

# **Denver Health and Hospital Authority**

Independent Auditor's Reports and Financial Statements

December 31, 2016 and 2015

# Denver Health and Hospital Authority

## December 31, 2016 and 2015

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## Independent Auditor's Report

Board of Directors  
Denver Health and Hospital Authority  
Denver, Colorado

### Report on Financial Statements

We have audited the accompanying financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units as of and for the years ended December 31, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Denver Health Medical Plan, Inc. and DHHA Southwest Clinic, Inc., discretely presented component units, and DHHA Pavilion M, Inc. and 601 Broadway, Inc., which are blended component units, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors  
Denver Health and Hospital Authority

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Denver Health and Hospital Authority and its aggregate discretely presented component units as of December 31, 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.

### ***Emphasis of Matter***

As discussed in Note 21 to the financial statements, the 2015 financial statements of Denver Health and Hospital Authority have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits 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.

#### *Supplementary Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The consolidating statements of net position, consolidating revenues and expenses information and the budget to actual information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates 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 audits of the 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Directors  
Denver Health and Hospital Authority

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BKD, LLP*

Denver, Colorado  
March 29, 2017

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# **Denver Health and Hospital Authority**

## **Management's Discussion and Analysis (Unaudited)**

### **December 31, 2016 and 2015**

This discussion and analysis of the financial performance of Denver Health and Hospital Authority (the Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2016 and 2015.

Management's Discussion and Analysis is designed to provide a comparative discussion on significant activities, resulting changes, and currently known facts; therefore, this discussion should be read in conjunction with the Authority's financial statements.

#### **2016 Highlights**

The Authority implemented a new electronic health record system (Epic) in April 2016. The transition to Epic has resulted in operational and revenue cycle difficulties. The Authority had more non-recurring expenses related to Epic, along with a prolonged time to collect for patient cash receipts. In response to these issues, the Authority received timely filing extensions from its major payors. The Federico F. Peña Southwest Family Health Center ("Peña Clinic") opened in April 2016 and the Authority continued its master planning for the main campus and surrounding community clinics. Bonds issued in 2014 continue to fund a portion of the capital construction. There was an increase in capital construction related to the administrative services building at 601 Broadway. This is funded through a note payable and is planned to be complete in mid-2017.

Net patient service revenue was 0.7% lower than 2015, and 7.1% below budget. The slight decrease in net patient service revenue was driven by billing and collection issues and delays resulting from the implementation of the Epic system. Inpatient admissions decreased by 2.4% over 2015 and outpatient encounters decreased 1.8% compared to the same period.

The Authority's prepaid provider contract with the State of Colorado Health Care Policy and Financing (HCPF) for managed care Medicaid, Denver Health Medicaid Choice (DH Medicaid Choice) continued to grow with an 8.6% increase in membership bringing the number of members to 75,920. Revenue from this program increased approximately \$33.9 million, or 20.3%, attributable to the membership increase. Due to system issues, claims were paid at an incorrect rate in 2015. External claims costs incurred in 2016 decreased approximately \$5.8 million, or 10.4%, as a result of this correction and improved management of care to decrease avoidable outside emergency department visits. Capitation revenue was above budget by \$20.7 million, or 11.5%, due to the increase in membership and rates above budget. Claims cost was \$8.2 million, or 14.1%, below budget due to the claims issues noted above. Net funds available for care at the Authority increased approximately \$35.5 million, or 37.6%. Authority billed charges for such care increased approximately \$12.8 million, or 4.7%, so the amount realized compared to charged increased as a result.

The Authority recorded a decrease in Medicaid disproportionate share (DSH) and other safety net reimbursement compared to 2015 of approximately \$15.3 million, or 11.8%. The revenue was approximately \$14.1 million, or 11.0%, below budget. DSH revenue is paid to the Authority through the State of Colorado Hospital Provider Fee Program (HPF). The HPF is a State of Colorado tax approved by the Colorado General Assembly in April 2009 on hospitals that is matched with federal funding. Calculations of fees and payments in the HPF program are based on prior year data. The Authority conducted a review of disproportionate share revenue paid under the HPF and the impact of changes in payor mix as a result of the Affordable Care Act (ACA). The Medicaid expansion under ACA resulted in a shift from uninsured business to Medicaid and thus resulted in higher reimbursement compared to cost. This lowers the safety net reimbursement due to a limit placed on this funding by the Hospital Specific DSH Cap (HSDC). Since funding calculations for current years are based on data from prior years, this 'lag' in calculation could result in future recoupments of such funding when final audits are performed.

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The Authority is reserving for such recoupments by regularly performing a calculation of DSH compared to the estimated HSDC and adjusting the financial statements as necessary to adequately reserve for this potential recoupment. In conjunction with this analysis, the Authority has examined the revenue recognition policy related to HPF related revenue and determined there was an error in the policy and has corrected the revenue back to 2013 as a prior period adjustment. The accrual for the potential recoupment accounts for \$20.3 million of the decrease in this line item, additionally there was a \$10.6 million decrease due to ongoing reductions in the HPF due to State of Colorado reductions intended to keep HPF revenue to the state in line with Colorado Taxpayer Bill of Rights (TABOR) requirements. This is offset by an increase in Physician Upper Payment Limit (UPL), Ambulance UPL and Outstationing revenue of \$9.4, \$1.4 and \$4.9 million, respectively.

City of Denver purchased services revenue represents the contractual obligations the Authority performs on behalf of the City and County of Denver for public health services. This revenue was \$1.2 million, or 4.9%, below budget, but approximately \$3.0 million, or 14.9%, above the prior year. The drivers for this are increases in coroner lab rent agreement and increased services in Englewood and DIA. The Authority reconciles actual activity with the funding provided and records the appropriate liability for overpayment as a reduction of revenue.

Salaries and benefits increased approximately \$69.6 million, or 13.2%, and were above budget for the year by \$11.5 million, or 2.0%. Employee headcount increased 9.0% over the prior year; increases in provider compensation, EPIC staffing increases, insourcing of Environmental Services and Sterile Processing, expansion of services, normal wage increases for merit and market, and the opening of Peña Clinic all contributed to the increase. Benefit expense increased approximately \$13.8 million, or 13.4%. As of December 31, 2016, the Authority has no accrued incentive payout liability.

