became the licensed operator of the pediatric services and certain provisions of the sublease were temporarily suspended and replaced by a Management Services Agreement and Employee Lease between MHS and Children's Hospital Colorado. It is anticipated that the original provisions of the lease will be reinstated in the future when the new Children's Hospital facility is opened in Colorado Springs.

UCHealth Financial Highlights

- Inpatient volumes, measured in admissions and patient days, increased over 2015. Volumes include inpatient units at the five UCHealth hospital facilities: University of Colorado Hospital, Poudre Valley Hospital, Medical Center of the Rockies, Memorial Hospital Central, and Memorial Hospital North. Volumes exclude activity associated with the Center for Dependency, Addiction, and Rehabilitation ("CeDAR"); Mountain Crest residential activity; and normal newborns. Admissions totaled 83,647, which was a 3.3% increase over 2015. Patient days totaled 379,616 for fiscal year 2016, a 3.2% increase over the prior year.

- Outpatient volumes, measured by clinic visits, were 2,574,489 in 2016, which was a 12.2% increase over 2015. This figure includes activity at the five hospital locations, various outpatient clinics located throughout the primary service areas, and activity performed by the Colorado Health Medical Group.

- Net patient service revenue of $3,225,235 increased from 2015 by $308,279, or 10.6%. Total operating revenue in 2016 was $3,291,762. Total operating revenue consists of net patient revenue, grant revenue, and other revenue.

- Operating income was $465,207 during the fiscal year, which is a 2.7% increase over 2015 operating income of $453,161.

- According to Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, interest expense is defined as a non-operating expense and is classified as such in UCHealth's basic financial statements. Operating income would be $418,998 in 2016 and $401,089 in 2015 if interest expense were included as an operating expense.

- Non-operating revenue and expenses in 2016 was a loss of $66,350, which is a $40,589 decrease from 2015. This change was primarily generated from a decrease in investment income and no contributed gift in 2016.

- Income before contributions and distributions was $398,857 in 2016, which decreased $28,543 from 2015. Restricted contributions totaled $6,407 for 2016.

- During fiscal year 2016, UCHealth continued implementation of a system-wide electronic medical record ("EMR") and enterprise resource planning ("ERP") platform. The ERP system went live during fiscal year 2013, and the EMR system continues to go live in phases. $14,927 was incurred on this project during the year ended June 30, 2016 for additional functionality and software licenses.

- During fiscal year 2016, UCHA continued construction to build out the shelled floor and operating room space in the new patient tower, Anschutz Inpatient Pavilion 2. This project was approved to meet increased inpatient demand and help alleviate bed capacity constraints. It includes opening four inpatient floors, with 132 total beds and four operating rooms. The project has a total budgeted cost of $82,556 and is expected to be completed in fiscal year 2017. $18,416 was incurred on this project during the year ended June 30, 2016.

- In December 2014, UCHA approved the project to renovate the Anschutz Outpatient Pavilion to convert non-clinical space within the building to exam and procedure rooms and renovate the vacated Emergency Department to function as outpatient clinics. The project has a total budgeted cost of $15,786 and is expected to be completed in fiscal year 2017. $11,015 was incurred on this project during the year ended June 30, 2016.

UCHealth Financial Highlights (continued)

- In April 2014, PVHS approved the project to construct a new patient wing at Poudre Valley Hospital. This project was approved to update existing facilities and provide increased capacity for key service lines under constraint. The project has a total budgeted cost of $102,860 and is expected to be opened in fiscal year 2017. $43,258 was incurred on this project during the year ended June 30, 2016.

- In August 2014, PVHS approved the project to construct a free-standing Emergency Department at the Harmony Campus located in Fort Collins. The project has a total budgeted cost of $14,798 and was completed in fiscal year 2016. $13,337 was incurred on this project during the year ended June 30, 2016.

- In October 2014, MHS approved the project to upgrade and expand the Memorial Central and Memorial North Hospitals. The project has a total budgeted cost of $137,524 and is expected to be completed in phases through the end of fiscal year 2017. $33,547 was incurred on this project during the year ended June 30, 2016.

- In March 2015, UCHealth approved the project to construct a hospital and Ambulatory Surgery Center in Longmont ("Longs Peak Hospital"). The project includes 53 hospital beds, shelled space for future hospital expansion, and six total operating or procedure rooms. The project has a total budget of $189,516 and is expected to be completed in fiscal year 2018. $23,842 was incurred on this project during the year ended June 30, 2016.

- During fiscal year 2016, UCHealth approved various expansion projects throughout Colorado, which are in early stages of development. $33,294 was incurred on the projects during the year ended June 30, 2016.

- In May 2015, UCHealth completed an annual ratings update with Moody's and Standard & Poor's to rate the member organizations. Moody's maintained UCHA and PVHS rating at Aa3 Stable. Standard & Poor's maintained UCHA and PVHS rating at AA- but revised the outlook to Positive.

- In September 2015, UCHA issued Series 2015D Revenue Bonds ("Series 2015D") in the amount of $200,180 to fully refund UCHA Series 2011A Revenue Bonds. Series 2015D were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a three-year term that will expire September 2018.

Overview of the Basic Financial Statements

- This discussion and analysis is intended to serve as an introduction to UCHealth's basic financial statements, which consist of the enterprise fund, including its blended component units, the pension trust fund, and the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

- UCHealth has two types of funds: an enterprise fund that accounts for all transactions related to UCHealth hospitals, physician groups, and the foundations' business, as well as a fiduciary fund for UCHA's employee pension plan.

Overview of the Basic Financial Statements (continued)

The balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows are presented on an accrual basis, in accordance with accounting principles generally accepted in the United States of America. This information provides an indication of UCHealth's financial health. The balance sheets include all of UCHealth's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as well as an indication about which assets can be utilized for general purposes and which are restricted as a result of bond covenants or other agreements. The statements of revenue, expenses, and changes in net position report all of the revenue and expenses during the periods indicated. The statements of cash flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses, such as repayment of debt and purchase of capital.

Notes to the basic financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements. Required supplementary information relates to UCHA's progress in funding its obligation to provide pension benefits to its employees.

($s in thousands)

Financial Analysis and Results of Operations

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30 are summarized in Table 1 and are discussed below:

Table 1
University of Colorado Health
Balance Sheets

	2016	2015
Current assets	$ 832,451	$ 943,992
Capital assets, net of accumulated depreciation	1,805,206	1,663,440
Non-current assets and other assets	2,640,008	2,183,198
Total assets	5,277,665	4,790,630
Deferred outflows of resources	82,164	62,008
Total assets and deferred outflows of resources	$ 5,359,829	$ 4,852,638
Current liabilities	$ 916,699	$ 821,311
Long-term liabilities	1,482,101	1,463,651
Total liabilities	2,398,800	2,284,962
Deferred inflows of resources	4,409	10,439
Net position		
Invested in capital assets, net of related debt	202,767	54,770
Restricted		
Expendable		
Held by trustee for debt service	57,818	134,824
Restricted by donors	17,453	15,195
Non-expendable		
Permanent endowments	27,245	26,861
Minority interest in component unit	18,682	16,458
Unrestricted	2,632,655	2,309,129
Total net position	2,956,620	2,557,237
Total liabilities, deferred inflows of resources, and net position	$ 5,359,829	$ 4,852,638

Financial Analysis and Results of Operations (continued)

At June 30, 2016, UCHealth's total net position was $2,956,620, which is an increase in total net position of $399,383, or 15.6%, from the prior year-end. UCHealth classifies net position as invested in capital assets, net of related debt, restricted, and unrestricted. Capital assets, net of related debt, increased during the fiscal year due to debt principal payments and additional capital expenditures. The unrestricted net position increase was driven primarily by strong operating performance and investment returns.

At June 30, 2016, UCHealth's cash and investment position was $2,799,534, which is an increase of $383,353, or 15.9%, over June 30, 2015. Days cash on hand were 359.9 days as calculated per bond covenant requirements based on obligated group membership. Net days in accounts receivable were 38.2 as of June 30, 2016.

($s in thousands)

Revenue and Expenses

Revenues, expenses, and change in net position are summarized in Table 2 and are discussed below:

Table 2
University of Colorado Health
Revenue, Expenses, and Changes in Net Position

	Fiscal Years Ended June 30,	
	2016	2015
Operating revenue		
Net patient service revenue	$ 3,225,235	$ 2,916,956
Other operating revenue	66,527	42,631
Total operating revenue	3,291,762	2,959,587
Operating expenses		
Wages, contract labor, and benefits	1,387,919	1,211,520
Supplies	662,072	587,125
Purchased services and other expenses	605,772	554,465
Depreciation and amortization	170,792	153,316
Total operating expenses	2,826,555	2,506,426
Operating income	465,207	453,161
Non-operating revenues and expenses		
Interest expense	(46,209)	(52,072)
Investment income	34,536	48,243
Unrealized loss on derivative investments	(12,040)	(2,917)
Gain on disposal of capital assets	290	4,338
Other, net	(42,927)	(23,353)
Total non-operating revenue and expenses	(66,350)	(25,761)
Income before distributions and contributions	398,857	427,400
Distributions to minority interest in component unit	(5,881)	(5,882)
Contributions restricted for capital assets	6	16,242
Contributions restricted, other	6,401	5,106
Change in net position	399,383	442,866
Total net position, beginning of year	2,557,237	2,114,371
Total net position, end of year	$ 2,956,620	$ 2,557,237

Net Patient Service Revenue

Net patient service revenue increased by $308,279, or 10.6%, in 2016 compared to 2015. The detail of net patient revenue can be found in Note 4 of the basic financial statements.

UCHealth provides care to patients who meet certain criteria under its charity care policies and to uninsured patients without charge or at amounts less than established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. Based on an analysis of direct and indirect costs specific to the procedures performed, the cost of these services were $53,865 and $47,484 in 2016 and 2015, respectively.

UCHealth maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges, which varies by facility. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. The self-pay discounts and packages for 2016 and 2015 were approximately $111,306 and $111,174, respectively.

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to increase Medicaid payments to hospitals and expand coverage under public healthcare programs. The program became effective on January 1, 2010. For the year ended June 30, 2016, UCHealth was charged $114,349 in hospital provider fees, compared to $108,378 in 2015, and received $195,917 in 2016 in disproportionate share revenue as compensation for indigent and uninsured care services provided compared to $194,991 in 2015.

UCHealth benefits the community by providing programs, including those listed above, for uninsured and underinsured patients. The total benefit to UCHealth's communities for these programs was $223,418 in 2016, which is an increase of $38,523 over the 2015 benefit of $184,895, and is determined by applying an adjusted cost to charge ratio to the charges under these programs and reducing the benefit amount by any actual reimbursement received for these programs.

Operating Expenses

Operating expenses were $2,826,555 in 2016. This was an increase of $320,129, or 12.8%, in 2016 compared to 2015.

Wages, contract labor, and benefits expense of $1,387,919 was a $176,399, or 14.6%, increase over the 2015 expense of $1,211,520. This includes a 12.5% increase in salaries, a 78.0% increase in contract labor, and an 11.9% increase in benefits.

Medical and non-medical supplies expense of $662,072 increased by $74,947, or 12.8%, in 2016. Purchased services and other expenses of $605,772 increased over 2015 by $51,307, or 9.3%.

Non-Operating Revenue and Expenses

Non-operating revenue and expenses are discussed below:

Interest Expense

In accordance with GASB Statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2016 was $46,209 compared to $52,072 in 2015.

Investment Income

Equity and Fixed Income Investments

Non-operating gain from UCHealth's equity, fixed income, and cash investments was $34,536 in 2016 and $48,243 in 2015.

The equity portfolio loss was $17,761 in 2016 compared to a gain of $41,183 in 2015. Interest and dividend income on the portfolio was $17,129, and realized and unrealized losses on the portfolio were $34,890. The realized/unrealized losses were due to poor performance in the investment markets.

The fixed income portfolio gain was $53,031 in 2016 compared to a gain of $3,433 in 2015. Interest and dividend income from the fixed income portfolio was $22,116, and realized and unrealized gains were $30,915, due to falling interest rates.

Restricted investments from UCHealth Foundations generated income of $392 and $328 in 2016 and 2015, respectively. Other investment income totaled $3,425 for fiscal year 2016 and investment expense was $4,551 for the year.

UCHA utilizes interest rate swaps to manage interest rate risk exposure on certain variable rate bonds. Interest rate swaps necessarily involve counterparty credit risk, and UCHA seeks to control this risk by entering into transactions with high quality counterparties and through exposure monitoring. UCHA is party to two floating-to-fixed payer swap agreements tied to the Series 2013A and 2013C Revenue Bonds. During the fiscal year, UCHA was party to a third floating-to-fixed payor swap agreement tied to the Series 2015B Revenue Bonds, which expired within the year. These agreements are used to create synthetic fixed rate bonds by converting the variable rates on the Series 2013A, 2013C, and 2015B bond issuances to a fixed rate, reducing interest rate risk. Therefore, cash flows on these agreements are recorded as interest expense. These agreements are discussed in greater detail in Note 7 to the basic financial statements.

Management presents portfolio performance reports to the Finance Committee of the UCHealth Board of Directors on a quarterly basis. Management meets regularly with UCHealth's investment advisor to review portfolio and investment manager performance and to identify and recommend changes to the investment strategy. The operating portfolio asset allocation has been modified to increase investment manager diversification and create different allocations to better align investment expectations with future liabilities. Investment expenses consist of fees paid to UCHealth's investment managers and advisor.

Other Non-Operating Expenses

Other non-operating expenses were $(42,927) in 2016 due to accruals for unrelated business income taxes due, donations made, and fundraising expenses.

($s in thousands)

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment, at June 30, 2016 and 2015 are summarized in Table 3 and are discussed below.

Table 3
University of Colorado Health
Capital Assets, Net of Depreciation and Impairment

	2016	2015
Land	$ 108,863	$ 83,092
Buildings and improvements	1,241,110	1,203,499
Equipment	313,008	266,684
Construction in progress	142,225	110,165
Total	$ 1,805,206	$ 1,663,440

UCHealth had $1,805,206 invested in property, plant, and equipment, net of accumulated depreciation and impairment, at June 30, 2016 compared to $1,663,440 in 2015. This year's additions to capital assets in excess of $10,000 included the following:

UCHealth Epic Integration	$ 14,927
UCHA AIP Tower 2 Project	$ 18,416
UCHA AOP renovation	$ 11,015
PVHS new patient wing	$ 43,258
PVHS Harmony Road Emergency Room	$ 13,337
MHS Master Facility Plan	$ 33,547
Longs Peak Hospital	$ 23,842
Strategic expansion projects	$ 33,294

Ongoing capital requirements are funded from a combination of operating cash and contributions. UCHealth's annual capital budget, exclusive of the larger strategic projects, was $80,748 in 2016 and $71,086 in 2015. Cash flows related to capital expenditures totaled $295,231 in 2016, compared to $203,553 in 2015. Total depreciation expense on capital assets during 2016 was $170,792, compared to $153,316 in 2015. At June 30, 2016, the Health System had planned future capital spending of approximately $747,768 for ongoing significant strategic IT and facility expansion projects.

($s in thousands)

Capital Assets and Debt Administration (continued)

Long-Term Debt

Long-term debt is summarized and discussed below.

Table 4
University of Colorado Health
Outstanding Long-Term Debt, Less Current Portion, at Year-End

		2016	2015
Combined	Capital leases	$ 25,106	$ 29,228
MHS	City of Colorado Springs lease agreement	101,111	103,582
Combined	Loan payable	4,032	4,198
PVHS	2005A Revenue Bonds	49,914	49,908
PVHS	2005B Revenue Bonds	82,828	82,819
PVHS	2005C Revenue Bonds	81,443	81,419
UCHA	2009A Revenue Bonds	42,135	43,119
UCHA	2011A Revenue Bonds	-	200,180
UCHA	2011B Revenue Bonds	99,500	100,485
UCHA	2011C Revenue Bonds	50,915	56,820
UCHA	2012A Revenue Bonds	269,871	277,750
UCHA	2012B Revenue Bonds	50,000	50,000
UCHA	2012C Revenue Bonds	87,510	87,510
UCHA	2013A Revenue Bonds	90,695	92,695
UCHA	2013B Revenue Bonds	11,135	12,140
UCHA	2013C Revenue Bonds	65,305	66,780
UCHA	2015A Revenue Bonds	151,330	151,330
UCHA	2015B Revenue Bonds	57,405	57,405
UCHA	2015C Revenue Bonds	56,850	56,850
UCHA	2015D Revenue Bonds	199,100	-
	Less current portion	(27,822)	(27,120)
	Less long-term debt subject to short-term remarketing arrangements	(265,585)	(265,585)
		$ 1,282,778	$ 1,311,513

As of June 30, 2016, UCHealth had $1,282,778 in long-term debt, net of current portion, compared to $1,311,513 at June 30, 2015. In fiscal year 2016, UCHA issued Series 2015D to fully refund the UCHA Series 2011A Revenue Bonds. UCHA issued Series 2015A, 2015B, and 2015C Revenue Bonds ("Series 2015A, "Series 2015B," and "Series 201C," respectively, or collectively, the "2015 Series") in fiscal year 2015. Series 2015A was a new money issuance to finance capital improvements on UCHealth campuses; Series 2015B refinanced Series 2006A Revenue Bonds; and Series 2015C refinanced PVHS Series 2005F Revenue Bonds. The 2015 Series were issued as variable rate demand bonds that, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets.

Capital Assets and Debt Administration (continued)

Long-Term Debt (continued)

UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. For more information about the Health System's outstanding debt, please see Note 12 of the basic financial statements.

The maximum annual debt service coverage ratio was 8.55 and 7.84 at June 30, 2016 and 2015, respectively, and bond covenants require a debt service coverage ratio greater than 1.5. The indebtedness ratio was 35.3% and 38.9% at June 30, 2016 and 2015, respectively, and bond covenants require an indebtedness ratio of less than 65.0%.