Contracted services and nonmedical supplies increased approximately \$17.5 million, or 9.2%, over 2015 and is approximately \$11.2 million, or 5.7%, above budget. The majority of the increase in agency and contract labor expense is due to the Epic implementation which increased \$10.8 million, or 28.7%, compared to 2015. One-time training and implementation expense for the Epic system resulted in additional expense of \$8.3 million, in addition to \$7.5 million of increased expense related to on-going Epic system expense for license fees and professional services. Provider fee expense decreased \$827,000 compared to 2015 related to the calculations made by the state for the HPF program.

Medical supplies and pharmaceuticals increased approximately \$6.1 million, or 6.0%, year over year. This was approximately \$732,000, or 0.7%, above budget. This increase was primarily driven by higher utilization of pharmaceuticals and surgical implants. All of these increases are offset by higher patient revenue.

Depreciation and amortization increased approximately \$2.0 million, or 4.9% compared to 2015, due to Epic being placed in service in 2016 and depreciation beginning on that system.

The investment market performed better in 2016 than 2015. The Authority's fair value of investments increased by approximately \$4.5 million in 2016, compared to a decrease of approximately \$8.8 million in 2015. The Authority's investment policy provides that investments are generally held to maturity. Due to decreased cash balances, our realized investment income decreased approximately \$262,000 over the prior year. Cash and cash equivalents increased approximately \$3.2 million, or 5.9%, and long-term and board-designated investments decreased approximately \$24.3 million, or 9.2%, over the prior year. The driver of the decrease in cash balances was related to a \$47 million, or 31.1%, decrease in provider fee reimbursement. DH Medicaid Choice receipts increased approximately \$38.8 million, or 23.5%. After accounting for operating expenses, cash from operations decreased approximately \$96.0 million, or 73%.

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Capital contributions in 2016 totaled \$3.0 million, including \$1.4 million of funding from the City and County of Denver to support the construction of Peña Clinic. The City also funded a number of capital items for Denver CARES totaling \$519,000 and a EKG monitors for the paramedics for \$129,000. Additionally, the Denver Health Foundation contributed \$700,000 to the Authority for capital projects related to patient care. The City's contribution to debt service on the Park Hill Clinic was approximately \$80,000. In addition, the City is funding relocation of the Office of the Medical Examiner (OME) office currently located at the administrative building at 660 Bannock to a new location just southwest of the main campus. This funding was approximately \$222,000 in 2016, but will continue as the construction, which is managed by the Authority, progresses to completion. The Authority contributed \$156,000 to DHHA Southwest Clinic, Inc., a discretely presented component unit created to enable financing of clinic construction; this funding was to cover interest expense not covered in the financing due to delay in the opening of the clinic to late April 2016. In addition, the Authority funded construction costs for 601 Broadway Inc. of approximately \$5.8 million. Since 601 Broadway Inc. is a blended component unit, that distribution eliminates in the consolidated financial statements.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which consist of a business-type activity, and includes blended component units, and notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *statement of net position* presents information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these items as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Authority's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the year.

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**Financial Analysis and Results of Operations**

Changes to net position over time may serve as a useful indicator of the Authority's financial position. At December 31, 2016, the Authority's total net position decreased by approximately \$6.7 million from 2015, or 1.8%. The following table summarizes total assets, deferred outflows of resources, total liabilities, deferred inflows of resources and net position at December 31:

	<b>Net Position</b>		
	<b>2016</b>	<b>Restated 2015</b>	<b>Restated 2014</b>
Current and noncurrent assets	\$ 540,638,905	\$ 572,293,883	\$ 499,668,295
Capital assets	<u>472,662,450</u>	<u>409,462,182</u>	<u>397,222,513</u>
Total assets	1,013,301,355	981,756,065	896,890,808
Deferred outflows	<u>51,585,290</u>	<u>30,908,808</u>	<u>19,970,870</u>
Total assets and deferred outflows of resources	<u>\$ 1,064,886,645</u>	<u>\$ 1,012,664,873</u>	<u>\$ 916,861,678</u>
Current liabilities	\$ 160,901,368	\$ 165,265,402	\$ 135,024,802
Other long-term liabilities	184,450,637	142,669,643	24,855,963
Long-term debt outstanding	<u>354,242,014</u>	<u>334,346,878</u>	<u>345,885,188</u>
Total liabilities	<u>699,594,019</u>	<u>642,281,923</u>	<u>505,765,953</u>
Deferred inflows of resources	<u>7,428,789</u>	<u>5,807,134</u>	<u>-</u>
Net investment in capital assets	111,590,723	77,825,006	65,345,766
Unrestricted	<u>246,273,114</u>	<u>286,750,810</u>	<u>345,749,959</u>
Total net position	<u>357,863,837</u>	<u>364,575,816</u>	<u>411,095,725</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,064,886,645</u>	<u>\$ 1,012,664,873</u>	<u>\$ 916,861,678</u>

Cash and unrestricted investments decreased approximately \$21.0 million, or 6.6%. The primary driver of the decrease in cash balances was related to a \$47 million, or 31.1%, decrease in HPF related reimbursement. Patient cash receipts decreased \$20.6 million, or 4.1%. This was partially offset by an increase in DH Medicaid Choice receipts of approximately \$38.8 million, or 23.0%. After accounting for operating expenses, cash from operations decreased approximately \$96.0 million, or 73%.

***Patient Accounts Receivable***

Patient accounts receivable (AR), net of contractual allowances increased by approximately \$7.9 million in 2016, or 12.2%. As noted above, cash collections from net patient service revenue decreased by approximately \$20.6 million, or 4.1%, over the prior year. This is primarily due to the conversion to Epic and billing issues. The Authority received timely filing extensions through December 31, 2016 from its

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major payors; reserves for collectability reflect that extension. The Authority has been diligent in addressing the billing issues and has seen a catch up in collections in the beginning of 2017.

***Due from Governmental Entities***

Due from governmental agencies increased approximately \$8.9 million, or 52.8%, compared to the prior year balance. This increase is divided between an increase in the operational receivable of approximately \$5.6 million and by an increase in governmental grant receivables of approximately \$3.3 million. Changes in grant receivables are driven by the timing of expenses and payments received. The non-grant portion was primarily an increase in other safety net revenue for \$4.0 million (Physician Upper Payment Limit (UPL) and Ambulance UPL) and \$1.3 million related to a delay in the graduate medical education outpatient payments.

***Due from the City and Country of Denver***

Net due from the City and County of Denver increased approximately \$2.4 million due to the annual reconciliation between the budgeted calculated payment and the actual amount incurred during the year based on cost. If the cost is less than the amount budgeted or paid, this is reflected as a liability. Additionally, there was a new receivable in 2016 related to the new OME lease payments for the space under construction.

***Other Receivables***

Other receivables decreased approximately \$4.1 million, or 20.6%, from the prior year balance. In the prior year, the Authority had accrued for a retroactive rate increase related to the DH Medicaid Choice capitation rates for \$5.0 million which has been paid and is now zero.

***Inventories***

Inventories increased approximately \$659,000, or 5.8%, primarily due to higher drug costs reflected in inventory at year-end.

***Estimated Third-party Payor Settlement Receivables***

Estimated third-party payor receivables are comprised of receivables for Medicare and Medicaid cost report settlements and receivables for outstationing revenue. These receivables decreased approximately \$1.8 million, or 29.6%, since the prior year-end, primarily due to the payment of the 2015 outstationing receivable totaling \$2.8 million, offset by the accrual of approximately \$1.0 million receivable for the 2016 Medicaid cost report.

***Restricted Investments***

Restricted investments decreased approximately \$23.5 million, or 32.8%, during 2016 due to construction draws on 2014 bond investments, offset by interest earnings.

***Capital Assets***

Capital assets, net of depreciation, increased approximately \$63.2 million over the prior year. Land increased approximately \$234,000 primarily due to the purchase of land at 38<sup>th</sup> and Kearney. Additions totaled approximately \$104.6 million, compared to approximately \$65.4 million in 2015. Major capital additions included construction on 601 Broadway totaling approximately \$38.1 million in 2016. This

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project will continue through mid-2017. Additionally, \$9.8 million in costs related to the Epic software implementation were capitalized. Capital expenditures on projects funded by the 2014 bonds totaled approximately \$31.1 million, with the largest of those projects including renovation of campus historic building for approximately \$8.8 million and renovation of the main hospital air handler system of approximately \$5.1 million. Non bond funded construction in progress additions totaled approximately \$12.3 million and included \$3.6 million related to new offices for the Rocky Mountain Poison and Drug Center (RMPDC) and \$756,000 related to a new entrance to the pediatric emergency center. Equipment purchases totaled approximately \$13.1 million dollars. Depreciation expense for the year was approximately \$41.8 million. Listed below is a summary of capital assets, net of accumulated depreciation at December 31, 2016 and 2015:

	December 31,	
	2016	2015
Land	\$ 22,647,091	\$ 22,413,152
Buildings and improvements	288,145,921	292,385,909
Equipment and software	80,486,644	37,074,492
Construction in process	81,382,794	57,588,629
Total	\$ 472,662,450	\$ 409,462,182

***Long-term and Board-designated Investments***

Long-term and board designated investments in aggregate decreased approximately \$24.3 million over the prior year. The decrease in cash provided by operating activities during 2016 resulted in less cash available for investment.

***Deferred Outflow – Acquisitions***

In 2016, the Authority purchased land and building from 38th & Kearney Partnership, LTD for \$1.1 million. This was the location of the Emergency Vehicle Maintenance and Repairs (EVMARs) business. Additionally, the Authority purchased assets from SPENCHEA, LTD for \$500,000 that included inventory, equipment and an intangible benefit for future ambulance repair services. Prior to this purchase, EVMARs serviced the Authority's ambulance fleet. The amount paid above the value of the equipment and inventory (intangible value) was \$430,000 and is shown as a deferred outflows of resources on the financials which is amortized over the life of the equipment or five years.

***Other Liabilities***

Accounts payable and accrued expenses decreased approximately \$2.0 million, or 4.2%, due to normal activity.

Accrued uncompensated absences increased approximately \$1.7 million, or 7.1%, primarily driven by more hours accrued or unused in 2016 compared to 2015.

Unearned revenue represents the payments received in advance for the supplemental payments received under the HPF program. Unearned revenue decreased \$3.5 million as a result of the monthly payments received in advance were less in 2016 compared to 2015.

# **Denver Health and Hospital Authority**

## **Management's Discussion and Analysis (Unaudited)**

### **December 31, 2016 and 2015**

Accrued claims liability represents the Incurred But Not Reported claims liability (IBNR) for DH Medicaid Choice. Due to a correction of claims payment system issues, external claims costs incurred decreased. The liability is approximately \$1.7 million, or 15.7%, lower than the prior year.

The long-term portion of liability for estimated third-party settlements increased approximately \$17.0 million. Approximately \$20.3 million of the increase is related to the accrual for potential recoupment of DSH revenue based on an audit of the HSDC as discussed in a previous section. This is offset in part by payment of a previously recorded liability for outstationing based on a settlement with the Colorado Department of Healthcare Policy and Financing (HCPF), the state Medicaid agency, of \$4.0 million. The total outstationing liability of \$5.1 million, of which \$5 million has been paid, will be fully settled by March 2017. Net pension liability represents the actuarially estimated cost of the Authority's pension plan, the Denver Employees Retirement Plan (DERP). The net liability is the amount owed for the pension benefit above the currently invested assets. This liability increased approximately \$25.4 million, or 26.9%, mainly driven by poor investment performance and change in assumptions in the actuarial valuation. The deferred outflows of resources related to pension benefits and deferred inflows of resources increased \$21.9 and \$1.6 million, respectively. The net impact to the income statement was an increase in expense of \$5.1 million. The increase is driven by changes in actuarial assumptions and lower actual versus expected return on investments.

Postemployment benefit liability represents the actuarially estimated cost of the Authority's provision of postretirement health benefits for certain employees hired in 2001 or after. The cost and liability increases each year as more employees become eligible for the benefit. The liability is funded at the time of an employee's retirement by paying a third-party administrator. This liability increased approximately \$865,000, or 15.2%, based on the actuarial valuation.

#### ***Debt***

Bonds and notes payable and capital leases payable (current and long-term), excluding the deferred loss on refunding, increased by approximately \$21.1 million due to the payment of approximately \$11.6 million in principal payments, offset by the addition of the 601 notes payable of \$31.4 million and the accretion of interest on a discounted note payable of approximately \$1.3 million.

#### **Total Assets, Liabilities and Net Position**

Overall, current and noncurrent assets, not including capital assets, decreased approximately \$31.7 million from December 31, 2015 to December 31, 2016, primarily due to a decrease in investments and restricted investments.

Total liabilities and deferred inflows as of December 31, 2016 increased approximately \$58.9 million compared to December 31, 2015. Primary drivers of this increase were the increase in pension liability of \$25.4 million, deferred inflows related to pension benefits of \$1.6 million, an increase in notes payable of \$27.4 million attributed to the debt drawn on the 601 Broadway construction loan, and the increase in third-party settlements as noted above due to DSH recoupment accrual.