Economic Factors and Next Year's Activities, Budgets, and Rates

Demand for services at UCHealth facilities is anticipated to grow in the upcoming year. Growth at the Anschutz Medical Campus is expected to produce high occupancy rates in fiscal year 2017, even after additional beds are added to UCHA. Medical Center of the Rockies' growth is expected to continue to be strong. Poudre Valley Hospital and Memorial Hospitals are budgeted to have growth in the upcoming year.

UCHealth expects to maintain a stable payor mix. Continued growth in high-deductible benefit plans is anticipated, creating higher out-of-pocket costs for patients and a greater burden on UCHealth in managing receivables. UCHealth expects to remain in-network with all major payors in 2017.

The 2016-2017 budget, as approved by UCHealth's Board of Directors, projects operating revenue at $3,471,912 and an operating margin of 11.4%. EBITDA is budgeted at $568,342, with an EBITDA margin of 16.4% and an increase in net position of $408,303.

Requests for Information

This financial report is designed to provide a general overview of UCHealth's financial results for all those with an interest in the organization's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the UCHealth Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.

UCHA, a component unit of UCHealth, issues a separate financial report. That report may be obtained by writing to UCHA Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.

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7979 E. Tufts Avenue, Suite 400
Denver, Colorado 80237-2521
P: 303-740-9400
F: 303-740-9009
www.EKSH.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
University of Colorado Health
Denver, Colorado

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of University of Colorado Health (the "Health System"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Health System's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 financial statements.

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

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund information of University of Colorado Health as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors
University of Colorado Health

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1-12 and pension information on pages 73-75 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 the financial reporting for placing the basic financial statements in the 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 opinions on the financial statements that collectively comprise the Health System's basic financial statements. The combining financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements 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 combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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September 14, 2016
Denver, Colorado

UNIVERSITY OF COLORADO HEALTH

Balance Sheets
June 30, 2016 and 2015
($s in thousands)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 93,142	$ 220,172
Patient accounts receivable, less allowances for uncollectible accounts of $304,162 and $302,938, respectively	346,955	338,710
Other receivables	19,052	28,066
Inventories	61,458	53,350
Prepaid expenses	46,259	38,109
Investments designated for liquidity support	265,585	265,585
Total current assets	832,451	943,992
Non-current assets		
Restricted investments, bonds	57,818	134,824
Restricted investments, other	373	1,257
Restricted investments and pledges, donors	40,202	39,589
Capital assets, net of accumulated depreciation	1,805,206	1,663,440
Long-term investments	2,440,807	1,930,424
Other investments	65,567	43,711
Long-term prepaid expenses	9,367	9,837
Other assets	25,874	23,556
Total non-current assets	4,445,214	3,846,638
Total assets	5,277,665	4,790,630
Deferred Outflows of Resources		
Deferred amortization on refundings	6,873	7,366
Deferred amortization related to pension plan	72,361	54,642
Deferred amortization on acquisitions	2,930	-
Total deferred outflows of resources	82,164	62,008
Total assets and deferred outflows of resources	$ 5,359,829	$ 4,852,638

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HEALTH

Balance Sheets

June 30, 2016 and 2015
($s in thousands)

	2016	2015
Liabilities		
Current liabilities		
Current portion of long-term debt	$ 27,822	$ 27,120
Accounts payable and accrued expenses	287,430	282,939
Accounts payable - construction	35,994	15,546
Accrued compensated absences	65,679	60,165
Accrued interest payable	7,025	7,383
Fair value of derivative instruments	4,256	4,477
Estimated third-party settlements, net	222,908	158,096
Long-term debt subject to short-term remarketing arrangements	265,585	265,585
Total current liabilities	916,699	821,311
Long-term liabilities		
Long-term debt, less current portion	1,282,778	1,311,513
Fair value of derivative instruments, less current portion	38,530	26,269
Net pension liability	151,184	116,670
Other long-term liabilities	9,609	9,199
Total liabilities	2,398,800	2,284,962
Deferred Inflows of Resources		
Deferred amortization related to pension plan	4,409	10,439
Total deferred inflows of resources	4,409	10,439
Total liabilities and deferred inflows of resources	2,403,209	2,295,401
Net Position		
Invested in capital assets, net of related debt	202,767	54,770
Restricted		
Expendable		
Held by trustee for debt service	57,818	134,824
Restricted by donors	17,453	15,195
Non-expendable		
Permanent endowments	27,245	26,861
Minority interest in component unit	18,682	16,458
Unrestricted	2,632,655	2,309,129
Total net position	2,956,620	2,557,237
Total liabilities, deferred inflows of resources, and net position	$ 5,359,829	$ 4,852,638

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HEALTH

Statements of Revenue, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015
($s in thousands)

	2016	2015
Operating revenue		
Net patient service revenue, net of provision for bad debts of $127,098 and $131,385, respectively	$ 3,225,235	$ 2,916,956
Other operating revenue	66,527	42,631
Total operating revenue	3,291,762	2,959,587
Operating expenses		
Wages, contract labor, and benefits	1,387,919	1,211,520
Supplies	662,072	587,125
Purchased services and other expenses	605,772	554,465
Depreciation and amortization	170,792	153,316
Total operating expenses	2,826,555	2,506,426
Operating income	465,207	453,161
Non-operating revenue and expenses		
Interest expense	(46,209)	(52,072)
Investment income	34,536	48,243
Unrealized loss on derivative instruments	(12,040)	(2,917)
Gain on disposal of capital assets	290	4,338
Other, net	(42,927)	(23,353)
Total non-operating revenue and expenses	(66,350)	(25,761)
Income before distributions and contributions	398,857	427,400
Distributions to minority interest in component unit	(5,881)	(5,882)
Contributions restricted for capital assets	6	16,242
Contributions restricted, other	6,401	5,106
Change in net position	399,383	442,866
Total net position, beginning of year	2,557,237	2,114,371
Total net position, end of year	$ 2,956,620	$ 2,557,237

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HEALTH

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

($s in thousands)

	2016	2015
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 3,277,776	$ 2,956,917
Cash payments to suppliers for goods and services	(1,363,171)	(1,156,765)
Cash payments to employees/other on behalf of employees	(1,278,187)	(1,156,630)
Other cash payments	(48,384)	(16,337)
Other cash received	49,279	43,465
Net cash provided by operating activities	637,313	670,650
Cash flows from capital and related financing activities		
Proceeds from long-term debt	-	151,330
Principal payments under capital lease obligations	(6,593)	(6,366)
Principal repayments of long-term debt	(20,581)	(19,773)
Payments of interest and issuance costs on long-term debt	(47,299)	(51,320)
Capital expenditures	(295,231)	(203,553)
Receipt of contributions	16,067	11,146
Distributions to minority interest in component unit	(5,881)	(5,882)
Proceeds from sale of capital assets	1,725	9,716
Net cash used in capital and related financing activities	(357,793)	(114,702)
Cash flows from investing activities		
Investment income	40,827	39,601
Distributions from joint ventures	10,446	8,781
Proceeds from sale and maturities of investments	2,182,099	1,713,623
Purchases of investments	(2,639,922)	(2,340,948)
Net cash used in investing activities	(406,550)	(578,943)
Net decrease in cash and cash equivalents	(127,030)	(22,995)
Cash and cash equivalents, beginning of year	220,172	243,167
Cash and cash equivalents, end of year	$ 93,142	$ 220,172
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 465,207	$ 453,161
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	170,792	153,316
Provision for bad debts	127,098	131,385
Increase in patient accounts receivable	(135,343)	(134,756)
Increase in estimated third-party settlements	64,812	43,332
(Increase) decrease in other receivables	(719)	8,084
Increase in inventories	(8,108)	(2,988)
Change in net pension liability and pension-related deferred inflows and outflows of resources	10,765	(457)
Increase in prepaid expenses	(8,150)	(1,023)
(Increase) decrease in other assets	(2,318)	1,771
Increase in accounts payable and accrued expenses	4,491	67,026
Increase in accrued compensated absences and other	5,924	2,873
Equity income from joint ventures	(14,211)	(9,021)
Other cash payments	(42,927)	(42,053)
Total adjustments	172,106	217,489
Net cash provided by operating activities	$ 637,313	$ 670,650

(continued on the following page)

See accompanying notes to the basic financial statements.

Statements of Cash Flows
Years Ended June 30, 2016 and 2015
($s in thousands)

(continued from the previous page)

	2016	2015
Non-cash transactions		
Donated pharmaceuticals	$ 4,026	$ 1,568
Construction in progress accrued	$ 35,994	$ 15,546
Unrealized loss	$ (64,603)	$ (11,806)
Capital leases and mortgages executed	$ -	$ 4,497
Refunding of debt	$ 200,180	$ 114,255
Other investments	$ -	$ 18,700

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HEALTH

Statements of Fiduciary Net Position
June 30, 2016 and 2015
($s in thousands)

	2016	2015
Assets		
Investments	$ 578,346	$ 526,333
Net Assets		
Restricted for pension benefits	$ 578,346	$ 526,333

UNIVERSITY OF COLORADO HEALTH

Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2016 and 2015
($s in thousands)

	2016	2015
Additions		
Contributions	$ 68,000	$ 66,184
Investment income		
(Decrease) increase in fair value of investments	(16,941)	4,868
Interest	970	1,019
Dividends and other	15,495	6,325
Investment (loss) income	(476)	12,212
Total additions	67,524	78,396
Deductions		
Benefits	14,047	12,188
Administrative expenses	1,464	1,453
Total deductions	15,511	13,641
Change in net position	52,013	64,755
Net position, beginning of year	526,333	461,578
Net position, end of year	$ 578,346	$ 526,333

See accompanying notes to the basic financial statements.

(1) Organization and Mission

Effective July 1, 2012, University of Colorado Health ("UCHealth" or the "Health System"), a newly formed non-profit corporation, entered into a joint operating agreement with the University of Colorado Hospital Authority and Poudre Valley Health Care Inc. (collectively, the "members"), resulting in a joint venture among the members. The Health System's mission is "to improve lives in big ways through learning, healing and discovery; in small, personal ways through human connection; but in all ways, we improve lives." The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions. As a joint venture, all future operations of the members are combined, and together these combined operations will be the basis for possible future expansion and diversification of the Health System. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other's master trust indenture and, thereby, pledge their gross revenues to secure each member's obligations. UCHealth is financially accountable for the University of Colorado Hospital Authority, Poudre Valley Health Care Inc., Memorial Health System, UCHealth Plan Administrators LLC, and the Community Hospital Division, which are reported as blended component units of the Health System. The Health System's component units are as follows:

- **University of Colorado Hospital Authority ("UCHA")** was created pursuant to Section 23-21-503 of the Colorado Revised Statutes and is a political subdivision and body corporate of the State of Colorado. UCHA owns and operates a 637-licensed-bed, non-sectarian, general acute care hospital; the Anschutz Centers for Advanced Medicine, which include the Anschutz Outpatient Pavilion, the Anschutz Inpatient Pavilion 1, the Anschutz Inpatient Pavilion 2, the Anschutz Cancer Pavilion, the Center for Dependency, Addiction and Rehabilitation ("CeDAR"), and the Rocky Mountain Lions Eye Institute; six outlying outpatient primary care clinics; twelve outlying specialty clinics; and the University of Colorado Hospital Foundation. These combined entities are collectively known as UCHA. UCHA is the primary teaching hospital for the University of Colorado Denver ("UCD"), which is comprised of the Schools of Medicine, Nursing, Pharmacy, and Dentistry; the Graduate School; and the School of Public Health. UCHA issues a separate financial report. That report may be obtained by writing to UCHA, Chief Financial Officer, Mail Stop F-417, P.O. Box 6510, Aurora, Colorado 80045.

    - The **University of Colorado Hospital Foundation (the "UCHA Foundation")** is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code (the "Code"). The UCHA Foundation serves as the primary fundraising arm for UCHA and manages restricted and unrestricted donations received for future use by UCHA. Although UCHA does not control the timing or amount of receipts from the UCHA Foundation, the majority of the resources, or income thereon, is restricted to the activities of UCHA by the donors. Because these restricted resources held by the UCHA Foundation can only be used by or for the benefit of UCHA and because the UCHA Foundation exists for the sole benefit of UCHA, the UCHA Foundation is considered a blended component unit of UCHA. All inter-entity transactions have been eliminated in the basic financial statements.

- **Poudre Valley Health Care Inc. ("PVHS")** is a tax-exempt organization under Section 501(c)(3) of the Code. PVHS operates two hospital facilities as follows, which are considered blended component units of PVHS, because their activities are significantly intertwined with PVHS:

    - **Poudre Valley Hospital ("PVH")**, a 231-licensed-bed, non-sectarian, general acute care hospital, which includes Mountain Crest Behavioral Health Services, a behavioral health facility in Fort Collins, Colorado.

(1) Organization and Mission (continued)

- **Medical Center of the Rockies ("MCR")**, a 174-licensed-bed, non-sectarian, general acute care hospital. MCR is a tax-exempt organization under Section 501(c)(3) of the Code.
- **Poudre Valley Health System Foundation (the "PVHS Foundation")** is a non-profit corporation that was formed to receive, invest, and distribute funds primarily for the benefit of PVH, MCR, and affiliated organizations.
- PVHS is also the sole member of Lakota Lake, LLC; PVHS/Timberline, LLC; United Medical Alliance, which was dissolved in February 2016; Heron Lake, LLC; and Innovation Enterprises, LLC. Each of these entities is considered a blended component unit of PVHS, because their activities are significantly intertwined with PVHS.
- **Colorado Health Medical Group (North)** is a physician group and is considered a blended component unit of PVHS, because its activities are significantly intertwined with PVHS.

- **Memorial Health System ("MHS")** – Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs was executed with the purpose of leasing MHS. UCHA created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS, which occurred on August 1, 2014. The original lease is for a 40-year term, with renewals or extensions anticipated. UCHA guarantees MHS's obligations under the lease, and the gross revenues of MHS are pledged to secure the obligations under each member's master trust indenture. Therefore, MHS is considered a blended component unit of the Health System. The operations of MHS are as follows:
  - **Memorial Hospital Central**, a 583-licensed-bed, non-sectarian, general acute care hospital.
  - **Memorial Hospital North**, an 88-licensed-bed, non-sectarian, general acute care hospital.
  - **Colorado Health Medical Group (South)** is a physician group and is considered a blended component unit of MHS, because its activities are significantly intertwined with MHS.
  - **Memorial Hospital Corporation** is a non-profit corporation that is controlled by MHS and considered a blended component unit of MHS.
- UCHealth is the sole member of **UCHealth Plan Administrators, LLC ("UCHPA")**, a third-party administrator delivering a comprehensive services suite to partially self-funded benefit plan arrangements to employers. UCHPA is considered a blended component unit of UCHealth, because its activities are significantly intertwined with UCHealth.
- **Community Hospital Division ("CHD")** is made up of the following operations:
  - **Longs Peak Hospital**, which is currently under construction and will be a non-sectarian, general acute care hospital.
  - **Longs Peak Surgery Center LLC** is an ambulatory surgery center that began operations in 2016.
  - **Colorado Health Medical Group (Longmont)** is a physician group that joined the Health System effective January 1, 2015 and is considered a blended component unit of CHD, because its activities are significantly intertwined with CHD.

(1) Organization and Mission (continued)

- **Memorial Health System Foundation (the "MHS Foundation")** is a not-for-profit organization formed for the benefit of MHS. Fundraising efforts for the benefit of MHS are undertaken by the MHS Foundation. However, the assets held by the Foundation remained assets of the MHS Foundation and were not transferred to MHS under either the Integration and Affiliation Agreement or the Health System Operating Lease Agreement. Therefore, the MHS Foundation is not reported as a component unit of MHS.

The accompanying basic financial statements reflect the operations and financial position of the Health System, its component units, and its fiduciary (pension trust) fund. The Health System is not an agency of the state government and is not subject to administrative direction or control by the Regents of the University of Colorado (the "Regents") or any department, commission, board, or agency of the state. The Health System is not financially accountable to the Regents. Two of the eleven members of the Health System's Board of Directors (the "Board") are appointed by the President of the University of Colorado.

($s in thousands)

(2) Condensed Combining Information

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of each major blended component unit at June 30, 2016 and 2015 are summarized in Tables 1 and 2, respectively.

Table 1
Condensed Combining Information
Balance Sheet as of June 30, 2016

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Assets					
Current receivables from affiliates	$ 98,923	$ 60,815	$ 3,883	$ (163,621)	$ -
Other current assets	525,811	176,994	103,325	26,321	832,451
Capital assets, net of accumulated depreciation	886,823	436,416	318,196	163,771	1,805,206
Non-current receivables from affiliates	518,850	-	-	(518,850)	-
Non-current assets and other assets	1,354,460	1,148,017	97,777	39,754	2,640,008
Total assets	3,384,867	1,822,242	523,181	(452,625)	5,277,665
Deferred outflows of resources	36,877	21,451	14,009	9,827	82,164
Total deferred outflows of resources	36,877	21,451	14,009	9,827	82,164
Total assets and deferred outflows of resources	$ 3,421,744	$ 1,843,693	$ 537,190	$ (442,798)	$ 5,359,829
Liabilities					
Current payables to affiliates	$ 118	$ 109	$ 8,897	$ (9,124)	$ -
Other current liabilities	566,209	137,433	118,399	94,658	916,699
Non-current payables to affiliates	-	215,485	303,365	(518,850)	-
Other long-term liabilities	1,091,806	261,505	114,902	13,888	1,482,101
Total liabilities	1,658,133	614,532	545,563	(419,428)	2,398,800
Deferred inflows of resources	3,451	397	1,000	(439)	4,409
Total deferred inflows of resources	3,451	397	1,000	(439)	4,409
Net position					
Invested in capital assets, net of related debt	179,161	(19,169)	(95,237)	138,012	202,767
Restricted					
Expendable	16,419	46,647	12,205	-	75,271
Non-expendable	20,867	25,060	-	-	45,927
Unrestricted	1,543,713	1,176,226	73,659	(160,943)	2,632,655
Net position	1,760,160	1,228,764	(9,373)	(22,931)	2,956,620
Total liabilities, deferred inflows of resources, and net position	$ 3,421,744	$ 1,843,693	$ 537,190	$ (442,798)	$ 5,359,829

($s in thousands)

(2) Condensed Combining Information (continued)

Table 2
Condensed Combining Information
Balance Sheet as of June 30, 2015

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Assets					
Current receivables from affiliates	$ 16,649	$ 13,149	$ 590	$ (30,388)	$ -
Other current assets	612,020	216,649	98,009	17,314	943,992
Capital assets, net of accumulated depreciation	904,473	400,350	309,290	49,327	1,663,440
Non-current receivables from affiliates	527,129	-	-	(527,129)	-
Non-current assets and other assets	1,085,539	992,539	87,518	17,602	2,183,198
Total assets	3,145,810	1,622,687	495,407	(473,274)	4,790,630
Deferred outflows of resources	31,814	14,631	12,010	3,553	62,008
Total deferred outflows of resources	31,814	14,631	12,010	3,553	62,008
Total assets and deferred outflows of resources	$ 3,177,624	$ 1,637,318	$ 507,417	$ (469,721)	$ 4,852,638
Liabilities					
Current payables to affiliates	$ 817	$ 91	$ 8,525	$ (9,433)	$ -
Other current liabilities	541,441	106,319	108,188	65,363	821,311
Non-current payables to affiliates	-	215,485	311,644	(527,129)	-
Other long-term liabilities	1,089,856	254,134	110,537	9,124	1,463,651
Total liabilities	1,632,114	576,029	538,894	(462,075)	2,284,962
Deferred inflows of resources	6,810	603	3,577	(551)	10,439
Total deferred inflows of resources	6,810	603	3,577	(551)	10,439
Net position					
Invested in capital assets, net of related debt	175,524	(52,497)	(113,386)	45,129	54,770
Restricted					
Expendable	15,107	96,480	38,432	-	150,019
Non-expendable	20,521	22,798	-	-	43,319
Unrestricted	1,327,548	993,905	39,900	(52,224)	2,309,129
Net position	1,538,700	1,060,686	(35,054)	(7,095)	2,557,237
Total liabilities, deferred inflows of resources, and net position	$ 3,177,624	$ 1,637,318	$ 507,417	$ (469,721)	$ 4,852,638

($s in thousands)

(2) Condensed Combining Information (continued)

Revenue, expenses, and changes in net position are summarized in Tables 3 and 4 for fiscal years 2016 and 2015, respectively.

Table 3
Condensed Combining Information
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2016

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Operating revenue					
Net patient service revenue	$ 1,457,675	$ 1,044,816	$ 693,797	$ 28,947	$ 3,225,235
Other operating revenue	23,825	26,997	12,270	3,435	66,527
Total operating revenue	1,481,500	1,071,813	706,067	32,382	3,291,762
Operating expenses					
Wages and benefits	530,636	486,926	337,096	33,261	1,387,919
Supplies	341,492	183,004	132,469	5,107	662,072
Purchased services and other expenses	294,124	157,546	146,718	7,384	605,772
Depreciation and amortization	71,105	57,327	40,007	2,353	170,792
Total operating expenses	1,237,357	884,803	656,290	48,105	2,826,555
Operating income (loss)	244,143	187,010	49,777	(15,723)	465,207
Non-operating revenue and expenses					
Interest expense	(28,990)	(15,128)	(14,484)	12,393	(46,209)
Investment income	30,764	13,717	2,559	(12,504)	34,536
Unrealized loss on derivative instrument	(12,040)	-	-	-	(12,040)
Other, net	(16,873)	(13,022)	(12,742)	-	(42,637)
Total non-operating revenue and expenses	(27,139)	(14,433)	(24,667)	(111)	(66,350)
Income before distributions and contributions	217,004	172,577	25,110	(15,834)	398,857
Distributions to minority interest in component unit	-	(5,881)	-	-	(5,881)
Contributions restricted for capital assets	-	6	-	-	6
Contributions restricted, other	4,456	1,376	571	(2)	6,401
Change in net position	221,460	168,078	25,681	(15,836)	399,383
Net position, beginning of year	1,538,700	1,060,686	(35,054)	(7,095)	2,557,237
Net position, end of year	$ 1,760,160	$ 1,228,764	$ (9,373)	$ (22,931)	$ 2,956,620

($s in thousands)

(2) Condensed Combining Information (continued)

Table 4
Condensed Combining Information
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2015

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Operating revenue					
Net patient service revenue	$ 1,323,477	$ 969,084	$ 612,084	$ 12,311	$ 2,916,956
Other operating revenue	5,545	25,630	11,836	(380)	42,631
Total operating revenue	1,329,022	994,714	623,920	11,931	2,959,587
Operating expenses					
Wages and benefits	471,597	440,683	285,188	14,052	1,211,520
Supplies	302,657	161,777	120,741	1,950	587,125
Purchased services and other expenses	276,324	142,312	132,930	2,899	554,465
Depreciation and amortization	62,817	55,111	35,107	281	153,316
Total operating expenses	1,113,395	799,883	573,966	19,182	2,506,426
Operating income (loss)	215,627	194,831	49,954	(7,251)	453,161
Non-operating revenue and expenses					
Interest expense	(32,753)	(18,337)	(15,212)	14,230	(52,072)
Investment income	43,219	18,445	809	(14,230)	48,243
Unrealized loss on derivative instrument	(2,917)	-	-	-	(2,917)
Other, net	(9,264)	(2,068)	(7,844)	161	(19,015)
Total non-operating revenue and expenses	(1,715)	(1,960)	(22,247)	161	(25,761)
Income before distributions and contributions	213,912	192,871	27,707	(7,090)	427,400
Distributions to minority interest in component unit	-	(5,882)	-	-	(5,882)
Contributions restricted for capital assets	16,102	140	-	-	16,242
Contributions restricted, other	2,546	1,517	1,048	(5)	5,106
Change in net position	232,560	188,646	28,755	(7,095)	442,866
Net position, beginning of year	1,306,140	872,040	(63,809)	-	2,114,371
Net position, end of year	$ 1,538,700	$ 1,060,686	$ (35,054)	$ (7,095)	$ 2,557,237

($s in thousands)

(2) Condensed Combining Information (continued)

Cash flows are summarized in Tables 5 and 6 for fiscal years 2016 and 2015, respectively.

Table 5
Condensed Combining Information
Statement of Cash Flows
Year Ended June 30, 2016

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Net cash provided by (used in)					
Operating activities	$ 244,896	$ 189,867	$ 76,892	$ 125,658	$ 637,313
Capital and related financing activities	(87,572)	(108,344)	(70,357)	(91,520)	(357,793)
Investing activities	(237,205)	(131,265)	(7,577)	(30,503)	(406,550)
Net (decrease) increase in cash and cash equivalents	(79,881)	(49,742)	(1,042)	3,635	(127,030)
Cash and cash equivalents, beginning of year	123,609	88,800	5,401	2,362	220,172
Cash and cash equivalents, end of year	$ 43,728	$ 39,058	$ 4,359	$ 5,997	$ 93,142

Table 6
Condensed Combining Information
Statement of Cash Flows
Year Ended June 30, 2015

	UCHA	PVHS	MHS	Other Operations and Eliminations	Combined
Net cash provided by (used in)					
Operating activities	$ 316,629	$ 225,682	$ 84,202	$ 44,137	$ 670,650
Capital and related financing activities	(89,074)	16,263	(12,771)	(29,120)	(114,702)
Investing activities	(245,602)	(250,914)	(68,482)	(13,945)	(578,943)
Net (decrease) increase in cash and cash equivalents	(18,047)	(8,969)	2,949	1,072	(22,995)
Cash and cash equivalents, beginning of year	141,656	97,769	2,452	1,290	243,167
Cash and cash equivalents, end of year	$ 123,609	$ 88,800	$ 5,401	$ 2,362	$ 220,172

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying basic financial statements have been prepared on the accrual basis of accounting and economic resource measurement focus in accordance with accounting principles generally accepted in the United States of America.

The accounts of the Health System are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, and revenue and expenses, as appropriate.

The enterprise fund is used to account for the Health System's ongoing activities. The balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows do not include the pension trust fund.

The pension trust fund is used to account for assets held in trust for the benefit of the employees of the Health System (all of whom are actually employed by UCHA) for the non-contributory defined benefit pension plan (the "Basic Pension Plan"). In accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the assets and net position of the pension trust fund are presented separately from the enterprise fund. The basic financial statements of the pension trust fund are prepared using the accrual basis of accounting. Employer contributions to the Basic Pension Plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Basic Pension Plan.

(b) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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. Actual results could differ significantly from those estimates.

(c) Net Position

The Health System's net position is classified as follows:

- *Invested in capital assets, net of related debt* – consists of capital assets net of accumulated depreciation reduced by the amount of outstanding debt issued to finance the purchase or construction of those assets.

- *Restricted* – consists of net position with constraints on its use imposed by external parties, such as creditors (through debt covenants) and donors. The non-expendable portion includes net position required through agreement with donors to be retained in perpetuity as well as the minority interest's ownership percentage in MCR.

- *Unrestricted* – consists of the remaining net position that is available for unrestricted use.

(3) Summary of Significant Accounting Policies (continued)

(c) Net Position (continued)

When the Health System has both restricted and unrestricted resources available to finance a particular program, it is the Health System's practice to use restricted resources before unrestricted resources.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with initial maturities of three months or less, excluding amounts restricted under trust agreements.

(e) Investments and Restricted Investments

Investments include assets designated by the Board for future capital improvements and undesignated investments. Restricted investments include assets held by trustees under bond indenture and insurance agreements.

The Health System records all debt and equity investment securities at fair value. Short-term investments are reported at cost, which approximates fair value. Fair values are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Interest, dividends, and realized and unrealized gains and losses, based on the specific identification method, are included in non-operating revenue and expenses when earned.

The Health System's Basic Pension Plan holds assets that include alternative investments, which are not readily marketable and are carried at fair value as provided by the investment managers. The UCHA Board of Directors (the "UCHA Board") is the fiduciary of the plan, and the Health System reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

(f) Inventories

Inventories, which consist primarily of pharmaceuticals and medical supplies, are valued under a combination of the lower of cost (first in, first out) or market and a weighted average.

(g) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at the date of receipt. Interest incurred, net of interest earned on related funds held by a trustee under bond agreements, in connection with borrowings to finance major construction or expansion of facilities, is capitalized until the related assets are put into service and subsequently amortized over the lives of the related assets. All capital assets are depreciated or amortized over the estimated useful life of each class of assets using the straight-line method. Useful lives for buildings and improvements are 20-40 years, equipment is 3-15 years, and leasehold improvements are 3-20 years.

(3) Summary of Significant Accounting Policies (continued)

(g) Capital Assets (continued)

The Health System's long-lived assets consist primarily of buildings and building improvements, equipment, and leasehold improvements, which are subject to the provisions of GASB Statement No. 42, Accounting *and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

(h) Compensated Absences

All staff working at UCHealth facilities or working in UCHealth system operations are employees of UCHA. UCHA employees use paid time off ("PTO") for vacation, holidays, personal short-term illness, family member illness, and personal absences. Health System employees generally earn PTO based on length of service and actual hours worked. The Health System records PTO expense as it is earned. The current portion of PTO is based on employee tenure, rate of pay, and accrued hours. Amounts in excess of an employee's annual accrual are classified as long-term liabilities.

(i) Deferred Amortization on Refundings

For bond refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources and amortized using the effective interest rate method over the shorter of the life of the old debt or the life of the new debt.

(j) Deferred Amortization on Acquisitions

The Health System recognizes a deferred outflow of resources when the consideration provided in a government acquisition exceeds the net position acquired. This deferred amortization on acquisition is amortized to future periods in a systematic and rational manner, considering the relevant circumstances of the acquisition.

(k) Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, restricted investments, long-term investments, interest rate swap agreements, current liabilities, and long-term debt obligations. The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, and current liabilities approximate fair value. Management's estimate of the fair value of the other financial instruments is described in Notes 6, 7, and 12 to the basic financial statements.

The Health System utilizes interest rate swaps to cover exposure to changes in interest rates. The fair value of these derivative instruments is required to be recognized as either an asset or liability on the balance sheets. Changes in fair values of derivative instruments that are determined to be ineffective hedges, as is the case of the Health System's interest rate swaps, are reported within non-operating revenue and expenses in the period when the change in fair value occurs.

($s in thousands)

(3) Summary of Significant Accounting Policies (continued)

(l) Endowments

The Health System's endowments consist of individual funds restricted by donors for a variety of purposes. The State of Colorado's Uniform Prudent Management of Institutional Funds Act requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, the Health System classifies as non-expendable restricted net position the original value of the gifts donated to the permanent endowment. The appreciation on donor-restricted endowment funds is classified as expendable restricted net position until those amounts are appropriated for expenditure by the Health System. The Health System may spend the net appreciation on the endowment funds based on the individual endowment fund agreements and considers factors such as duration and preservation of the fund, purposes of the fund, general economic conditions, possible effects of inflation and deflation, expected total return from investment income, and other resources of the Health System when determining the amounts to authorize and spend in an individual year. The amount of net appreciation on endowments available for expenditure at June 30, 2016 and 2015 was $1,969 and $1,631, respectively.

(m) Minority Interest in Component Unit

The minority interest in component unit represents the 12% interest in MCR that is not owned by PVHS. For the years ended June 30, 2016 and 2015, changes in net position attributable to the controlling financial interest of UCHealth and the minority interest are:

June 30, 2016

	Total	Controlling Interest	Minority Interest
Income before distributions and contributions	$ 398,857	$ 390,752	$ 8,105
Distributions to minority interest in component unit	(5,881)	-	(5,881)
Contributions restricted for capital assets	6	6	-
Contributions restricted, other	6,401	6,401	-
Change in net position	399,383	397,159	2,224
Net position, beginning of year	2,557,237	2,540,779	16,458
Net position, end of year	$ 2,956,620	$ 2,937,938	$ 18,682

($s in thousands)

(3) Summary of Significant Accounting Policies (continued)

(m) Minority Interest in Component Unit (continued)

June 30, 2015

	Total	Controlling Interest	Minority Interest
Income before distributions and contributions	$ 427,400	$ 418,478	$ 8,922
Distributions to minority interest in component unit	(5,882)	-	(5,882)
Contributions restricted for capital assets	16,242	16,242	-
Contributions restricted, other	5,106	5,106	-
Change in net position	442,866	439,826	3,040
Net position, beginning of year	2,114,371	2,100,953	13,418
Net position, end of year	$ 2,557,237	$ 2,540,779	$ 16,458

(n) Revenue and Expenses

The Health System's statements of revenue, expenses, and changes in net position distinguish between operating and non-operating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services and includes patient service and other revenue. Non-exchange revenue includes investment income and restricted contributions and is reported as non-operating revenue. Operating expenses are all expenses incurred to provide healthcare services. Non-operating expenses include interest expense, fundraising activities, and gain or loss on disposal of capital assets.

(o) Costs of Shared Services

The costs of shared services provided by UCHealth to the individual component units are combined to determine the full costs of shared services. These costs are then reallocated back to the individual component units based on a set of drivers, which are used to estimate the relative usage of such shared services by each component unit.

(p) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Amounts reimbursed for services rendered to patients covered under the Medicare and Medicaid programs are generally less than established billing rates. The Health System also provides services to beneficiaries of certain other third-party payor programs at amounts less than its established rates based on contractual arrangements. Differences between established billing rates and amounts reimbursed are recognized as contractual adjustments.

(3) Summary of Significant Accounting Policies (continued)

(q) Risk Management

The Health System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; fiduciary liability; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. UCHA is insured for medical malpractice claims and judgments through the University of Colorado Self-Insurance and Risk Management Trust. PVHS and MHS maintain malpractice insurance through claims-made commercial insurance policies. Insurance coverage for all other lines of insurance, including theft, property damage, occupational and non-occupational injuries and accidents, business interruption, automobile, non-owned aircraft, employee health, dental, errors and omission, and fiduciary, are covered by commercial insurance companies.

(r) Income Taxes

UCHealth has a determination letter from the IRS, which states that it is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Code. UCHA, PVH, MCR, UCH-MHS, Memorial Hospital Corporation, the PVHS Foundation, and the UCHA Foundation are also exempt under Section 501(a) as organizations described in Section 501(c)(3) of the Code. UCHA is a political subdivision and body corporate of the State of Colorado and, as such, the income generated by UCHA in the exercise of its essential government function is exempt from federal income tax under Section 115 of the Code. Lakota Lake, LLC; PVHS/Timberline, LLC; Heron Lake, LLC; and United Medical Alliance act as tax flow-through entities to PVHS, which, as noted, is tax-exempt under Section 501(c)(3) of the Code. UCHPA acts as a tax flow-through entity to UCHealth, which, as noted, is tax-exempt under Section 501(a) of the Code. Colorado Health Medical Group acts as a tax flow-through entity to PVHS (99%) and UCHealth (1%). Innovation Enterprises is a corporation subject to state and federal income tax. The Health System recognizes unrelated business income tax for activities that are outside of the Health System's tax-exempt mission. The Health System has recognized a tax liability of $2,452 and $3,164 at June 30, 2016 and 2015, respectively, for unrelated business income taxes.

(s) Pension Plans

The Health System accounts for its pension plan under GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports of defined benefit pension plans, and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan, about which information is required to be presented. GASB Statement No. 68 revises and establishes new financial reporting requirements for most governmental entities that provide their employees with pension benefits.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Basic Pension Plan and additions to/deductions from the Basic Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Basic Pension Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

($s in thousands)

(3) Summary of Significant Accounting Policies (continued)

(t) Recently Adopted Accounting Pronouncement

During the year ended June 30, 2016, UCHealth adopted GASB Statement No. 72, *Fair Value Measurement and Application,* which clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurement. Upon adoption, management reviewed the assets and liabilities of UCHealth, established the unit of account for the assets and liabilities subject to fair value recognition and disclosure, and determined the fair value hierarchy level that each unit of account should be classified under. As a result of the adoption, there were no changes in the measurement of assets or liabilities previously held by UCHealth. GASB Statement No. 72 is retroactively applied to both fiscal years presented.