At December 31, 2016, the Authority's total net position decreased by approximately \$6.7 million from 2015, or 1.8%, which was comprised of an operating loss of \$12.8 million, nonoperating net revenues of \$3.2 million, and contributed capital of \$3.0 million.

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The following table compares 2016, 2015 and 2014 revenues and expenses and shows the resulting changes in net position:

	<b>Changes in Net Position</b>		
	<b>2016</b>	<b>Restated 2015</b>	<b>Restated 2014</b>
<b>Operating revenues</b>			
Net patient service revenue	\$ 505,649,332	\$ 508,943,529	\$ 449,814,246
Capitation earned net of reinsurance	200,897,158	167,041,601	147,394,223
Medicaid disproportionate share and other safety net reimbursement	114,226,738	129,493,366	129,546,706
City of Denver payment for patient care services	30,777,300	30,777,300	30,777,300
Federal and state grants	61,762,927	63,105,757	65,003,762
City of Denver purchased services	23,111,964	20,118,276	19,040,933
Poison and drug center contracts	22,109,647	22,228,585	24,959,447
Other operating revenue	31,145,980	27,324,436	26,376,835
<b>Total operating revenues</b>	<b>989,681,046</b>	<b>969,032,850</b>	<b>892,913,452</b>
<b>Operating expenses</b>			
Salaries and benefits	595,508,941	525,936,197	483,393,656
Contracted services and nonmedical supplies	207,393,321	189,930,203	171,033,667
Medical supplies and pharmaceuticals	107,970,210	101,839,420	84,563,712
Managed care outside provider claims	49,865,526	55,666,631	53,289,427
Depreciation and amortization	41,773,814	39,817,690	46,300,056
<b>Total operating expenses</b>	<b>1,002,511,812</b>	<b>913,190,141</b>	<b>838,580,518</b>
<b>Operating income (loss)</b>	<b>(12,830,766)</b>	<b>55,842,709</b>	<b>54,332,934</b>
<b>Nonoperating revenues (expenses)</b>			
Increase in equity in joint venture	13,000	116,000	204,500
Bond issuance costs	-	-	(805,627)
Distribution from discretely presented component unit	5,000,000	-	-
Interest income	8,776,396	9,038,719	6,380,661
Interest expense	(15,348,615)	(16,023,707)	(14,910,031)
Net increase (decrease) in fair value of investments	4,548,798	(8,840,767)	2,533,258
Gain (loss) on disposition of capital assets	177,446	1,073,790	67,970
<b>Total nonoperating revenues (expenses)</b>	<b>3,167,025</b>	<b>(14,635,965)</b>	<b>(6,529,269)</b>
<b>Income (loss) before capital contributions</b>	<b>(9,663,741)</b>	<b>41,206,744</b>	<b>47,803,665</b>
<b>Contributions restricted for capital assets</b>	<b>2,951,762</b>	<b>1,171,953</b>	<b>2,212,294</b>
<b>Increase (decrease) in net position</b>	<b>(6,711,979)</b>	<b>42,378,697</b>	<b>50,015,959</b>
<b>Total Net Position, Beginning of Year, Restated</b>			
	364,575,816	411,095,725	412,880,753
Adjustment for adoption of standards	-	(88,898,606)	-
Adjustment for restatement	-	-	(51,800,987)
<b>Net position, at beginning of year, Restated</b>	<b>364,575,816</b>	<b>322,197,119</b>	<b>361,079,766</b>
<b>Net position, at end of year</b>	<b>\$ 357,863,837</b>	<b>\$ 364,575,816</b>	<b>\$ 411,095,725</b>

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**Revenues and Expenses**

***Gross Patient Service Revenue***

Gross patient service revenue increased approximately \$54.9 million, or 2.7%, for the year ended December 31, 2016, compared with the year ended December 31, 2015, as shown in the following table:

	<b>Gross Patient Revenue</b>		<b>Dollar Change</b>	<b>Percentage Change</b>
	<b>2016</b>	<b>2015</b>		
Inpatient revenue	\$ 829,412,516	\$ 848,163,828	\$ (18,751,312)	-2.2%
Outpatient revenue	964,470,400	910,629,982	53,840,418	5.9%
Physician billing	202,143,861	195,286,232	6,857,629	3.5%
Ambulance	117,851,355	104,826,225	13,025,130	12.4%
<b>Total</b>	<b>2,113,878,132</b>	<b>2,058,906,267</b>	<b>54,971,865</b>	<b>2.7%</b>
Charges forgone for charity care	(148,318,654)	(134,144,032)	(14,174,622)	10.6%
<b>Total gross patient revenue</b>	<b>\$ 1,965,559,478</b>	<b>\$ 1,924,762,235</b>	<b>\$ 40,797,243</b>	<b>2.2%</b>

Inpatient charges decreased by 2.2%, or approximately \$18.8 million over 2015, primarily due to Epic charge classification issues related to ancillary departments which impacted inpatient charges by \$13.9 million but is offset by increased outpatient charges. Inpatient census days were 0.7% above the prior year and inpatient admissions were 2.4% below the prior year. Additionally, inpatient surgical activity decreased by 6.3%.

Outpatient charges increased by approximately \$53.8 million, or 5.9%, driven by a \$16.1 million increase in outpatient pharmacy charges as well as Epic programming issues related to ancillary departments which increased outpatient charges by \$13.9 million as noted above. The Peña Clinic opened in April of 2016 resulting in an increase in outpatient charges of \$11.6 million. CT Scan, emergency department, and laboratory services all showed increased outpatient revenue over 2015. Total outpatient clinic encounters decreased 1.8% over 2015; the increases were incurred in hospital-based outpatient services.

Physician billing revenue increased approximately \$6.9 million, or 3.5%, driven by changes in the billing procedure for Federally Qualified Health Center (FQHC) community clinic services in Epic, which increases patient charges but has no impact on net revenue.

Ambulance revenue increased approximately \$13.0 million, or 12.4%, primarily due to an increase in transport volume.

***Indigent Care, Charity Care and Community Service***

The Authority, as part of its mission, provides healthcare services to the City's residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$51,190,000 and \$45,666,000 for the years ended December 31, 2016 and 2015, respectively.

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Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the state CICP program and an internal charity program as required by Denver Health Bureau of Primary Health Care Section 330 Grant for primary care. The level of charity care provided during the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Uncompensated care		
Contractual adjustments	\$ 1,161,982,341	\$ 1,148,303,674
Provision for bad debts	97,030,647	100,473,431
Charity care	<u>148,318,654</u>	<u>134,144,032</u>
	<u>\$ 1,407,331,642</u>	<u>\$ 1,382,921,137</u>

The Authority estimates the level of uncompensated care by payor classification based on established rates. The change in charity care is attributable to a shift in payor mix.

***Net Patient Service Revenue***

Net patient service revenue decreased from 2015 by approximately \$3.3 million, or 0.7%, driven by the implementation of Epic resulting in a conservative realization percentage.

For the year ended 2015 net patient service revenue increased by approximately \$59.1 million, or 13.2%, in line with the increase in billed charges and the change in payor mix.

***Capitation Earned Net of Reinsurance***

For the year ended December 31, 2016, capitation earned net of reinsurance for DH Medicaid Choice increased by approximately \$33.9 million, or 20.3%, due to an increase in membership of 8.6%. On a per member per month (PMPM) basis, the revenue earned by the Authority increased by 10.6% due to a State of Colorado capitation rate increases.

For the year ended December 31, 2015, capitation earned net of reinsurance for DH Medicaid Choice increased by approximately \$19.6 million, or 13.3%, due to an increase in membership of 3.9%, along with a capitation rate increase. On a PMPM basis, the revenue earned by the Authority increased by 5.2% due to State of Colorado capitation rate increases.

**Medicaid Disproportionate Share Hospital (DSH) and Other Safety Net Reimbursement**

Medicaid DSH revenue and other safety net reimbursement decreased approximately \$15.3 million, or 11.8%, compared to 2015. The decrease in revenue is primarily due to DSH recoupments discussed above of \$20.3 million. This is offset by an increase in physician UPL revenue that increased \$9.4 million compared to 2015. A portion of this increase is retroactive, but the Authority qualified for additional funding through this program starting in 2016.

In 2015, Medicaid DSH revenue and other safety net reimbursement increased \$2.9 million, or 2.3%, compared to 2014. In 2015, final settlement was recorded of amounts for outstationing reimbursement questioned by the Centers for Medicaid and Medicare (CMS) for years 2000 through 2010. This resulted in negative 2015 outstationing revenue of approximately \$3.6 million due to recoupment of prior year amounts, compared to revenue of approximately \$3.1 million of revenue in 2014. Offsetting that revenue

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recoupment were increases in the Colorado Indigent Care Program revenue, despite the Authority reserving for potential DSH recoupments totaling \$16.0 million.

Medicaid DSH, other safety net revenue and expense, and primary care funds for 2016 and 2015 are as follows:

	<b>2016</b>	<b>Restated 2015</b>
Colorado Indigent Care Program revenue	\$ 66,500,080	\$ 100,082,657
Supplemental Medicaid base rate revenue	13,313,765	14,021,512
Supplemental Medicaid outpatient hospital revenue	6,982,507	5,076,328
Ambulance upper payment limit revenue	3,537,140	2,100,000
Supplemental Medicaid high level neonatal intensive care unit	-	1,922,396
Hospital quality incentive payment	5,511,645	2,144,643
Outstationing revenue	1,377,776	(3,568,168)
Primary care funds	4,977,865	5,050,794
Physician certification revenue	12,025,960	2,663,204
	<u>114,226,738</u>	<u>129,493,366</u>
Provider fee expense	<u>(22,948,074)</u>	<u>(23,774,971)</u>
Net revenue after provider fee expense	<u>\$ 91,278,664</u>	<u>\$ 105,718,395</u>

***City and County of Denver Payment for Patient Care Services***

For the years ended December 31, 2016, 2015 and 2014, as part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the City paid approximately \$30.8 million annually to the Authority to cover a portion of the cost of treating the medically indigent.

***Grant Revenue***

In 2016, federal, state and other grant revenue decreased by approximately \$1.3 million, or 2.1%, primarily due to the Centers for Medicare and Medicaid Innovation (CMMI) grant ending mid-2015. This was partially offset by a new federal grant for Hospital Preparedness Program related to Ebola that started in 2016. In 2015, federal, state and other grant revenue decreased by approximately \$1.9 million, or 2.9%, primarily due to the completion of the Centers for Medicare and Medicaid Innovation (CMMI) grant, which ended in mid-2015.

***City and County of Denver Purchased Services***

As part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the Authority receives payments from the City to provide services, including, but not limited to; care for the city prisoners, public health, and to operate Denver C.A.R.E.S., which is a 100-bed nonmedical detoxification center. Revenue for reimbursement of these costs totaled approximately \$23.1 million in 2016, which is approximately \$3.0 million, or 14.9%, higher than 2015 driven by an increase in the OME (lease) agreement and increased services in Englewood and the Denver International Airport (DIA).

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In 2015, City revenue for reimbursement of these costs totaled approximately \$20.1 million, which is approximately \$1.1 million, or 5.7%, higher than 2014.

#### ***Poison and Drug Center Contracts***

The RMPDC (“poison and drug center”) is a certified regional poison center, recognized by the American Association of Poison Control Centers and serves as a regional drug information center. The RMPDC includes RADARS® System, which collects, compiles, analyzes and maintains certain de-identified health care and other information in proprietary databases containing data from several signal detection system networks. The program provides expert analysis and interpretation of data and includes a Scientific Advisory Board. Subscribing organizations are provided with timely geographic-specific surveillance and monitoring reports to detect and characterize prescription drug abuse, misuse, and diversion. Typical organizations using such information include the pharmaceutical industry, regulatory agencies, policymakers and medical/public health officials to aid in understanding trends in the abuse, misuse, and diversion of prescription drugs in the United States. Poison and Drug Center contract revenue for 2016 was approximately \$22.1 million, \$119,000 below the prior year and \$2.1 million, or 8.5%, below budget. This is related to lower than budgeted growth and a delay in new RADARS® System subscribers. For 2016, RMPDC had an increase in net assets of approximately \$386,000.

RMPDC revenue for 2015 was approximately \$22.2 million, which was approximately \$2.7 million, or 10.9%, lower than 2014, and 8.2% below budget. This is related to lower than budgeted RADARS® System subscribers. For 2015, RMPDC had an increase in net assets of approximately \$411,000.