(u) Reclassifications

Certain 2015 amounts have been reclassified in the accompanying basic financial statements to conform to the 2016 presentation.

(4) Net Patient Service Revenue

The following summary details gross charges and uncompensated care resulting from contractual allowances, bad debts, self-pay discounts, and unsponsored charges for the year ended June 30:

	2016	2015
Gross charges	$ 11,056,828	$ 9,681,272
Third-party contractual allowances	(7,644,959)	(6,571,643)
Indigent and charity care	(107,489)	(103,369)
Provision for bad debt	(127,098)	(131,385)
Self-pay packages and other discounts	(111,306)	(111,174)
Reimbursement under the Colorado Provider Fee Program, net of pass-through payments	159,259	153,255
Net patient service revenue	$ 3,225,235	$ 2,916,956

The Health System has programs that receive add-on payments to the established rate or that are paid at a reasonable cost by third-party payors. Amounts received for these additional payments from Medicare, Medicaid, and TriCare programs are subject to audit and retroactive adjustment. Generally, provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue under the Medicare and Medicaid programs was approximately $1,088,379 and $968,817 in 2016 and 2015, respectively.

(4) Net Patient Service Revenue (continued)

(a) Medicare

Inpatient acute care services rendered to Medicare beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a Diagnostic-Related Group patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are paid based upon the Ambulatory Payment Classification system. The Health System is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicare fiscal intermediary. The Health System's classifications of patients under the Medicare program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Health System. UCHA's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2013. PVH's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2013. MCR's Medicare cost reports have been audited and settled by the Medicare administrative contractor through June 30, 2014. MHS's Medicare cost reports have been audited through June 30, 2014; however, Medicare cost report year 2008 has not yet been settled by the Medicare administrative contractor.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services are reimbursed by a combination of fee schedule and a tentative payment rate with final settlement determined after submission of an annual cost report by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with the Health System. UCHA's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2010. PVH's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through December 31, 2010. MCR's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2012. MHS's Medicaid cost reports have been audited through December 31, 2011; however, the Medicaid cost report year 2008 has not yet been settled by the Medicaid fiscal intermediary.

(c) Other Payors

The Health System has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Health System under these agreements generally includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

(d) Self-Pay

The Health System maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges, which differs by facility. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were $111,306 and $111,174 in 2016 and 2015, respectively.

(4) Net Patient Service Revenue (continued)

(e) Disproportionate Share Health System and Charity Care Policy

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2016 and 2015, the Health System was charged $114,349 and $108,378, respectively, in Hospital provider fees and received $195,917 and $194,991, respectively, in disproportionate share and Medicaid supplemental revenue as compensation for indigent and underinsured care services provided. Under a separate agreement with University Physicians, Inc. ("UPI"), UCHA reduced its provider fee revenue by $1,219 in 2015 as a pass-through transaction to UPI for its share of services performed. UCHA also offset its provider fee expense by $531 in 2015, as a pass-through transaction to UPI for its share of this cost. No amounts were passed through to UPI in 2016.

Based on an analysis of the direct and indirect costs specific to the procedures performed, the cost of charity care services provided was $53,865 and $47,484 for the years ended June 30, 2016 and 2015, respectively.

(f) Community Benefit

Based on the application of an adjusted cost to charge ratio to the procedures performed, reduced by actual reimbursement received, UCHealth provided $223,418 and $184,895 in total benefits to the community for uninsured and underinsured patients in 2016 and 2015, respectively.

(5) Restricted and Unrestricted Pledges

The Health System records pledges as restricted or unrestricted receivables based on the donors' specifications and the Health System's satisfaction of the donors' restriction. All long-term receivables are discounted to reflect the net present value of the pledge and amortized over the life of the pledge. Total unrestricted contributions receivable, net of allowances for uncollectible receivables are $50 and $47 at June 30, 2016 and 2015, respectively. Total restricted contributions receivable, net of allowances for uncollectible receivables, are $2,015 and $2,213 at June 30, 2016 and 2015, respectively.

The total current portions of unrestricted contributions receivable, net of allowances for uncollectible receivables, are $50 and $47. The total current portions of restricted contributions receivable, net of allowances for uncollectible receivables, are $843 and $1,115, and the long-term portions of restricted contributions receivable, net of allowances for uncollectible receivables, which are reported within restricted investments and pledges, donors, in the accompanying balance sheets, are $1,171 and $1,098 at June 30, 2016 and 2015, respectively.

(6) Deposits and Investments

Colorado statutes require that UCHA use eligible public depositories for all cash deposits, as defined by the Public Deposit Protection Act ("PDPA"). Under the PDPA, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation.

($s in thousands)

(6) Deposits and Investments (continued)

Eligible collateral, as defined by the PDPA, primarily includes obligations of, or guarantees by, the U.S. government, the State of Colorado, or any political subdivision thereof, and obligations evidenced by notes secured by first lien mortgages or deeds of trust on real property.

At June 30, 2016 and 2015, UCHealth's unrestricted cash deposits had a book balance of $93,142 and $220,172, respectively, and a bank balance of $123,482 and $240,551, respectively. UCHealth's receivables and investments restricted by donors included cash deposits that had a book and bank balance of $39,031 and $38,491 at June 30, 2016 and 2015, respectively. The difference between the bank balance and the book balance is related to outstanding reconciling items. These balances are held in UCHealth participating entity names, and all accounts, with the exception of the overnight investments account, are covered by federal depository insurance up to the applicable maximum.

	June 30, 2016		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	$ 93,142	$ -	$ 93,142
Assets limited as to use	-	97,222	97,222
Investments designated for liquidity support	-	265,585	265,585
Long-term investments	-	2,440,807	2,440,807
	$ 93,142	$ 2,803,614	$ 2,896,756

	June 30, 2015		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	$ 220,172	$ -	$ 220,172
Assets limited as to use	-	174,572	174,572
Investments designated for liquidity support	-	265,585	265,585
Long-term investments	-	1,930,424	1,930,424
	$ 220,172	$ 2,370,581	$ 2,590,753

Enterprise fund investments consist of the following:

	June 30,	
	2016	2015
Restricted by trustee under bond agreement	$ 57,818	$ 134,824
Restricted by donor	39,031	38,491
Other restricted	373	1,257
Unrestricted	2,706,392	2,196,009
Total investments	$ 2,803,614	$ 2,370,581

($s in thousands)

(6) Deposits and Investments (continued)

The following is a summary of enterprise fund investments at fair value:

	June 30, 2016	June 30, 2015
Cash equivalents	$ 57,510	$ 38,903
U.S. Treasury bills	201,083	165,890
U.S. government agency, pool, and mortgage-backed securities	63,460	60,609
Asset-backed securities	66,786	65,445
Mutual bond funds	540,102	462,751
Treasury inflation protected securities ("TIPS")	152,075	163,870
Corporate bonds	179,738	277,267
Equity securities	1,545,707	1,135,325
Interest and dividends receivable	2,497	1,979
Miscellaneous investment payable	(5,344)	(1,458)
Total investments	$ 2,803,614	$ 2,370,581

The following is a summary of pension trust fund investments at fair value:

	June 30, 2016	June 30, 2015
Cash equivalents	$ 9,053	$ 6,729
U.S. Treasury bills	26,545	17,721
U.S. government agency, pool, and mortgage-backed securities	5,645	5,065
Asset-backed securities	2,251	2,720
TIPS	19,932	15,308
Corporate bonds	9,060	14,413
Alternative investments	75,948	66,264
Private real estate	42,291	41,200
Mutual bond funds	92,636	82,998
Other mutual funds	296,152	274,417
Interest and dividends receivable	207	215
Miscellaneous investment payable	(1,374)	(717)
Total investments	$ 578,346	$ 526,333

(a) Credit Risk

UCHealth's investment policy statements for the enterprise and pension trust funds apply the prudent man rule. Investment responsibilities shall be undertaken "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use."

($s in thousands)

(6) Deposits and Investments (continued)

(a) Credit Risk (continued)

UCHealth's enterprise and pension trust fund investments in U.S. agency, pool, and mortgage-backed securities are limited to investments rated AAA or AA. UCHealth's enterprise and pension trust funds' asset-backed securities, corporate bonds, and private placements are limited to securities rated Baa3 or BBB- or higher. Under certain circumstances, UCHealth's equity investment managers are allowed to purchase fixed income securities that are convertible into equities. In these circumstances, the guidelines set forth for the specific equity manager supersede the fixed income quality guidelines. The quality ratings mentioned above are required by at least one major credit rating agency at the time of purchase.

The following is a summary of enterprise fund investments at June 30, 2016 and 2015. The ratings are presented as the lower of Standard & Poor's or Moody's rating using the S&P scale.

	2016		2015	
	2016 Fair Value	Average Rating	2015 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	$ 63,460	AA+	$ 60,609	AAA
Asset-backed securities	$ 66,786	AA+	$ 65,445	AA+
Mutual bond funds	$ 540,102	BBB	$ 462,751	BBB-
TIPS	$ 152,075	AA+	$ 163,870	AA+
Corporate bonds				
Financials	$ 64,317	BBB+	$ 150,793	A-
Industrials	56,590	A-	58,161	BBB+
Municipal	194	AAA	1,197	A-
Municipal taxable	1,233	AA	1,365	AA+
Other corporate bonds	1,419	AA	694	A
Other global corporate bonds	39,670	A	52,504	A
Private placements	16,315	BBB+	12,553	A-
Total corporate bonds	$ 179,738		$ 277,267	

($s in thousands)

(6) Deposits and Investments (continued)

(a) Credit Risk (continued)

The following is a summary of pension trust fund investments at June 30, 2016 and 2015, with average credit ratings based on the lower of Standard & Poor's or Moody's rating using the S&P scale:

	2016		2015	
	2016 Fair Value	Average Rating	2015 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	$ 5,645	AA+	$ 5,065	AAA
Asset-backed securities	$ 2,251	AAA	$ 2,720	AAA
Mutual bond funds	$ 92,636	BBB	$ 82,998	BBB-
TIPS	$ 19,932	AAA	$ 15,308	AAA
Corporate bonds				
Private placements	$ 1,062	AA	$ 791	AA
Other	7,998	A-	13,622	A-
Total corporate bonds	$ 9,060		$ 14,413	

($s in thousands)

(6) Deposits and Investments (continued)

(b) Interest Rate Risk

UCHealth's enterprise and pension trust fund investment policy manages its exposure to fair value losses arising from rising interest rates by investment manager-specific guidelines that benchmark and limit the duration of its investment portfolio.

As of June 30, 2016 and 2015, the enterprise fund held the following investments. Modified duration is in years.

	2016		2015	
	2016 Fair Value	Modified Duration	2015 Fair Value	Modified Duration
U.S. Treasury bills	$ 201,083	4.80	$ 165,890	5.49
U.S. government agency, pool, and mortgage-backed securities	$ 63,460	3.69	$ 60,609	3.91
Asset-backed securities	$ 66,786	4.42	$ 65,445	2.00
Mutual bond funds	$ 540,102	4.33	$ 462,751	4.05
TIPS	$ 152,075	7.88	$ 163,870	6.91
Corporate bonds				
Financials	$ 64,317	2.11	$ 150,793	0.94
Industrials	56,590	3.19	58,161	0.70
Municipal	194	0.02	1,197	0.91
Municipal taxable	1,233	10.97	1,365	0.26
Other corporate bonds	1,419	2.10	694	1.92
Other global corporate bonds	39,670	2.21	52,504	6.03
Private placements	16,315	3.23	12,553	2.82
Total corporate bonds	$ 179,738		$ 277,267	

($s in thousands)

(6) Deposits and Investments (continued)

(b) Interest Rate Risk (continued)

As of June 30, 2016 and 2015, the pension trust fund held the following investments. Modified duration is in years.

	2016		2015	
	2016 Fair Value	Modified Duration	2015 Fair Value	Modified Duration
U.S. Treasury bills	$ 26,545	6.12	$ 17,721	8.01
U.S. government agency, pool, and mortgage-backed securities	$ 5,645	3.61	$ 5,065	2.63
Asset-backed securities	$ 2,251	3.01	$ 2,720	1.30
Mutual bond funds	$ 92,636	5.15	$ 82,998	4.74
TIPS	$ 19,932	7.85	$ 15,308	7.89
Corporate bonds				
Private placements	$ 1,062	1.75	$ 791	1.54
Other	7,998	3.28	13,622	2.34
Total corporate bonds	$ 9,060		$ 14,413	

($s in thousands)

(6) Deposits and Investments (continued)

(c) Foreign Currency Risk

UCHealth's enterprise and pension trust fund investment policies manage exposure to foreign currency risk by limiting the allocation percentage of international mutual funds to 5-15% of the total fair value for the enterprise fund and 16-28% of the total fair value for the pension trust fund. All of UCHealth's investments exposed to foreign currency risk are held in international mutual funds. UCHealth's enterprise and pension trust fund investments are exposed to foreign currency risk as illustrated in the following table as of June 30, 2016 and 2015.

	Enterprise Fund Fair Value		Pension Trust Fund Fair Value	
Currency	2016	2015	2016	2015
Australian Dollar	$ 9,167	$ 5,724	$ 3,627	$ 2,181
Brazilian Real	4,396	2,979	1,860	2,005
Canadian Dollar	13,409	8,982	5,545	3,695
Chilean Peso	351	304	123	106
Colombia Peso	438	146	97	51
Czech Koruna	764	104	337	50
Danish Krone	3,751	4,339	2,977	3,358
Egyptian Pound	47	51	16	18
Euro	82,732	82,211	23,455	27,221
Hong Kong Dollar	26,847	23,936	10,158	10,661
Hungarian Forint	849	52	372	153
Indian Rupee	9,282	4,557	5,324	4,159
Indonesian Rupiah	2,246	837	966	948
Israel New Shekel	816	1,098	304	524
Japanese Yen	43,290	44,950	17,003	20,283
Kenyan Shilling	183	-	84	-
Malaysian Ringgit	852	788	296	390
Mexican Peso	3,587	1,358	1,356	984
New Zealand Dollar	509	105	200	37
Norwegian Krone	3,157	2,641	504	295
Pakistani Rupee	1	-	-	-
Philippine Peso	839	451	460	309
Polish Zloty	1,058	364	443	232
Qatari Riyal	252	237	89	83
Russian Ruble	869	749	304	434
Singapore Dollars	4,449	4,279	544	443
South African Rand	6,536	3,565	2,633	1,451
South Korean Won	18,095	10,344	5,764	4,030
Swedish Krona	6,563	7,391	2,316	3,095
Swiss Franc	21,520	18,458	7,279	5,878
Taiwan New Dollar	10,267	4,653	4,215	3,801
Thailand Baht	3,054	1,542	890	389
Turkish Lira	1,578	839	626	865
United Arab Emirates Dirham	300	162	110	57
United Kingdom Pound Sterling	42,629	39,806	13,139	11,341
	$ 324,683	$ 278,002	$ 113,416	$ 109,527

(6) Deposits and Investments (continued)

(d) Concentration of Credit Risk

UCHealth's enterprise and pension trust fund investment policies state that the equity and fixed income portfolio should be well diversified to avoid undue exposure to any single economic sector, industry, or individual security. UCHealth has evaluated all investments at June 30, 2016 and confirmed that no more than 5% of total investments are held in any one issuer.

Additionally, UCHealth's enterprise and pension trust fund investment policies state that, within each investment manager, no more than 10% of the equity or fixed income portfolio based on market value should be invested in the securities of any one issuer other than fixed income pools of investments, such as U.S. governments or U.S. government agencies. Except for U.S. Treasurys, no more than 10% of the fixed income portfolio, based on market value, shall be invested in securities of any one issuer at the time of purchase. At June 30, 2016, the fixed income and equity investment managers were in compliance with the stated diversification policy.

(7) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes

UCHA uses interest rate swap agreements to manage interest costs and risks associated with changing interest rates. Interest rate swaps necessarily involve counterparty credit risk. UCHA seeks to control this risk by entering into transactions with high quality counterparties and through exposure monitoring. Interest rate swaps are used to manage the interest rate exposure of certain variable rate bonds issuances. The counterparties to the interest rate swap contracts are major financial institutions that are rated Aa3 and A2 by Moody's. The estimated fair value of interest rate swaps, which is the gross unrealized market gain or loss, is based on quotes obtained from the counterparties. UCHA's credit risk on the swaps is limited to any positive fair value of the financial instruments.

During the years ended June 30, 2016 and 2015, UCHA was party to three swap agreements as follows:

- *A floating-to-fixed swap agreement having an original notional value of $71,235 and current notional amount of $65,305, reducing on the dates and the amounts set forth in the Series 2013C bond offering documents describing principal payments.* This agreement was entered into in November 2006 and is scheduled to terminate in November 2031. In this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.5% and receives the sum of 61.8% of USD-LIBOR-BMA plus 0.31%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013C Revenue Bonds to fixed rate obligations. At June 30, 2016 and 2015, this swap had an approximate fair value of $(16,155) and $(11,629), respectively.

- *A floating-to-fixed swap agreement having an original notional value of $100,160 and a current notional value of $90,695, reducing on the dates and amounts set forth in the Series 2013A bond offering documents describing principal payments.* This agreement was entered into in October 2004 and is scheduled to terminate in November 2033. Under the terms of this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.631% and receives the sum of 62.2% of USD-LIBOR-BBA plus 0.30%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013A Revenue Bonds to fixed rate obligations. At June 30, 2016 and 2015 the floating-to-fixed rate swap had an approximate fair value of $(26,631) and $(19,009), respectively.