#### **Other Operating Revenue**

For 2016, other operating revenue includes federal “meaningful use” revenue related to requirements for implementation of the electronic health record (EHR), and revenue from sources such as reimbursement for medical staff, reimbursement of guard services for non-Denver County prisoners, DH Nurseline revenue and emergency medical services (EMS) education revenue. Other operating revenue increased by \$3.8 million, or 14.0%, over 2015. Increases in this revenue category included meaningful use revenues (\$1.1 million), care management payments under the Regional Collaborative Care Organization (RCCO) which is the state’s managed fee-for-service accountable care program for Medicaid clients (\$730,000), and, Nurseline revenue increase of \$200,000. Additionally, a contract with state HCPF for enrollment services increased by \$1.0 million over 2015.

In 2015, other operating revenue increased by approximately \$948,000, or 3.6%, compared to 2014 primarily due to the HCPF contract enrollment contract, which was new in 2015.

#### ***Operating Expenses***

*Year ended December 31, 2016 compared with year ended December 31, 2015*

Operating expenses increased approximately \$89.3 million, or 9.8%, for the year ended December 31, 2016, compared with the prior year.

- Salaries and benefits increased approximately \$69.6 million, or 13.2%, and were above budget for the year by \$11.5 million, or 2.0%. Employee headcount increased 9.0% over the prior year; increases in provider compensation, EPIC staffing increases, normal wage increases for merit and market, and the opening of Peña Clinic all contributed to the increase. Benefit expense increased approximately \$13.8 million, or 13.4%. As of December 31, 2016, the Authority has no accrued incentive payout liability.

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- Contracted services and nonmedical supplies increased approximately \$17.5 million, or 9.2%, over 2015 and is approximately \$11.2 million, or 5.7%, above budget. The majority of the increase is due to the Epic implementation which increased \$10.8 million, or 28.7%, compared to 2015.
- Medical supplies and pharmaceuticals increased approximately \$6.1 million, or 6.0%, year over year. This was approximately \$732,000, or 0.7%, above budget. This increase was primarily driven by higher utilization of pharmaceuticals and surgical implants. All of these increases are offset by higher patient revenue.
- Managed Care outside provider claims represents the costs incurred for medical care and pharmaceuticals obtained by DH Medicaid Choice members outside of the Authority's system of care. This line item decreased by approximately \$5.8 million, or 10.4%, over the prior year driven by the lower claims rates paid in 2016 due to a correction in the Medicaid rates to be paid in the claims system and some improvement in utilization management of high cost services.
- Depreciation and amortization expense increased over the prior year by approximately \$2.0 million, or 4.9%, and was under budget by \$2.0 million, or 4.5%.

*Year ended December 31, 2015 compared with year ended December 31, 2014*

Operating expenses increased approximately \$74.6 million, or 8.9%, for the year ended December 31, 2015, compared with the prior year.

- Salaries and benefits increased approximately \$42.5 million, or 8.8%, but were less than budget for the year by \$5.7 million, or 1.1%. Full time equivalent (FTE) employee count increased 7.9% over the prior year; with physician FTEs increasing by 2.6% and nursing FTEs increasing 7.2%. The Authority's community health centers have seen a 6% increase in outpatient visits, and a 6% increase in unique new patients. Contributing to the increase is the staff formerly funded by the CMMI grant. These positions were primarily care coordinators and patient navigators, which assist with the delivery of timely and appropriate patient care. Benefit expense increased approximately \$10.2 million, or 10.9%. As of December 31, 2015, the Authority has accrued an estimated incentive payout of approximately \$8.0 million.
- Contracted services and nonmedical supplies expense increased \$18.9 million, or 11.0%, over the prior year. When compared to the prior year, approximately \$2.7 million of the increase was due to the Epic implementation for those costs that are not appropriate to capitalize. Also increasing these expenses year over year is higher usage of contract/agency nursing the operating rooms and screening areas.
- Medical supplies and pharmaceuticals increased approximately \$17.3 million, or 20.4%, from the prior year, and were approximately \$10.1 million, or 11.1%, above budget. This increase is driven in part by the increase in surgical operating room hours, which increased 6.1% over the prior year. Also driving costs up were pharmaceutical costs for drugs that were disbursed to patients now eligible under Medicaid or Accountable Care Organizations due to the ACA, as well as higher cost specialty drugs related to the treatment of hepatitis. This increase in expense was covered by an increase in outpatient pharmacy revenue of approximately \$25.0 million. In 2015, outpatient pharmacy cash receipts increased by approximately \$11.1 million, or 46%.

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- Managed Care outside provider claims increased by approximately \$2.4 million, or 4.5%, over the prior year due to a 3.9% increase in membership. On a PMPM basis, costs decreased over the prior year by \$1.12, or 1.5%. Costs were approximately \$3.4 million, or 5.8%, below budget.
- Depreciation and amortization expense decreased over the prior year by approximately \$6.5 million, or 14.0%, and was under budget by \$5.7 million, or 12.5%. In 2013 and early 2014, the Authority accelerated depreciation on certain capitalized software, due to a re-evaluation of the useful life. As these items became fully depreciated, depreciation expense decreased in total over the prior year.

**Nonoperating Net Income**

Nonoperating revenues and expenses consist primarily of income from the Authority's cash, short- and long-term investments, interest expense, the change in the fair value of investments, the increase in equity investment in joint venture, bond issuance costs, distribution from the Plan, and the gain or loss on disposal of capital assets.

Net nonoperating income in 2016 was approximately \$3.2 million, compared to a nonoperating loss of \$14.6 million in 2015. The largest driver in this category was the change from an unrealized loss on investments of \$8.8 million in 2015, to an approximately \$4.5 million increase in market value of investments in 2016, due to an improvement in the market in 2016. Additionally in 2016, the Authority received a distribution from the Denver Health Medical Plan (the Plan) for \$5.0 million and none in 2015.

The net nonoperating loss in 2015 was approximately \$14.6 million, compared to a nonoperating loss of \$6.5 million in 2014. The largest driver in this category was the change from an unrealized gain on investments of \$2.5 million in 2014 compared to an \$8.8 million decrease in market value of investments in 2015.

***Capital Contributions***

Capital contributions in 2016 totaled \$3.0 million in 2016, compared to \$1.2 million in 2015, and as discussed in an earlier section, were received primarily from the City and County of Denver and an Ebola preparedness grant.

Net capital contributions in 2015 totaled \$1.2 million compared to \$2.2 million in 2014, and were primarily funded by the City and County of Denver.