(7) Investments with Fair Values That Are Highly Sensitive to Interest Rate Changes (continued)

- *A floating-to-fixed swap agreement having an original notional value of $57,405 and a current notional value of $0, reducing on the dates and amounts set forth in the Series 2015B bond offering documents describing principal payments.* This agreement was entered into in February 2015 and terminated in May 2016. Under the terms of this agreement, on the first Thursday of each calendar month, UCHA paid a fixed rate of 0.337% and received the SIFMA rate. The objective of this agreement was generally to convert UCHA's floating rate obligations with respect to the Series 2015B Revenue Bonds to fixed rate obligations. At June 30, 2015, the floating-to-fixed rate swap had an approximate fair value of $(108).

In fiscal years 2016 and 2015, the swaps produced an annual net cash outflow of approximately $4,954 and $5,133, respectively. Cash flows associated with the floating-to-fixed swaps are treated as interest expense. According to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* none of UCHA's swap agreements qualify as effective cash flow hedging derivative instruments. Swap agreements tied directly to a bond issuance are reported as fair value of derivative instruments on the balance sheets and changes in fair value are reported as unrealized gain (loss) on derivative investments on the statements of revenue, expenses, and changes in net position.

(8) Fair Value

(a) Fair Value Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. As a basis for considering market participant assumptions in fair value measurements, UCHealth utilizes the U.S. GAAP fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The inputs used to measure fair value are classified into the following fair value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting UCHealth's own assumptions.

($s in thousands)

(8) Fair Value (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2016 and 2015, the enterprise fund held the following investments, by level, within the fair value hierarchy.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	$ 201,083	$ 201,083	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	63,460	-	63,460	-
Asset-backed securities	66,786	-	61,098	5,688
Mutual bond funds	540,102	274,366	265,736	-
TIPS	152,075	2,732	149,343	-
Corporate bonds	179,738	-	179,738	-
Equity securities	1,545,707	1,193,999	349,851	1,857
Total investments by fair value level	$ 2,748,951	$ 1,672,180	$ 1,069,226	$ 7,545
Derivative instruments				
Interest rate swaps	$ (42,786)	$ -	$ (42,786)	$ -
Total derivative instruments	$ (42,786)	$ -	$ (42,786)	$ -

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	$ 165,890	$ 165,890	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	60,609	-	60,609	-
Asset-backed securities	65,445	-	59,678	5,767
Mutual bond funds	462,751	183,410	279,341	-
TIPS	163,870	52,404	111,466	-
Corporate bonds	277,267	-	277,267	-
Equity securities	1,135,325	873,207	220,719	41,399
Total investments by fair value level	$ 2,331,157	$ 1,274,911	$ 1,009,080	$ 47,166
Derivative instruments				
Interest rate swaps	$ (30,746)	$ -	$ (30,746)	$ -
Total derivative instruments	$ (30,746)	$ -	$ (30,746)	$ -

($s in thousands)

(8) Fair Value (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2016 and 2015, the pension trust fund held the following investments, by level, within the fair value hierarchy.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
U.S. Treasury bills	$ 26,545	$ 26,545	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	5,645	-	5,645	-
Asset-backed securities	2,251	-	2,186	65
TIPS	19,932	-	19,932	-
Corporate bonds	9,060	-	9,060	-
Alternative investments	75,948	13,409	16,244	46,295
Private real estate	42,291	-	-	42,291
Mutual bond funds	92,636	43,683	48,953	-
Other mutual funds	296,152	216,239	79,849	64
Total investments	$ 570,460	$ 299,876	$ 181,869	$ 88,715

	June 30, 2015			
	Total	Level 1	Level 2	Level 3
U.S. Treasury bills	$ 17,721	$ 17,721	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	5,065	-	5,065	-
Asset-backed securities	2,720	-	2,634	86
TIPS	15,308	-	15,308	-
Corporate bonds	14,413	-	14,413	-
Alternative investments	66,264	21,442	15,179	29,643
Private real estate	41,200	-	-	41,200
Mutual bond funds	82,998	39,682	43,316	-
Other mutual funds	274,417	203,385	53,506	17,526
Total investments	$ 520,106	$ 282,230	$ 149,421	$ 88,455

($s in thousands)

(8) Fair Value (continued)

(a) Fair Value Hierarchy (continued)

U.S. Treasury bills, TIPS, equity securities, alternative investments, and mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. U.S. government debt securities, asset-backed securities, TIPS, corporate bonds, alternative investments, equity securities, and mutual fund securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Asset-backed securities classified in Level 3 are valued using discounted cash flow techniques. Private real estate investments classified in Level 3 of the fair value hierarchy are valued using the income approach based on a discounted cash flow model, with reliance on other metrics used in the marketplace, including the analysis of comparable sales and relationship to replacement cost. Alternative investments, equity securities, and other mutual funds classified in Level 3 of the fair value hierarchy are valued by developing a range of values using multiple methodologies deemed relevant by market participants, including discounted cash flow models, market multiple models, and recent transaction multiples. Swap agreements classified in Level 2 of the fair value hierarchy are valued using interest rate and forward yield curve inputs.

The table below reconciles the total fair value disclosures above to the total fair value of enterprise fund and pension trust fund investments as disclosed in Note 6.

	June 30, 2016	June 30, 2015
Enterprise fund investments		
Total investments by fair value level	$ 2,748,951	$ 2,331,157
Cash equivalents	57,510	38,903
Interest and dividends receivable	2,497	1,979
Miscellaneous investment payable	(5,344)	(1,458)
Total enterprise fund investments	$ 2,803,614	$ 2,370,581
Pension trust fund investments		
Total investments by fair value level	$ 570,460	$ 520,106
Cash equivalents	9,053	6,729
Interest and dividends receivable	207	215
Miscellaneous investment payable	(1,374)	(717)
Total pension trust fund investments	$ 578,346	$ 526,333

(9) Other Investments

UCHealth recognizes its interest in the net assets and operations of joint ventures in which UCHealth and its component units have an ownership interest and ongoing financial interests or ongoing financial responsibilities. At June 30, 2016 and 2015, equity interests in joint ventures held by UCHealth and its component units ranged from 5% to 51% and totaled $59,567 and $37,711, respectively.

(9) Other Investments (continued)

PVHS has a 26% equity interest in the Surgery Center of Fort Collins, LLC (the "Surgery Center") totaling $2,751 and $2,813 at June 30, 2016 and 2015, respectively. PVHS's share of the Surgery Center's net income was $471 and $651 for the years ended June 30, 2016 and 2015, respectively. The Surgery Center's financial statements are separately audited. PVHS received distributions from the Surgery Center of $533 and $605 during the years ended June 30, 2016 and 2015, respectively.

Lakota Lake, LLC ("Lakota Lake") has a 50% equity interest in Gateway Medical Services, LLC ("Gateway") totaling $6,401 and $6,318 at June 30, 2016 and 2015, respectively. Lakota Lake's share of Gateway's net income was $6,079 and $5,519 for the years ended June 30, 2016 and 2015, respectively. Gateway's financial statements are separately audited. Lakota Lake received distributions from Gateway of $5,996 and $4,753 during the years ended June 30, 2016 and 2015, respectively.

PVHS has a 50% equity interest in Harmony Surgery Center, LLC ("Harmony Surgery") totaling $2,241 and $2,336 at June 30, 2016 and 2015, respectively. PVHS's share of Harmony Surgery's net income was $1,855 and $1,863 for the years ended June 30, 2016 and 2015, respectively. Harmony Surgery's financial statements are separately audited. PVHS received distributions from Harmony Surgery of $1,950 and $1,762 during the years ended June 30, 2016 and 2015, respectively.

PVHS has a 50% equity interest in Carbon Valley Healthcare Holdings Corp ("Carbon Valley") totaling $2,275 and $1,970 at June 30, 2016 and 2015, respectively. PVHS's share of Carbon Valley's net loss was $44 and $52 for the years ended June 30, 2016 and 2015, respectively. Carbon Valley's financial statements are not audited. PVHS made contributions to Carbon Valley of $349 during the year ended June 30, 2016.

UCHealth has a 50.1% equity interest in UCHealth Partners LLC ("UCHealth Partners") totaling $22,603 and $18,700 at June 30, 2016 and 2015, respectively. UCHealth's share of UCHealth Partners' net income was $3,903 and $0 for the years ended June 30, 2016 and 2015, respectively. UCHealth Partners' financial statements are separately audited.

During 2016, UCHealth purchased a 20% equity interest in PAS Solutions Group, LLC ("PAS"), resulting in an equity interest totaling $7,388 at June 30, 2016. UCHealth's share of PAS's net loss was $112 for the year ended June 30, 2016. PAS's financial statements are separately audited. UCHealth made contributions to PAS of $7,500 during the year ended June 30, 2016.

During 2016, UCHealth purchased a 21.3% equity interest in LeanTaaS, Inc. ("LeanTaaS"), resulting in an equity interest totaling $10,000 at June 30, 2016. UCHealth's share of LeanTaaS' net income was $0 for the year ended June 30, 2016. LeanTaaS' financial statements are separately audited. UCHealth made contributions to LeanTaaS of $10,000 during the year ended June 30, 2016.

UCHealth and its component units have equity ownership interests ranging from 5% to 50% in other joint ventures totaling $5,908 and $5,574 for the years ended June 30, 2016 and 2015, respectively. UCHealth and its component units' share of the other joint ventures net income was $2,058 and $1,039 for the years ended June 30, 2016 and 2015, respectively. UCHealth and its component units received $2,374 and $1,505 in distributions from these other joint ventures during the years ended June 30, 2016 and 2015, respectively. UCHealth made contributions of $650 and $541 to these other joint ventures during the years ended June 30, 2016 and 2015, respectively.

UCHA also has a minority interest in TriWest Healthcare Alliance Corp. ("TriWest") of $6,000 at June 30, 2016 and 2015, which is accounted for under the cost method as described in Note 15.

($s in thousands)

(10) Capital Assets

Capital assets consist of the following at June 30, 2016, 2015, and 2014:

	June 30, 2014	Additions	Transfers	Disposals	June 30, 2015	Additions	Transfers	Disposals	June 30, 2016
Capital assets, not being depreciated									
Goodwill	$ 633	$ 14	$ 7	$ -	$ 654	$ -	$ -	$ -	$ 654
Land	77,388	10,364	(2,475)	(2,185)	83,092	30,126	(3,238)	(1,117)	108,863
Construction in progress	54,813	119,374	(64,022)	-	110,165	189,369	(157,225)	(84)	142,225
Total capital assets, not being depreciated	132,834	129,752	(66,490)	(2,185)	193,911	219,495	(160,463)	(1,201)	251,742
Capital assets, being depreciated									
Buildings and improvements	1,792,015	28,207	116,362	(91,399)	1,845,185	21,603	83,638	(4,990)	1,945,436
Fixed and moveable equipment	859,363	60,598	(49,872)	(41,154)	828,935	72,331	76,825	(20,453)	957,638
Total capital assets, being depreciated	2,651,378	88,805	66,490	(132,553)	2,674,120	93,934	160,463	(25,443)	2,903,074
Accumulated depreciation and impairment									
Buildings and improvements	632,158	64,114	34,155	(88,740)	641,687	67,578	-	(4,939)	704,326
Fixed and moveable equipment	548,948	88,733	(34,155)	(40,622)	562,904	102,597	-	(20,217)	645,284
Total accumulated depreciation and impairment	1,181,106	152,847	-	(129,362)	1,204,591	170,175	-	(25,156)	1,349,610
Total capital assets, net	$1,603,106	$ 65,710	$ -	$ (5,376)	$1,663,440	$143,254	$ -	$ (1,488)	$1,805,206

(11) Contractual Arrangements and Concentrations of Credit Risk

The Health System provides care to patients covered by various third-party payors, such as Medicare, Medicaid, private insurance companies, and health maintenance organizations. Significant concentrations of patient accounts receivable include the following:

	June 30,	
	2016	2015
Medicare	25%	28%
Medicaid	18%	16%
Managed care	38%	37%
Commercial	2%	2%
Self-pay and medically indigent	7%	8%
Military and other governmental	2%	2%
Other	8%	7%

Management does not believe there are significant credit risks associated with the above payors, other than the self-pay and medically indigent categories. Further, management continually monitors and adjusts reserves and allowances associated with these receivables. Patient accounts receivable are reported net of allowances for doubtful accounts, contractual adjustments, and medically indigent allowances.

($s in thousands)

(12) Long-Term Debt and Leases

Long-term debt consists of the following:

Issuing Entity	Description	2016	2015
Combined	Capital leases, long term	$ 25,106	$ 29,228
MHS	City of Colorado Springs lease, long term, due in installments through September 30, 2042	101,111	103,582
Combined	Loan payable	4,032	4,198
PVHS	Revenue bonds, Series 2005A, due in four sinking fund payments ending in fiscal year 2031, net of unamortized discount of $86 and $92 at June 30, 2016 and 2015, respectively	49,914	49,908
PVHS	Revenue bonds, Series 2005B, due in six sinking fund payments ending in fiscal year 2036, net of unamortized discount of $172 and $181 at June 30, 2016 and 2015, respectively	82,828	82,819
PVHS	Revenue bonds, Series 2005C, due in five sinking fund payments ending in fiscal year 2040, net of unamortized discount of $557 and $581 at June 30, 2016 and 2015, respectively	81,443	81,419
UCHA	Revenue bonds series 2009A, due in increasing annual installments through fiscal year 2030, net of unamortized bond discount of $125 and $141 at June 30, 2016 and 2015, respectively	42,135	43,119
UCHA	Revenue Bonds, Series 2011A, refunded in 2016	-	200,180
UCHA	Revenue Bonds, Series 2011B, due in installments through fiscal year 2030	99,500	100,485
UCHA	Revenue Bonds, Series 2011C, due in installments through fiscal year 2023	50,915	56,820
UCHA	Revenue Bonds, Series 2012A, due in installments through fiscal year 2043, inclusive of unamortized premium of $18,429 and $19,383, and net of unamortized discounts of $763 and $803 at June 30, 2016 and 2015, respectively	269,871	277,750
UCHA	Revenue Bonds, Series 2012B, due in installments through fiscal year 2047	50,000	50,000
UCHA	Revenue Bonds, Series 2012C, due in installments through fiscal year 2046	87,510	87,510
UCHA	Revenue Bonds, Series 2013A, due in installments through fiscal year 2034	90,695	92,695
UCHA	Revenue Bonds, Series 2013B, due in installments through fiscal year 2025	11,135	12,140
UCHA	Revenue Bonds, Series 2013C, due in installments through fiscal year 2032	65,305	66,780
UCHA	Revenue Bonds, Series 2015A, due in installments through fiscal year 2047	151,330	151,330
UCHA	Revenue Bonds, Series 2015B, due in installments through fiscal year 2040	57,405	57,405
UCHA	Revenue Bonds, Series 2015C, due in installments through fiscal year 2025	56,850	56,850
UCHA	Revenue Bonds, Series 2015D, due in installments through fiscal year 2042	199,100	-
	Total long-term debt	1,576,185	1,604,218
	Less current portion	(27,822)	(27,120)
	Less long-term debt subject to short-term remarketing arrangements	(265,585)	(265,585)
		$ 1,282,778	$ 1,311,513

($s in thousands)

(12) Long-Term Debt and Leases (continued)

Changes in long-term debt for the year ended June 30, 2016 are as follows:

Entity	2016	Date of Issuance	Beginning Balance	Issuances/ Refundings of Debt	Discount and Deferred Refunding Amortization	Principal Payments	Ending Balance	Due Within One Year
Combined	Capital lease	Various	$ 29,228	$ -	$ -	$ (4,122)	$ 25,106	$ 3,545
MHS	City of Colorado Springs lease	10/01/12	103,582	-	-	(2,471)	101,111	2,548
Combined	Loan payable		4,198	-	-	(166)	4,032	179
PVHS	Series 2005A	03/01/05	49,908	-	6	-	49,914	-
PVHS	Series 2005B	03/01/05	82,819	-	9	-	82,828	-
PVHS	Series 2005C	03/01/05	81,419	-	24	-	81,443	-
UCHA	Series 2009A	08/06/09	43,119	-	16	(1,000)	42,135	2,540
UCHA	Series 2011A	05/01/11	200,180	(200,180)	-	-	-	-
UCHA	Series 2011B	11/09/11	100,485	-	-	(985)	99,500	985
UCHA	Series 2011C	11/16/11	56,820	-	-	(5,905)	50,915	6,210
UCHA	Series 2012A	10/01/12	277,750	-	(914)	(6,965)	269,871	7,365
UCHA	Series 2012B	10/01/12	50,000	-	-	-	50,000	-
UCHA	Series 2012C	10/01/12	87,510	-	-	-	87,510	-
UCHA	Series 2013A	11/18/13	92,695	-	-	(2,000)	90,695	1,975
UCHA	Series 2013B	11/18/13	12,140	-	-	(1,005)	11,135	995
UCHA	Series 2013C	11/18/13	66,780	-	-	(1,475)	65,305	1,480
UCHA	Series 2015A	02/03/15	151,330	-	-	-	151,330	-
UCHA	Series 2015B	02/03/15	57,405	-	-	-	57,405	-
UCHA	Series 2015C	02/03/15	56,850	-	-	-	56,850	-
UCHA	Series 2015D	09/01/15	-	200,180	-	(1,080)	199,100	-
	Total		$ 1,604,218	$ -	$ (859)	$ (27,174)	$ 1,576,185	$ 27,822

($s in thousands)

(12) Long-Term Debt and Leases (continued)

Changes in long-term debt for the year ended June 30, 2015 are as follows:

Entity	2015	Date of Issuance	Beginning Balance	Issuances/ Refundings of Debt	Discount and Deferred Refunding Amortization	Principal Payments	Ending Balance	Due Within One Year
Combined	Capital lease	Various	$ 33,041	$ 156	$ -	$ (3,969)	$ 29,228	$ 4,068
MHS	City of Colorado Springs lease	10/01/12	105,979	-	-	(2,397)	103,582	2,471
Combined	Loan payable		45	4,341	-	(188)	4,198	166
PVHS	Series 2005A	03/01/05	49,903	-	5	-	49,908	-
PVHS	Series 2005B	03/01/05	82,810	-	9	-	82,819	-
PVHS	Series 2005C	03/01/05	81,396	-	23	-	81,419	-
PVHS	Series 2005F	03/01/05	55,000	(55,000)	-	-	-	-
UCHA	Series 2006A	05/30/06	53,029	(53,000)	(29)	-	-	-
UCHA	Series 2009A	08/06/09	45,417	-	17	(2,315)	43,119	1,000
UCHA	Series 2011A	05/01/11	200,180	-	-	-	200,180	1,080
UCHA	Series 2011B	11/09/11	101,380	-	-	(895)	100,485	985
UCHA	Series 2011C	11/16/11	62,435	-	-	(5,615)	56,820	5,905
UCHA	Series 2012A	10/01/12	285,092	-	(937)	(6,405)	277,750	6,965
UCHA	Series 2012B	10/01/12	50,000	-	-	-	50,000	-
UCHA	Series 2012C	10/01/12	87,510	-	-	-	87,510	-
UCHA	Series 2013A	11/18/13	94,645	-	-	(1,950)	92,695	2,000
UCHA	Series 2013B	11/18/13	13,140	-	-	(1,000)	12,140	1,005
UCHA	Series 2013C	11/18/13	68,185	-	-	(1,405)	66,780	1,475
UCHA	Series 2015A	02/03/15	-	151,330	-	-	151,330	-
UCHA	Series 2015B	02/03/15	-	57,405	-	-	57,405	-
UCHA	Series 2015C	02/03/15	-	56,850	-	-	56,850	-
	Total		$ 1,469,187	$ 162,082	$ (912)	$ (26,139)	$ 1,604,218	$ 27,120

($s in thousands)

(12) Long-Term Debt and Leases (continued)

Annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 27,822	$ 43,803	$ 71,625
2018	29,201	42,600	71,801
2019	29,687	41,663	71,350
2020	34,155	40,593	74,748
2021	32,080	39,386	71,466
2022-2026	182,075	180,277	362,352
2027-2031	214,843	139,441	354,284
2032-2036	261,844	92,801	354,645
2037-2041	318,289	48,995	367,284
2042-20476	354,369	10,336	364,705
2047	75,094	112	75,206
Total long-term debt payments	1,559,459	$ 680,007	$ 2,239,466
Unamortized net premium and discount	16,726		
Total carrying amount of long-term debt	$ 1,576,185		

UCHealth has entered into capital leases for certain medical equipment, building leases, and software licensing agreements. Monthly lease payments are required for these agreements, which include principal and interest. During fiscal year 2016, the Health System did not enter into any new capital lease agreements. The maturity dates for these leases range from fiscal year 2017 through fiscal year 2029, and they are secured by the capital assets under the capital lease arrangements.

At June 30, 2016, total capital assets and related accumulated depreciation under capital lease arrangements were $38,895 and $20,604, respectively. At June 30, 2015, total capital assets and related accumulated depreciation under capital lease arrangements were $39,117 and $16,518, respectively. Amortization expense under capital lease arrangements is included within depreciation and amortization in the accompanying balance sheets.

Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs (the "City") was executed with the purpose of leasing MHS. The original capital lease is for a 40-year term with renewals or extensions anticipated. The lease totaled $110,000 and will be paid down in monthly payments over the term of the lease. Substantially all capital assets of MHS, with a book value and accumulated depreciation of $688,218 and $370,022, respectively, at June 30, 2016 and $647,724 and $338,435, respectively, at June 30, 2015, are included in the lease arrangement. Effective October 1, 2012, a Memorial Health System – Children's Hospital Colorado Sublease (the "Sublease") was entered into with Children's Hospital Colorado for 15% of the original capital lease under the Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City. Total minimum sublease payments under the Sublease are $16,500 and will be received in monthly payments over the term of the Sublease.

(12) Long-Term Debt and Leases (continued)

In September 2015, UCHA issued Series 2015D Revenue Bonds ("Series 2015D") in the amount of $200,180 to fully refund UCHA Series 2011A Revenue Bonds. Series 2015D were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a three-year term that will expire September 2018.

In February 2015, UCHA issued Series 2015A Revenue Bonds ("Series 2015A") in the amount of $151,330 to finance certain projects at the Anschutz Medical Campus, Poudre Valley Hospital, and Memorial Hospital. Series 2015A were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

In February 2015, UCHA issued Series 2015B Revenue Bonds ("Series 2015B") in the amount of $57,405 to fully refund UCHA Series 2006A Revenue Bonds. Series 2015B were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

In February 2015, UCHA issued Series 2015C Revenue Bonds ("Series 2015C") in the amount of $56,850 to fully refund PVHS Series 2005F Revenue Bonds. Series 2015C were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connections with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintain unrestricted assets as a source of self-liquidity.

In November 2013, UCHA issued Series 2013A Revenue Bonds ("Series 2013A") in the amount of $94,645 to fully refund UCHA Series 2004A Revenue Bonds. Series 2013A were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a seven-year term that will expire November 2020.

In November 2013, UCHA issued Series 2013B Revenue Bonds ("Series 2013B") in the amount of $13,140 to fully refund UCHA Series 2008A Revenue Bonds. Series 2013B were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a seven-year term that will expire November 2020.

(12) Long-Term Debt and Leases (continued)

In November 2013, UCHA issued Series 2013C Revenue Bonds ("Series 2013C") in the amount of $68,185 to fully refund UCHA Series 2008B Revenue Bonds. Series 2013C were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a seven-year term that will expire November 2020.

In October 2012, UCHA issued Series 2012A Revenue Bonds ("Series 2012A") to partially finance the Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City to lease the Memorial Health System. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012A were issued in the amount of $272,090 and are a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2015. Series 2012A were issued with an original issue premium of $21,975 and an original issue discount of $910. The average interest rate for Series 2012A is 4.26%.

In October 2012, UCHA issued Series 2012B Revenue Bonds ("Series 2012B") in the amount of $50,000 to fully refund UCHA Series 2004B Revenue Bonds. Series 2012B were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Citibank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a five-year term that will expire October 2017.

In October 2012, UCHA issued Series 2012C Revenue Bonds ("Series 2012C") in the amount of $87,510 to fully refund PVHS Series 2005D and 2005E Revenue Bonds. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012C were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedules. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. In September 2015, UCHA extended the direct purchase agreement with Wells Fargo Bank, N.A. on Series 2012C under a three-year term that will expire September 2018.

In November 2011, UCHA issued Series 2011B Revenue Bonds ("Series 2011B") in the amount of $103,940 to fully refund UCHA Series 1999A Revenue Bonds. Series 2011B were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a fixed interest rate of 3.28%. The direct purchase bonds were issued with a ten-year term that will expire November 2021.

In November 2011, UCHA issued Series 2011C Revenue Bonds ("Series 2011C") in the amount of $72,870 to finance equipment for use and certain other improvements at the Anschutz Medical Campus. Series 2011C were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. PNC Bank is the holder of the bonds at a current fixed interest rate of 2.31%. The direct purchase bonds were issued with an eleven-year term and will expire as the bonds fully mature in November 2022.

(12) Long-Term Debt and Leases (continued)

In May 2011, UCHA issued Series 2011A Revenue Bonds ("Series 2011A") in the amount of $200,180. The net proceeds were used to partially fund the construction of the second inpatient tower built on the Anschutz Medical Campus. Series 2011A are variable rate bonds that bear interest weekly as determined by the remarketing agent and pay principal according to a mandatory sinking fund redemption schedule. The average remarketed interest rate was 0.03% and 0.05% in 2016 and 2015, respectively. In September 2015, UCHA issued Series 2015D in the amount of $200,180 to fully refund UCHA Series 2011A.

In August 2009, UCHA issued Series 2009A Revenue Bonds ("Series 2009A") in the amount of $51,795 to fully refund UCHA Series 2006B Revenue Bonds. Series 2009A are a fixed interest rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2011. Series 2009A were issued with an original issue discount of $239. The average interest rate for the Series 2009A is 5.87%.

In May 2006, UCHA issued Series 2006A Revenue Bonds ("Series 2006A") and Series 2006B Revenue Bonds ("Series 2006B") (together, the "2006 Series") in the amount of $103,000. Proceeds from the 2006 Series were used to construct the Leprino Building. Series 2006A, in the amount of $53,000, are a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2037. Series 2006A were issued with an original issue premium of $431 and an original issue discount of $393. The average interest rate for the Series 2006A is 5.13%. In August 2009, the Health System refunded Series 2006B in the amount of $50,000 due to credit facility expiration. In February 2015, the Health System refunded Series 2006A in the amount of $53,000 to pursue interest rate savings.

In March 2005, PVHS issued $370,000 of Revenue Bonds to finance a portion of the costs of construction and equipping Medical Center of the Rockies and defease a portion of the PVHS Series 1999A Revenue Bonds. These bonds were issued through the Colorado Health Facilities Authority. This bond issuance included four separate series.

- PVHS Series 2005A Revenue Bonds ("Series 2005A") were issued in the amount of $50,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2028. Series 2005A were issued with an original issue discount of $136 and have an average interest rate of 5.20%.

- PVHS Series 2005B Revenue Bonds ("Series 2005B") were issued in the amount of $83,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2031. Series 2005B were issued with an original issue discount of $247 and have an average interest rate of 5.25%.

- PVHS Series 2005C Revenue Bonds ("Series 2005C") were issued in the amount of $82,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2036. Series 2005C were issued with an original issue discount of $759 and have an average interest rate of 5.25%.

- PVHS Series 2005F Revenue Bonds ("Series 2005F") were issued in the amount of $55,000 as a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2018. Series 2005F have an average interest rate of 5.25%. In February 2015, the Health System refunded the Series 2005F bonds in the amount of $55,000 to pursue interest rate savings.

($s in thousands)

(12) Long-Term Debt and Leases (continued)

All bonds are secured by a security interest with respect to all gross revenues of the Health System. The UCHA 1997A Master Indenture, as supplemented, and the PVHS amended and restated Master Trust Indenture as of 2005, as supplemented, each require the Health System to maintain certain financial ratios. During 2016 and 2015, the Health System met all of the financial ratio requirements.

Cash paid for interest was $47,299 and $49,993 in 2016 and 2015, respectively. Interest received on the unexpended bond funds in 2016 and 2015 was $3,032 and $2,066, respectively. Interest received on unexpended bond funds in 2016 and 2015 was offset against capitalized interest expense. Total capitalized interest expense to these projects was $366 and $223 in 2016 and 2015, respectively.

The fair value of the Health System's long-term debt is based on the most recent trading price as of June 30, 2016. The fair value of the Revenue Bonds at June 30, 2016 and 2015 was approximately $1,491,937 and $1,493,367, respectively.

UCHealth leases certain equipment and facilities under non-cancelable operating leases. Future minimum lease payments for equipment and facilities under non-cancelable operating leases as of June 30, 2016 are approximately:

Year Ending June 30,		
2017	$	21,243
2018		16,769
2019		13,516
2020		9,550
2021		5,436
2022-2026		12,538
Total minimum obligations	$	79,052

Rental expense, net of rental expense recovery, approximated $26,352 and $22,870 in 2016 and 2015 respectively.

(13) Self-Insurance Trust

UCD sponsors a self-insurance trust, the University of Colorado Self-Insurance and Risk Management Trust (the "Trust"), in which UCHA participates. The Trust was authorized by a Regent resolution dated June 23, 1985, and may be amended, altered, or revoked by UCD, but only if such amendment, alteration, or revocation is consistent with and in furtherance of the purpose of this Trust. The participants in the Trust are the University of Colorado (the "University"), including UCD and its agencies, administrators, faculty, and employees, and other affiliates of the University, including UCHA. As UCHA has transferred risk associated with this insurance into the public-entity risk pool of the Trust, the assets and liabilities of the Trust are not included in the accompanying basic financial statements.

(13) Self-Insurance Trust (continued)

The Trust provides coverage to its participants up to statutory limitations relating to malpractice claim immunity for government entities. The coverage is $350 per claimant and $990 per occurrence for claims arising from activities of covered persons and entities within the state of Colorado. The Trust also provides coverage of $1,000 per occurrence for claims arising outside the state of Colorado. The Trust contracts with a commercial insurance company to provide $6,000 per occurrence or aggregate per year for claims in which the limits of governmental immunity do not apply.

As of June 30, 2016, the Trust had a fund balance of approximately $2,424, which is net of approximately $11,469 in reserves for losses and loss adjustment expenses. At June 30, 2016, plan assets exceed the actuarially determined liability. For 2016 and 2015, UCHA recorded premium and administrative expenses of approximately $2,118 and $1,748, respectively. There were no refunds received during 2016 or 2015.

(14) Retirement Plans

UCHA offers four retirement plans: the University of Colorado Hospital Authority Retirement Plan (the "Basic Pension Plan"), as amended and restated, the University of Colorado Hospital Authority Fixed Contribution Investment Plan (the "Investment Account"), the University of Colorado Hospital Authority Matching Tax Deferred Annuity Plan (the "Matching Account"), and the University of Colorado Hospital Deferred Compensation Savings Plan (the "457b Plan"). The UCHA Board is the fiduciary for the Basic Pension Plan and has the ability to amend this plan. The Investment Account, Matching Account, and 457b Plan are administered by independent companies that have entered into trust agreements with UCHA. The investment companies hold all funds contributed under these plans. The UCHA Board has the authority to establish and amend the benefit provisions of these plans.

(a) Pension Plans

UCHA participates in two pension plans that cover substantially all of its employees. As of October 1, 1989, UCHA's workforce was given the option of becoming employees of UCHA and participating in the Basic Pension Plan or remaining state employees of Colorado and continuing to participate in the Public Employees' Retirement Association ("PERA").

UCHA maintained a single-employer non-contributory, cash balance pension plan (the "Frozen Plan") for Hospital employees through March 1995. Under this plan, contributions credited to each covered employee's account were based on a percentage of compensation earned by the employee. Vesting under this plan was based on length of service. As of March 31, 1995, a final contribution was credited to the accounts of all covered employees of record on that date and the balances were frozen. Employee accounts continue to accrue interest based on the applicable interest rate as defined in Code Section 417(e)(3)(A)(ii)(II), and covered employees not fully vested in the Frozen Plan continue to earn credit toward vesting under a new plan adopted April 1, 1995. As of April 1, 1995, UCHA amended the Frozen Plan based on its ability to withdraw from the Old Age, Survivors, and Disability Insurance ("OASDI") component of the Federal Insurance Contributions Act ("FICA") program by virtue of its operation under legislatively granted state authority. UCHA and its employees still contribute to and participate in the Medicare component of FICA.

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

The Basic Pension Plan is a single-employer, non-contributory, defined benefit plan. Eligibility to receive benefits under this plan for UCHA employees starts on the date of hire. Those employees who were employed by UCHA prior to October 1, 1989, and those who elected to become UCHA employees, are eligible to participate. MHS employees active as of October 1, 2012, and PVHS employees active as of January 4, 2013, or hired thereafter are eligible for participation in the University of Colorado Hospital Authority Retirement Plan on that date. Effective September 1, 2012, participants are vested in their accrued benefit at 20% per every twelve months of service until they are 100% vested after five years. This is a change from the prior vesting schedule for UCHA employees, which required five years of service to become 100% vested.

The annual accrued benefits, paid monthly, of the Basic Pension Plan are calculated at 1.5% times the Average Annual Compensation times years of service (based on hire date). The five most highly compensated calendar years of service after March 26, 1995 are used to calculate the Average Annual Compensation. A small number of UCHA employees are eligible to receive additional benefits based on a combined age and years of credited service equal to or greater than 75 on January 1, 2013 ("Rule of 75"). The Basic Pension Plan offers reduced benefits for early retirement and adjusted benefits for late retirement (after age 65). Most plan participants, except those falling under the Rule of 75, will receive a monthly benefit with no annual cost of living adjustment factor, which is an amendment to the plan, effective for accruals on or after January 1, 2013.

Pension plan assets, which support both this and the Frozen Plan described above, consist of equity securities, fixed income securities, real estate, alternative investments, money market funds, cash, and receivables. Although the Basic Pension Plan is a governmental plan within the meaning of Section 3(32) of the Employee Retirement Income Security Act of 1974 ("ERISA") and is, therefore, exempt from the requirements of Title I of ERISA, the Health System's practice is to contribute amounts at least equal to the minimum funding requirements of ERISA.

The actuarially computed net periodic pension cost for the Basic Pension Plan for 2016 and 2015 was approximately $78,765 and $65,726, respectively. Investment (losses) gains for 2016 and 2015, including interest, dividends, and realized and unrealized gains, were approximately $(476) and $12,212, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2015 and 2014 (dates of the latest actuarial valuations):

	2015	2014
Retirees and beneficiaries receiving benefits	764	603
Terminated plan members entitled to but not yet receiving benefits	5,158	4,330
Active plan members, includes all participants within the system	15,512	14,406
Total members	21,434	19,339

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

As a governmental entity, UCHA has flexibility in determining the amount to contribute to the Basic Pension Plan each year. The actuarially determined contribution calculated as part of this report is intended to provide a systematic method for prefunding the liabilities for retirement benefits payable under the Basic Pension Plan. It is calculated in a manner intended to remain relatively stable, as a percentage of valuation compensation, over time. This stability is intended to facilitate the annual budgeting process and to keep the cost of the Basic Pension Plan manageable. The Health System made contributions to the Basic Pension Plan of $68,000 and $66,184 in 2016 and 2015, respectively. The actuarially determined contributions were $67,969 and $66,184 in 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, the Health System's average contribution rates were 7.23% and 7.67%, respectively, of annual payroll.

The Health System's net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2015 and 2014, respectively. The Health System utilized update procedures to roll valuation amounts forward to the respective measurement dates using the calculated service and interest cost, actual contributions, and return on plan assets.