***Budgetary Highlights***

For the year ended December 31, 2016, the Authority's total operating revenue is \$989.7 million, which reflects a \$29.7 million negative variance to budget. Total operating expenses, excluding interest expense, is \$1,002.5 million, which is \$13.3 million, or 1.3% above budget. As a result, the Authority has generated an operating loss of \$12.8 million and a net loss of \$9.7 million, which is a negative variance to budget of \$33.5 million.

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The 2016 negative variance to budget in total operating revenue of approximately \$29.7 million, or 2.9%, was primarily related to shortfalls in net patient service revenue and HPF revenue, both discussed under the *2016 Highlights* section. Net patient service revenue was under budget by \$38.5 million, or 7.1%, due to Epic-related decreases. The 2016 negative variance to budget in total operating revenue of approximately \$29.7 million, or 2.9%, was primarily related to shortfalls in net patient service revenue and HPF revenue, both discussed under the *2016 Highlights* section. Net patient service revenue was under budget by \$38.5 million, or 7.1%, due to a deliberate reduction in clinic appointment slots during the Epic go-live and revenue cycle implementation issues during most of the remainder of the year. This was offset in part by DH Medicaid Choice capitation, which was over budget by \$20.7 million. Medicaid DSH and other safety net reimbursement was under budget by \$14.1 million, or 11.0%, due to the accrual for the potential recoupment of DSH funds in excess of the HSDC.

Operating expenses were above budget by \$13.3 million, or 1.3%, due to the increases in provider compensation and higher than budgeted benefits and pension expense as well as unanticipated contract services cost related to the Epic implementation. The budget overages in salaries, benefits and contract services totaling \$22.7 million were offset in part by a positive budget variance of \$8.2 million in managed care outside provider claims due to a Medicaid rate correction in the system and better management of high-cost utilization by clients.

***Capital Assets and Debt Administration***

***Capital Assets***

Capital assets, net of accumulated depreciation, increased approximately \$63.2 million over the prior year. Additions totaled approximately \$104.6 million, compared to approximately \$65.4 million in 2015. Significant capital additions in 2016 included construction on 601 Broadway for \$38.1 million, \$9.8 million in costs related to the Epic software implementation, and \$31.1 million of projects funded by the 2014 bonds. Equipment purchases totaled approximately \$13.1 million and included approximately \$3.7 million for two new x-ray machines in cardiology, \$2.2 million in servers for Epic and \$1.1 million in new office equipment for RMPDC. Depreciation expense for the year was approximately \$41.8 million.

In 2015, capital assets net of depreciation increased approximately \$12.2 million over the prior year. Land decreased approximately \$4.0 million due to the sale of 990 Bannock. The disposal of the associated building removed a net asset of approximately \$9.8 million. Additions totaled approximately \$65.4 million, compared to \$31.4 million in 2014. Major capital additions in 2015 included approximately \$34.8 million in costs related to the Epic software implementation. Depreciation expense for the year was approximately \$39.4 million.

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*Long-term Debt*

Long-term debt at December 31, 2016, net of current portion and excluding deferred loss on bond refunding, is approximately \$354.2 million compared to \$334.3 million and \$345.9 million for 2015 and 2014, respectively. The increase of \$19.9 million is comprised of new debt for 601 Broadway construction (\$31.4 million) offset by principal payments of \$11.6 million. Other notes payable includes of a Housing and Urban Development (HUD) loan of approximately \$2.5 million, the proceeds of which were utilized to build the Park Hill Clinic. Also included in other notes payable is a Community Development Block Grant (CDBG) loan of \$1.2 million. Both loans are between the Authority and the City.

Below is a listing of the Authority's outstanding long-term debt, net of current portion at December 31, 2016, 2015 and 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
2007 A and B Revenue Bonds	\$ 164,102,152	\$ 167,751,486	\$ 171,220,820
2009 Revenue Bonds	1,520,000	2,140,000	2,780,000
2010 Healthcare Recovery Zone			
Facility Revenue Bonds	25,189,501	25,730,442	26,251,381
2014 Revenue Bonds	81,437,327	83,728,614	85,939,901
Pavilion M notes payable	36,608,543	37,607,050	37,607,050
601 Broadway notes payable	31,477,163	50,001	-
Other notes payable	13,115,006	16,131,337	20,432,767
Capital lease obligation	792,322	1,207,948	1,653,269
	<u>\$ 354,242,014</u>	<u>\$ 334,346,878</u>	<u>\$ 345,885,188</u>

Long-term debt decreased by approximately \$11.5 million in 2015 due to the principal payments of \$9.2 million with an additional \$2.3 million reclass to current debt related to the 2014B bonds.

The Authority's 2014, 2010, 2009, 2007A and 2007B bond series ratings are BBB by Standard and Poor's and BBB+ by Fitch at December 31, 2016 and 2015, respectively.

**Economic Factors and Next Year's Budget**

In preparing the budget for 2017, the Authority recognized the challenges in expense growth that occurred in 2016 and the need to increase efficiency and reduce cost. Additionally, there are challenges with the current funding model which is greater than 70% government sources. Therefore, the Authority's 2017 budget targeted a \$35 million cost reduction and a revenue increase of \$35 million to be gained, in part, through improvements to revenue cycle or growth in non-governmental business. An increase of 11% in Ambulatory Care Services (ACS) encounters and a 6% increase in both inpatient admissions and deliveries and an overall increase in patient service revenue of 8.4% is projected. In 2017, the remaining funds from the 2014 bonds will be spent and several inpatient and remodel projects will be completed. The new 601 Broadway administration building will be completed in May 2017.

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Salary and benefit costs are budgeted at a 6.7% increase over the 2016 actual personnel cost, driven by additional staffing due to projected increases in patient service volumes and the remaining effect of the physician compensation changes. Labor productivity targets remain in effect, so positions are not hired unless the productivity system indicates that there is a need based on volume. There is no expense for the Management Incentive Plan (MIP) included in the 2017 budget. In 2017, 62.7% of the Authority's cost is personnel-related and drives most of the overall increase in budgeted 2017 expense. The Authority has implemented tight budget controls around growth initiatives requiring regular reporting to the internal budget committee, targets and metrics that are regularly reviewed and an exit strategy that must be in place if initiatives do not meet target. In this way, growth in cost can be mitigated if the related revenue that is budgeted is not achieved. The 2017 budget reflects an increase in net position of \$19.8 million. The Authority's 2017 budget reflects the continued focus on our seven core pillars: Patient Safety and Quality, Financial Vitality, Patient Experience, Community, Workforce Engagement, Research/Education and Growth and continued execution of its strategic plans organized around these pillars. Additionally, a number of initiatives are in process related to making the Authority a provider that Denver Health employees would proudly recommend to family and friends. These are known as the "Proud to Recommend" initiatives and are designed to improve patient satisfaction and attractiveness of the Authority to traditional payors and commercial insurance payors and patients.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's financial results for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, 777 Bannock Street, Mail Code 0278, Denver, Colorado 80204.