Additional information as of the latest actuarial valuation date follows:

Valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Actuarial assumptions	
i) Discount rate*	7.0%
ii) Projected salary increases*	3.6% to 6.5%
iii) Cost of living adjustments**	2.5%

* Includes inflation at 2.5%.
** Cost of living adjustments apply only to those participants who fall under the Rule of 75.

Mortality rates were based on the Sex-distinct RP-2014 mortality tables with base year 2006, without collar or amount adjustments, using a modified Scale MP-2015 with generational projections with ultimate convergence in 2017.

The actuary is required to use assumptions that represent his or her best estimate of future experience under the Basic Pension Plan and are reasonably related to the experience of the Plan. The actuary will monitor the actuarial experience under the Plan in future years in order to judge the continuing appropriateness of these assumptions. The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through July 1, 2012.

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a variety of industry-accepted practices to determine 10-year estimated ranges of future expected returns for major asset classes. For public equities, a building-block approach incorporating inflation, real earnings growth, dividend yield, and re-pricing was used. For fixed income, current yields and credit spreads were used. For the various alternative asset classes, a combination of historical risk premiums, illiquidity premiums, and style-specific premiums were used. The arithmetic average forecast returns for each asset class are combined at target asset allocation weights to provide a forecasted geometric (50th percentile) expected return for the plan. All figures shown are nominal (i.e., inclusive of inflation):

Asset Class	Target Allocation	Arithmetic Expected Return (10-Year Average)
Domestic equity	20%	5.8
International equity	21%	9.8
Fixed income	26%	4.6
Real estate	10%	6.2
Alternative	20%	7.1
Commodities	3%	4.0
	100%	

The discount rate used to measure the total pension liability was 7.0%, including 2.5% inflation. The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

Changes in the net pension liability for the years ended June 30, 2016 and 2015 were as follows.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 505,469	$ 461,578	$ 43,891
Changes for the year			
Service cost	49,411	-	49,411
Interest	37,092	-	37,092
Contributions - employer	-	66,184	(66,184)
Net investment income	-	12,212	(12,212)
Plan changes	10,490	-	10,490
Change in assumptions	52,729	-	52,729
Benefit payments	(12,188)	(12,188)	-
Administrative expense	-	(1,453)	1,453
Net changes	137,534	64,755	72,779
Balances at June 30, 2015	643,003	526,333	116,670
Changes for the year			
Service cost	57,110	-	57,110
Interest	44,575	-	44,575
Contributions - employer	-	68,000	(68,000)
Net investment loss	-	(476)	476
Changes in assumptions and experience	(1,111)	-	(1,111)
Benefit payments	(14,047)	(14,047)	-
Administrative expense	-	(1,464)	1,464
Net changes	86,527	52,013	34,514
Balances at June 30, 2016	$ 729,530	$ 578,346	$ 151,184

The pension plan's fiduciary net position as a percentage of the total pension liability was 79.3% and 81.9% as of June 30, 2016 and 2015, respectively.

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

The following presents the net pension liability of the Health System, calculated using the discount rate of 7.0%, as well as what the Health System's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Net pension liability	$ 265,493	$ 151,184	58,473

For the years ended June 30, 2016 and 2015, the Health System recognized pension expense of $78,765 and $65,726, respectively. At June 30, 2016 and 2015, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2016		
Differences between expected and actual experience	$ 11,344	$ 4,409
Changes in assumptions	30,561	-
Net difference between projected and actual earnings on pension plan investments	30,456	-
Total	$ 72,361	$ 4,409
June 30, 2015		
Differences between expected and actual experience	$ 10,770	$ 5,758
Changes in assumptions	43,872	-
Net difference between projected and actual earnings on pension plan investments	-	4,681
Total	$ 54,642	$ 10,439

($s in thousands)

(14) Retirement Plans (continued)

(a) Pension Plans (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,		
2017	$	13,820
2018		15,878
2019		21,795
2020		15,100
2021		1,359
	$	67,952

At June 30, 2016, the Health System has made all required contributions to the pension plan for the year ended June 30, 2016.

UCHA's state employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was approximately $81 and $87 for 2016 and 2015, respectively. Required contributions during fiscal years 2016 and 2015 were $81 and $87, respectively. UCHA contributed 100% of each year's required contribution. As the Health System's proportionate share of PERA's net pension liability is insignificant, detailed disclosures regarding this plan are not included in this report. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained online at www.copera.org; by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203; or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

(b) Investment Account

The Investment Account is a qualified, single-employer, defined contribution retirement plan under the provisions of Code Section 401(a). Employees are required to contribute 6.2% of their gross compensation (limited to the OASDI wage base), which is equivalent to what their OASDI contributions would be under FICA participation. Employees are always fully vested in this component of the plan. Total compensation subject to the plans for the years ended June 30, 2016 and 2015, was approximately $1,056,608 and $938,233, respectively. Total employee contributions made under the provisions of this plan were approximately $57,760 and $52,200 for the years ended June 30, 2016 and 2015, respectively. This represents approximately 5.47% of the current year's payroll. In accordance with Code regulations, the Heath System is required to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Make-up contributions made by UCHealth were approximately $547 and $523 in 2016 and 2015, respectively.

(14) Retirement Plans (continued)

(c) Matching Account

The Matching Account is a single-employer, tax-deferred annuity plan under the provisions of Code Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred up to legal limitations established under the Code. In addition, UCHealth will match employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, the Health System's matching contributions are subject to a five-year graduated vesting schedule. Certain part-time employees are not eligible for UCHealth matching contributions. UCHealth matching contributions for 2016 and 2015 were approximately $21,187 and $19,363, respectively.

As of October 1, 2012 Fidelity Investments became the exclusive investment option for employees of UCHA. Fidelity Investments provides a broad array of mutual funds with which to invest all contributions under the Investment Account and Matching Account. Prior to October 1, 2012 UCHA employees had the option to invest with TIAA-CREF and can continue to do so, although this investment company is no longer an option for employees of the Health System. Employee contributions to the Matching Account for 2016 and 2015 approximated $50,502 and $45,540, respectively.

(d) 457b Plan

The 457b Plan is a single-employer tax-deferred plan under the provisions of Code Section 457. The TIAA-CREF 457b plan became effective in February 2005, and the Fidelity 457b plan became effective in January 2011, whereby employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. Only UCHA employees are able to contribute to the TIAA-CREF 457b plan. Employees are always vested 100% in their contributions, and the Health System does not contribute to this plan. Employees may elect from a broad array of mutual funds with their respective investment companies. Employee contributions to the TIAA-CREF 457b Plan for 2016 and 2015 approximated $330 and $406, respectively. Employee contributions to the Fidelity 457b plan in 2016 and 2015 approximated $7,575 and $6,098, respectively.

(e) Other Post-Employment Benefit Plan

In addition to the retirement plans mentioned above, UCHA provides a post-retirement medical premium subsidy to employees retiring from UCHA who are covered under the PERA benefit guarantee provision of the State of Colorado legislation creating the Authority. This plan provides a medical premium subsidy of up to $112 per month for medical plan coverage (pro-rated for less than 20 years of service) and an employer-funded life insurance benefit of $3,000. The employer-funded life insurance benefit is provided to all employees who retired from UCHA on or before July 1, 2015. The accumulated post-retirement benefit obligation and actuarial accrued liability, which is unfunded, for the medical and life premiums approximated $3,767 and $6,062 at June 30, 2016 and 2015, respectively. Total benefit (gains) costs related to this plan were $(2,229) and $301 for the years ended June 30, 2016 and 2015, respectively. In the calculation of the liability, a 7.0% discount rate was used and an assumption that 65% of eligible active employees would elect to be covered by the medical premium subsidy plan.

(15) Significant Transactions Between Component Units

UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board approves the operating and capital budgets of each entity throughout the system. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission and oversight of other day-to-day operating activities.

The Health System's balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows include transactions between the Health System and its component units.

Total current assets of UCHA include a receivable from affiliates that is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS of $7,365 and $6,965 at June 30, 2016 and 2015, respectively, and $91,558 and $9,684 at June 30, 2016 and 2015, respectively, related to transactions between UCHA, the Health System, and other component units. Total current assets of PVHS include $60,815 and $13,149 at June 30, 2016 and 2015, respectively related to transactions between PVHS, the Health System, and other component units.

Total non-current assets of UCHA include a receivable from MHS that is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS and Series 2015A proceeds related to the acquisition of capital assets of $303,365 and $311,644 at June 30, 2016 and 2015, respectively. Total non-current assets of UCHA include a receivable from PVHS related to the Series 2012C and 2015C proceeds for the refinancing of PVHS Revenue Bonds and Series 2015A proceeds related to the acquisition of capital assets of $215,485 at June 30, 2016 and 2015.

Total current liabilities of MHS at June 30, 2016 and 2015 include a payable to affiliates of $1,532 and $1,560, respectively, related to transactions between MHS, the Health System, and other component units, and $7,365 and $6,965, respectively, due to UCHA for the Series 2012A proceeds related to the acquisition of MHS. Total current liabilities of PVHS at June 30, 2016 and 2015 include a payable to affiliates of $109 and $91, respectively, related to transactions between PVHS, the Health System, and UCHA. The Health System has a payable from affiliates that is comprised of amounts due from component units of $7,679 and $10,678 related to transactions between the Health System and UCHA, PVHS, and MHS at June 30, 2016 and 2015, respectively.

Total non-current liabilities of MHS at June 30, 2016 and 2015 include a payable to affiliates of $303,365 and $311,644, respectively, which is comprised of amounts due for the Series 2012A proceeds related to the acquisition of MHS and Series 2015A proceeds related to the acquisition of capital assets. Total non-current liabilities of PVHS at June 30, 2016 and 2015 include a payable to affiliates of $215,485 that is comprised of amounts due to UCHA for the refinancing of PVHS Revenue Bonds and bonds issued for capital acquisitions.

The Health System and its component units effectively pool their investments within the Health System's pooled investment account structure, with each component unit of the Health System reflecting their respective portion of cash and investments on their balance sheets at June 30, 2016 and 2015. PVHS's portion of pooled cash at June 30, 2016 and 2015 was $29,361 and $81,083, respectively. PVHS's portion of pooled investments at June 30, 2016 and 2015 was $1,062,001 and $857,589, respectively. UCHA's portion of pooled cash at June 30, 2016 and 2015 was $43,458 and $123,157, respectively. UCHA's portion of pooled investments at June 30, 2016 and 2015 was $1,571,886 and $1,302,589, respectively. MHS's portion of pooled cash at June 30, 2016 and 2015 was $1,851 and $2,890, respectively. MHS's portion of pooled investments at June 30, 2016 and 2015 was $66,943 and $30,570, respectively.

(16) Related-Party Transactions

UCHA is affiliated with the State of Colorado; TriWest; UPI; Colorado Access; and the University, consisting of UCD, the Trust, and the Adult Clinical Research Center ("CRC").

(a) UCD

UCD and UCHA have developed an Institutional Master Plan (the "Master Plan") to create a new academic health sciences center over the next 20 to 50 years on the Anschutz Medical Campus. The Master Plan has been approved by the Regents, UCHA, and the Colorado Commission on Higher Education. The Regents and UCHA entered into a ground lease in 1998 for approximately 18.4 acres of the property acquired by the Regents pursuant to the quitclaim conveyance from the United States Department of Education. Subsequent agreements have been executed between these parties to provide additional land to UCHA, which has been used to continue development of the Anschutz Medical Campus. As a result, UCHA has expanded its facilities with an office tower, parking garage, inpatient towers, and additional staff and patient parking structures. As a result of continued growth, UCHA is currently building out shelled space to add 60 additional patient beds and four operating room suites to meet continued strong demand for its inpatient services.

Consistent with the joint planning process reflected in the Master Plan, the Regents and UCHA have agreed in the Fitzsimons Ground Lease that additional agreements will be necessary for development of the Anschutz Medical Campus. The Regents, Children's Hospital Colorado, and UCHA entered into an Amended and Restated Infrastructure Development and Maintenance Agreement effective July 1, 2004, which sets forth how the three parties will plan and construct infrastructure, share the cost of such planning and construction, and share in the related maintenance expenses of the infrastructure.

Under the operating agreement between the Regents of the University and UCHA dated July 1, 1991, the Regents have entered into contracts with UCHA for the provision of services in support of programs and operations of UCHA, including providing personnel, physical plant maintenance, and other general and administrative services. UCHA paid approximately $52,531 and $46,626 for these services, which are recorded in purchased services and other expenses in 2016 and 2015, respectively.

UCHA has also entered into contracts with the Regents for the provision of services to UCD, including clinic services, research projects, infrastructure expense, and other items. Reimbursements of approximately $2,031 and $2,168 were recognized in other operating revenue for these services during 2016 and 2015, respectively.

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of approximately $2,031 and $1,718 were billed to CRC for the cost of these services during 2016 and 2015, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were approximately $351 and $408 at June 30, 2016 and 2015, respectively, and are included in related-party receivables on the balance sheets. UCHA recorded amounts due to UCD of $1,147 and $2,594 at June 30, 2016 and 2015, respectively, for contract labor costs and School of Pharmacy support expenses.

(16) Related-Party Transactions (continued)

(a) UCD (continued)

Effective July 1, 2014, UCHealth entered into a five-year academic support agreement with the University of Colorado School of Medicine. The agreement provides that UCHealth make annual academic support donations to enhance the ability of the School of Medicine to fulfill its academic missions of educating students in health-related disciplines and professions and furthering basic and applied biomedical research. The academic support donation for the years ended June 30, 2016 and 2015 was $26,549 and $32,659, respectively.

(b) TriWest

TriWest was formed to deliver healthcare services to eligible beneficiaries of TriCare within certain specified geographic regions. On June 27, 1996, TriWest was awarded the TriCare contract by the Department of Defense for a five-year period of healthcare service delivery, which began in April 1997. UCHA entered into certain provider and network management agreements with TriWest in 1996. TriWest lost its contract with the Department of Defense when the contract was awarded to United Healthcare during the year ended June 30, 2012. The new contract awarded to United Healthcare involved a one-year transition period starting April 1, 2013. TriWest is reviewing its business plan regarding this event and is building its future strategy.

UCHA purchased a minority interest in TriWest for approximately $3,300. In October 2007, UCHA sold 1,656.55 shares for approximately $18,053 to TriWest. After the sale, UPI had a 60% share of UCHA's minority interest in TriWest. In March 2014, TriWest restructured its ownership resulting in UCHA and UPI selling their stock back to TriWest and receiving new stock valued at $9,250.

UCHA's investment is accounted for under the cost method and is valued at approximately $6,000 at June 30, 2016 and 2015.

(c) UPI

During the years ended June 30, 2016 and 2015, UCHA recognized approximately $39,772 and $39,541, respectively, in contract expense to UPI for contractual reimbursement of faculty administrative services and recruitment support. UCHA also recognized expenses of approximately $42,640 and $37,040 during the years ended June 30, 2016 and 2015, respectively, that represent reimbursements channeled through UCHA by external entities for services provided by UPI on behalf of those external entities (e.g., Ryan White program) and for reimbursements for hospital-based programs for services provided by UPI on behalf of UCHA (e.g., on-call services, joint networking, administrative, and other miscellaneous programs). Additionally, during the year ended June 30, 2015, UCHA remitted State of Colorado pass-through reimbursements of $689 to cover a portion of the costs to provide care for the state's medically indigent program (Note 3).

UCHA recorded payables to UPI of $1,583 and $1,471 at June 30, 2016 and 2015, respectively, for various contract labor and provider support expenses and TriWest pass-through balances.

UCHA has entered into a joint operating agreement with UPI to establish an imaging center located in Denver, Colorado. The imaging center provides 3T MRI imaging services to UCHA's patients and is operated on the terms set forth in the agreement. Capital contributions and division of revenue and expenses will be split between the two organizations as defined within the agreement.

(16) Related-Party Transactions (continued)

(d) The Children's Hospital

In July 2010, UCHA began a joint maternal fetal program in conjunction with Children's Hospital Colorado ("CHCO") to establish a center for advanced maternal fetal medicine offering state-of-the-art care for high-risk pregnant women and their babies. The program is defined in an operating agreement that details the cost and revenue sharing between the two hospitals. UCHA has recorded a related-party payable to CHCO at June 30, 2016 and 2015, of $11,566 and $10,157, respectively.

Effective October 1, 2012, a Sublease was executed with CHCO to operate the pediatric units located at Memorial Health System and was valued at 15% of the organization. CHCO paid the corresponding amount of the upfront payment and continues to pay its percentage of the ongoing lease payments to the City. On June 4, 2015, MHS became the licensed operator of the pediatric services and certain provisions of the Sublease were temporarily suspended and replaced by a Management Services Agreement and Employee Lease between MHS and CHCO. It is anticipated that the original provisions of the lease will be reinstated during or around July 2017. Included in other receivables is $370 at June 30, 2016 and 2015 for the current portion of the sublease receivable from CHCO. Included in other non-current assets is $15,198 at June 30, 2016 and 2015 for the long-term portion of the sublease receivable from CHCO. Included in other current liabilities at June 30, 2016 and 2015 are $967 and $2,690, respectively, due to CHCO for contract labor costs for the work of CHCO employees in MHS units. MHS also provides services for CHCO patients, MHS employees periodically perform contract labor work on the pediatric units on behalf of CHCO, and MHS purchases certain supplies for the pediatric units on behalf of CHCO. MHS has a receivable from CHCO of $523 and $910 at June 30, 2016 and 2015, respectively. Revenue received by MHS for services provided to CHCO patients totaled $80 and $12,475 for the years ended June 30, 2016 and 2015, respectively.

(e) VEBA Trust

On July 1, 2010, UCHA entered into an agreement with UPI and the Regents to begin a self-insurance trust known as the Colorado Health and Welfare Trust (the "VEBA Trust") for the benefit of eligible employees of the University, UPI, and UCHA and their eligible dependents, including employees of UCHA at MHS. The VEBA Trust is managed by a third-party administrator and provides healthcare coverage for eligible employees of the three organizations. The VEBA Trust also manages the healthcare flexible spending plans of the three organizations. The VEBA Trust functions as a retrospectively rated contract in which the initial premium is adjusted based on actual experience. For the years ended June 30, 2016 and 2015, UCHealth expensed initial premiums of approximately $156,768 and $141,249, respectively, to the VEBA Trust. At June 30, 2016 and 2015, UCHealth recorded liabilities of approximately $8,290 and $7,571, respectively, for its share of costs in excess of initial premiums expensed. The amount of costs in excess of initial premiums expensed is estimated by management based on an analysis of historical claims development combined with available information on current year experience. Actual results could differ from those estimates.

(f) Other Related Parties

UCHA and two other entities participate as members in Colorado Access, a Colorado not-for-profit corporation that owns and operates a statewide health maintenance organization that serves Medicaid patients. There are no earnings distribution agreements between Colorado Access and UCHA. Requests for financial information for Colorado Access should be addressed to Colorado Access, President and CEO, 10065 East Harvard Avenue, Suite 600, Denver, Colorado 80231.

(16) Related-Party Transactions (continued)

(f) Other Related Parties (continued)

In August 2001, UCHA entered into an agreement to loan Colorado Access $625. The principal and interest were due on or before August 24, 2004. The interest rate is equal to the Federal Reserve Bank of New York's prime rate on August 24 of each year that the principal amount is outstanding. The principal and accrued interest amounts are included in related-party receivables on the balance sheets. Colorado Access is unable to specify a timeline for repayment of this loan as a result of current negotiations with the Colorado Division of Insurance regarding steps to be taken to achieve required levels of risk-based capital. The outstanding loan balance has been transferred to UCHealth.

(17) Commitments and Contingencies

A substantial portion of the Health System's revenue is received under contractual arrangements with Medicare, Medicaid, and the military and other governmental programs. Payments from these payors are based on a combination of prospectively determined rates and retrospectively settled cost reimbursement. Final settlement of the amounts due to the Health System or payable to the payors is subject to the laws and regulations governing these programs and post-payment audits that may result in further adjustments by the payors. Additionally, these payments are subject to other routine post-payment reviews, audits, and investigations that may result in refunds, repayments, or other financial settlements. Specific accruals related to such contractual arrangements are included in the basic financial statements.

UCHealth has entered into contracts for significant new construction and expansion projects it is currently undertaking. At June 30, 2016, UCHealth has committed contract expenditures for these significant projects of $173,500.

At June 30, 2016, UCHealth has outstanding letters of credit totaling $9,696.

(18) Subsequent Events

The Health System has evaluated subsequent events through the auditors' report date. There were no material subsequent events that required recognition or disclosure in the financial statements.

($s in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios

	2016	2015	2014	2013
Total pension liability				
Service cost	$ 57,110	$ 49,411	$ 50,305	$ 38,706
Interest	44,575	37,092	29,718	25,456
Plan changes	-	10,490	-	-
Difference in expected and actual experience	4,388	15,584	-	(9,722)
Changes in assumptions	(6,213)	37,858	-	20,164
Benefits payments	(14,047)	(12,188)	(9,821)	(8,363)
Other	714	(713)	-	-
Net change in total pension liability	86,527	137,534	70,202	66,241
Total pension liability - beginning	643,003	505,469	435,267	369,026
Total pension liability - ending (a)	$ 729,530	$ 643,003	$ 505,469	$ 435,267
Plan fiduciary net position				
Contributions - employer	$ 68,000	$ 66,184	$ 56,311	$ 45,310
Net investment (loss) income	(476)	12,212	56,354	31,947
Benefits payments	(14,047)	(12,188)	(9,821)	(8,363)
Administrative expense	(1,464)	(1,453)	(794)	(543)
Net change in plan fiduciary net position	52,013	64,755	102,050	68,351
Plan fiduciary net position - beginning	526,333	461,578	359,528	291,177
Plan fiduciary net position - ending (b)	$ 578,346	$ 526,333	$ 461,578	$ 359,528
UC Health's net pension liability - ending (a) - (b)	$ 151,184	$ 116,670	$ 43,891	$ 75,739
Plan fiduciary net position	79.3%	81.9%	91.3%	82.6%
Covered employee payroll	$ 940,375	$ 862,612	$ 807,135	$ 584,097
Net pension liability as a percentage of covered payroll	16.1%	13.5%	5.4%	13.0%

Notes to Schedule:

Changes of assumptions – Based on the results of an experience study, retirement and termination rates, salary increase rates, and the assumption regarding election of form of payment upon retirement were updated in 2013. These changes increased the present value of projected benefits by $20,164.

The assumed rates of mortality were updated in 2015 based on adopting the RP-2014 mortality tables. This change decreased the present value of projected benefits by $6,213 in 2016. This change increased the present value of projected benefits by $37,858 and increased the actuarially determined contribution by $8,306 in 2015.

UNIVERSITY OF COLORADO HEALTH

Required Supplementary Information
June 30, 2016 and 2015
($s in thousands)

Schedule of Contributions
(Last 10 Fiscal Years)

	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2016	$ 67,969	$ 68,000	$ (31)	$ 940,375	7.23%
2015	$ 66,184	$ 66,184	$ -	$ 862,612	7.67%
2014	$ 56,311	$ 56,311	$ -	$ 807,135	6.98%
2013	$ 45,310	$ 45,310	$ -	$ 584,097	7.76%
2012	$ 26,398	$ 26,398	$ -	$ 256,158	10.31%
2011	$ 20,101	$ 20,101	$ -	$ 236,621	8.50%
2010	$ 19,182	$ 19,182	$ -	$ 219,877	8.72%
2009	$ 16,265	$ 23,600	$ (7,335)	$ 196,729	12.00%
2008	$ 16,109	$ 16,109	$ -	$ 189,958	8.48%
2007	$ 14,730	$ 14,730	$ -	$ 173,400	8.49%

Notes to Schedule

Valuation Date — Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Investment rate of return	7.0%, includes inflation at 2.5%
Projected salary increases	3.6% to 6.5%
Cost of living adjustments	2.5%
Mortality	In the 2016 and 2015 actuarial valuation, mortality rates were based on the RP-2014 mortality table. In prior years, those assumptions were based on the RP-2000 mortality table.

Other information:

In October 2012 and January 2013, employees of Memorial Hospital and Poudre Valley Hospital, respectively, were eligible to join the Basic Pension Plan.

($s in thousands)

Schedule of Pension Plan Investment Returns

Year Ending June 30,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2016	-0.09%
2015	2.40%
2014	15.00%
2013	10.60%
2012	-0.60%
2011	21.90%
2010	12.20%
2009	-15.90%
2008	-4.00%
2007	16.80%

UNIVERSITY OF COLORADO HEALTH

Combining Balance Sheet
June 30, 2016
($s in thousands)

	University of Colorado Hospital Authority	Poudre Valley Health System Obligated Group	Memorial Health System	Community Hospital Division	University of Colorado Health	Obligated Group Eliminations	Obligated Group Combined	Lakota Lake, LLC	UCHealth Plan Administrators	Other	Other Eliminations	University of Colorado Health Combined
Assets												
Current assets												
Cash and cash equivalents	$ 43,506	$ 30,186	$ 4,359	$ 1,593	$ -	$ -	$ 79,644	$ -	$ 4,404	$ 9,094	$ -	$ 93,142
Patient accounts receivable, net of allowances for uncollectible accounts	164,014	107,561	71,775	3,605	-	-	346,955	-	-	-	-	346,955
Other receivables	5,382	4,638	6,039	586	1,907	-	18,552	-	208	292	-	19,052
Receivables from affiliates	87,167	52,556	3,883	-	-	(139,184)	4,422	15,390	-	4,630	(24,442)	-
Inventories	30,097	17,413	13,780	168	-	-	61,458	-	-	-	-	61,458
Prepaid expenses	17,005	8,007	7,372	48	13,798	-	46,230	-	8	21	-	46,259
Investments designated for liquidity support	265,585	-	-	-	-	-	265,585	-	-	-	-	265,585
Total current assets	612,756	220,361	107,208	6,000	15,705	(139,184)	822,846	15,390	4,620	14,037	(24,442)	832,451
Non-current assets												
Restricted investments, bonds	4,488	41,153	12,177	-	-	-	57,818	-	-	-	-	57,818
Restricted investments, other	190	183	-	-	-	-	373	-	-	-	-	373
Restricted investments and pledges, donors	1,905	-	-	-	-	-	1,905	-	-	38,297	-	40,202
Capital assets, net of accumulated depreciation	886,823	436,416	318,196	98,270	65,465	-	1,805,170	-	36	-	-	1,805,206
Long-term investments	1,306,301	1,064,109	66,943	-	-	-	2,437,353	-	-	3,454	-	2,440,807
Long-term receivables from affiliates	518,850	-	-	-	-	(518,850)	-	-	-	-	-	-
Other investments	7,457	32,951	2,079	39,991	-	(1,519)	80,959	7,635	-	1,455	(24,482)	65,567
Long-term prepaid expenses	-	9,367	-	-	-	-	9,367	-	-	-	-	9,367
Other assets	1,884	6,142	16,578	342	941	-	25,887	-	-	(13)	-	25,874
Total non-current assets	2,727,898	1,590,321	415,973	138,603	66,406	(520,369)	4,418,832	7,635	36	43,193	(24,482)	4,445,214
Total assets	3,340,654	1,810,682	523,181	144,603	82,111	(659,553)	5,241,678	23,025	4,656	57,230	(48,924)	5,277,665
Deferred Outflows of Resources												
Deferred amortization on refundings	6,670	203	-	-	-	-	6,873	-	-	-	-	6,873
Deferred amortization related to pension plan	30,207	21,248	14,009	325	6,572	-	72,361	-	-	-	-	72,361
Deferred amortization on acquisitions	-	-	-	2,930	-	-	2,930	-	-	-	-	2,930
Total deferred outflows of resources	36,877	21,451	14,009	3,255	6,572	-	82,164	-	-	-	-	82,164
Total assets and deferred outflows of resources	$ 3,377,531	$ 1,832,133	$ 537,190	$ 147,858	$ 88,683	$ (659,553)	$ 5,323,842	$ 23,025	$ 4,656	$ 57,230	$ (48,924)	$ 5,359,829

UNIVERSITY OF COLORADO HEALTH

Combining Balance Sheet
June 30, 2016
($s in thousands)

	University of Colorado Hospital Authority	Poudre Valley Health System Obligated Group	Memorial Health System	Community Hospital Division	University of Colorado Health	Obligated Group Eliminations	Obligated Group Combined	Lakota Lake, LLC	UCHealth Plan Administrators	Other	Other Eliminations	University of Colorado Health Combined
Liabilities												
Current liabilities												
Current portion of long-term debt	$ 22,205	$ 2,890	$ 2,548	$ -	$ 179	$ -	$ 27,822	$ -	$ -	$ -	$ -	$ 27,822
Accounts payable and accrued expenses	103,390	72,913	47,782	4,266	57,770	-	286,121	-	103	1,206	-	287,430
Accounts payable - construction	1,410	11,265	1,594	21,390	335	-	35,994	-	-	-	-	35,994
Accrued compensated absences	23,022	19,397	12,636	625	9,853	-	65,533	-	112	34	-	65,679
Payables to affiliates	118	109	8,897	142,401	7,679	(139,184)	20,020	-	4,422	-	(24,442)	-
Accrued interest payable	3,247	3,754	-	-	24	-	7,025	-	-	-	-	7,025
Fair value of derivative instruments	4,256	-	-	-	-	-	4,256	-	-	-	-	4,256
Estimated third-party settlements, net	143,093	25,976	53,839	-	-	-	222,908	-	-	-	-	222,908
Long-term debt subject to short-term remarketing arrangements	265,585	-	-	-	-	-	265,585	-	-	-	-	265,585
Total current liabilities	566,326	136,304	127,296	168,682	75,840	(139,184)	935,264	-	4,637	1,240	(24,442)	916,699
Long-term liabilities												
Long-term debt, less current portion	944,867	235,495	98,563	-	3,853	-	1,282,778	-	-	-	-	1,282,778
Long-term payables to affiliates	-	215,485	303,365	-	-	(518,850)	-	-	-	-	-	-
Fair value of derivative instruments, less current portion	38,530	-	-	-	-	-	38,530	-	-	-	-	38,530
Net pension liability	105,858	22,604	14,198	483	8,041	-	151,184	-	-	-	-	151,184
Other long-term liabilities	2,551	3,402	2,141	122	1,370	-	9,586	-	19	4	-	9,609
Total liabilities	1,658,132	613,290	545,563	169,287	89,104	(658,034)	2,417,342	-	4,656	1,244	(24,442)	2,398,800
Deferred Inflows of Resources												
Deferred amortization related to pension plan	3,451	397	1,000	(18)	(421)	-	4,409	-	-	-	-	4,409
Total deferred inflows of resources	3,451	397	1,000	(18)	(421)	-	4,409	-	-	-	-	4,409
Total liabilities and deferred inflows of resources	1,661,583	613,687	546,563	169,269	88,683	(658,034)	2,421,751	-	4,656	1,244	(24,442)	2,403,209
Net Position												
Invested in capital assets, net of related debt	179,161	(19,169)	(95,237)	76,880	61,096	-	202,731	-	36	-	-	202,767
Restricted												
Expendable												
Held by trustee for debt service	4,488	41,153	12,177	-	-	-	57,818	-	-	-	-	57,818
Restricted by donors	-	-	28	-	-	-	28	-	-	17,425	-	17,453
Non-expendable												
Permanent endowments	-	-	-	-	-	-	-	-	-	27,245	-	27,245
Minority interest in component unit	-	18,682	-	-	-	-	18,682	-	-	-	-	18,682
Unrestricted	1,532,299	1,177,780	73,659	(98,291)	(61,096)	(1,519)	2,622,832	23,025	(36)	11,316	(24,482)	2,632,655
Net position	1,715,948	1,218,446	(9,373)	(21,411)	-	(1,519)	2,902,091	23,025	-	55,986	(24,482)	2,956,620
Total liabilities, deferred inflows of resources, and net position	$ 3,377,531	$ 1,832,133	$ 537,190	$ 147,858	$ 88,683	$ (659,553)	$ 5,323,842	$ 23,025	$ 4,656	$ 57,230	$ (48,924)	$ 5,359,829

UNIVERSITY OF COLORADO HEALTH

Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2016
($s in thousands)

	University of Colorado Hospital Authority	Poudre Valley Health System Obligated Group	Memorial Health System	Community Hospital Division	Obligated Group Eliminations	Obligated Group Combined	Lakota Lake, LLC	UCHealth Plan Administrators	Other	Other Eliminations	University of Colorado Health Combined
Operating revenue											
Net patient service revenue, net of provision for bad debts	$ 1,457,675	$ 1,044,816	$ 693,797	$ 28,947	$ -	$ 3,225,235	$ -	$ -	$ -	$ -	$ 3,225,235
Other operating revenue	23,825	24,716	12,270	4,895	(1,309)	64,397	6,141	-	2,315	(6,326)	66,527
Total operating revenue	1,481,500	1,069,532	706,067	33,842	(1,309)	3,289,632	6,141	-	2,315	(6,326)	3,291,762
Operating expenses											
Wages, contract labor, and benefits	530,636	485,922	337,096	33,410	-	1,387,064	-	-	964	(109)	1,387,919
Supplies	341,358	182,992	132,469	5,107	-	661,926	-	-	146	-	662,072
Purchased services and other expenses	293,824	156,516	146,718	8,695	(1,311)	604,442	-	-	3,419	(2,089)	605,772
Depreciation and amortization	71,105	57,245	40,007	2,353	-	170,710	-	-	82	-	170,792
Total operating expenses	1,236,923	882,675	656,290	49,565	(1,311)	2,824,142	-	-	4,611	(2,198)	2,826,555
Operating income (loss)	244,577	186,857	49,777	(15,723)	2	465,490	6,141	-	(2,296)	(4,128)	465,207
Non-operating revenue and expenses											
Interest expense	(28,990)	(15,127)	(14,484)	(111)	12,504	(46,208)	-	-	(120)	119	(46,209)
Investment income	30,395	13,852	2,559	-	(12,504)	34,302	-	-	353	(119)	34,536
Unrealized loss on derivative instruments	(12,040)	-	-	-	-	(12,040)	-	-	-	-	(12,040)
Gain (loss) on disposal of capital assets	(54)	458	37	-	-	441	-	-	(151)	-	290
Other, net	(16,819)	(13,285)	(12,779)	-	-	(42,883)	-	-	1,396	(1,440)	(42,927)
Total non-operating revenue and expenses	(27,508)	(14,102)	(24,667)	(111)	-	(66,388)	-	-	1,478	(1,440)	(66,350)
Income (loss) before distributions and contributions	217,069	172,755	25,110	(15,834)	2	399,102	6,141	-	(818)	(5,568)	398,857
Distributions to minority interest in component unit	-	(5,881)	-	-	-	(5,881)	-	-	-	-	(5,881)
Distributions to affiliates	-	-	-	-	-	-	-	-	(454)	454	-
Contributions restricted for capital assets	-	320	-	-	-	320	-	-	-	(314)	6
Contributions restricted, other	63	-	571	-	(2)	632	-	-	5,880	(111)	6,401
Change in net position	217,132	167,194	25,681	(15,834)	-	394,173	6,141	-	4,608	(5,539)	399,383
Net position, beginning of year	1,498,816	1,051,252	(35,054)	(5,577)	(1,519)	2,507,918	16,884	-	51,378	(18,943)	2,557,237
Net position, end of year	$ 1,715,948	$ 1,218,446	$ (9,373)	$ (21,411)	$ (1,519)	$ 2,902,091	$ 23,025	$ -	$ 55,986	$ (24,482)	$ 2,956,620