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<b>Assets and Deferred Outflows of Resources</b>	<b>2016</b>	<b>2015 Restated See Note 21</b>
	<u>2016</u>	<u>See Note 21</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 57,248,886	\$ 53,891,036
Restricted cash and cash equivalents	228,080	396,813
Patient accounts receivable, net of estimated uncollectibles of approximately \$31,939,000 and \$20,905,000 in 2016 and 2015, respectively	72,783,485	64,850,415
Due from other governmental entities	25,709,966	16,824,159
Due from City and County of Denver	2,438,897	-
Other receivables	15,698,709	19,777,499
Interest receivable	1,205,056	1,298,652
Due from and investment in discretely presented component units	1,837,697	2,048,221
Inventories	12,052,439	11,392,947
Prepaid expenses and other assets	10,524,144	10,534,400
	<u>199,727,359</u>	<u>181,014,142</u>
<b>Noncurrent Assets</b>		
Notes receivable	44,393,015	44,393,015
Estimated third-party payor settlements receivable	4,258,361	6,044,891
Equity interest in joint venture	1,101,500	1,088,500
Restricted investments	48,189,266	71,733,897
Capital assets, net of accumulated depreciation	472,662,450	409,462,182
Long-term investments	204,241,242	195,269,539
Board designated investments	36,500,000	69,788,663
Other long-term assets	2,228,162	2,961,236
	<u>813,573,996</u>	<u>800,741,923</u>
Total noncurrent assets	813,573,996	800,741,923
Total assets	1,013,301,355	981,756,065
<b>Deferred Outflows of Resources</b>		
Accumulated change in fair value of hedging derivatives	13,499,981	14,856,023
Deferred outflows of resources related to pension benefits	33,370,998	11,459,933
Deferred outflow - acquisitions	415,667	-
Loss on refunding of debt	4,298,644	4,592,852
	<u>51,585,290</u>	<u>30,908,808</u>
Total deferred outflows of resources	51,585,290	30,908,808
Total assets and deferred outflows of resources	<u>\$ 1,064,886,645</u>	<u>\$ 1,012,664,873</u>

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**Liabilities, Deferred Inflows of Resources and Net Position**

	<b>2016</b>	<b>2015 Restated See Note 21</b>
<b>Current Liabilities</b>		
Current maturities of bonds payable	\$ 11,206,429	\$ 6,825,000
Current maturities of capital leases	428,147	450,456
Current maturities of notes payable	1,193,507	4,301,429
Medical malpractice liability	4,483,667	3,060,626
Accounts payable and accrued expenses	46,244,664	48,263,188
Due to the City of Denver	-	942,861
Accrued salaries, wages and employee benefits	38,291,813	38,760,316
Accrued compensated absences	25,274,146	23,591,399
Unearned revenue	22,727,784	26,179,429
Derivative interest rate swap liability	1,816,211	1,933,698
Accrued claims	9,235,000	10,957,000
Total current liabilities	160,901,368	165,265,402
<b>Long-term Liabilities</b>		
Long-term portion of liability for estimated third-party settlements	46,000,540	29,031,456
Long-term portion of compensated absences	253,758	395,539
Bonds payable, less current maturities	272,248,981	279,350,541
Capital lease obligations, less current maturities	792,322	1,207,948
Notes payable	81,200,711	53,788,389
Derivative interest rate swap liability	11,722,144	13,021,072
Net pension liability	119,914,669	94,527,507
Postemployment benefits	6,559,526	5,694,069
Total long-term liabilities	538,692,651	477,016,521
Total liabilities	699,594,019	642,281,923
<b>Deferred Inflows of Resources</b>		
Deferred inflows of resources related to pension benefits	7,428,789	5,807,134
Total liabilities and deferred inflows of resources	707,022,808	648,089,057
<b>Net Position</b>		
Net investment in capital assets	111,590,723	77,825,006
Unrestricted	246,273,114	286,750,810
Total net position	357,863,837	364,575,816
Total liabilities, deferred inflows of resources and net position	\$ 1,064,886,645	\$ 1,012,664,873

**Denver Health Medical Plan, Inc.**  
**(A Component Unit of Denver Health and Hospital Authority)**  
**Balance Sheets**  
**December 31, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 238,958	\$ 4,803,862
Reinsurance recoverable on paid losses	253,938	330,801
Interest receivable	321,127	315,062
Premiums and other receivables	5,132,879	1,058,429
Prepaid expenses	279,173	225,177
Total current assets	6,226,075	6,733,331
<b>Noncurrent Assets</b>		
Restricted investments	608,051	604,093
Unrestricted investments	44,952,590	41,171,391
Total noncurrent assets	45,560,641	41,775,484
Total assets	\$ 51,786,716	\$ 48,508,815

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,012,275	\$ 2,125,498
Due to Denver Health and Hospital Authority	1,337,455	1,398,412
Unearned premiums	249,795	99,169
Accrued claims and loss adjustment expenses	15,539,578	13,848,000
Total current liabilities	20,139,103	17,471,079
Total liabilities	20,139,103	17,471,079
<b>Net Assets</b>		
Unrestricted net assets	31,647,613	31,037,736
Total net assets	31,647,613	31,037,736
Total liabilities and net assets	\$ 51,786,716	\$ 48,508,815

**DHHA Southwest Clinic, Inc.**  
**(A Component Unit of Denver Health and Hospital Authority)**  
**Balance Sheets**  
**December 31, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Restricted cash and cash equivalents	\$ 604,287	\$ 4,082,601
<b>Noncurrent Assets</b>		
Land	4,809,588	4,809,588
Building	17,761,703	-
Construction in progress	-	16,395,196
Total property	22,571,291	21,204,784
Accumulated depreciation	(333,032)	-
Net property and equipment	22,238,259	21,204,784
Total noncurrent assets	22,238,259	21,204,784
Total assets	\$ 22,842,546	\$ 25,287,385

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable for construction	\$ -	\$ 2,007,590
Due to Denver Health and Hospital Authority	-	149,808
Total current liabilities	-	2,157,398
<b>Notes Payable</b>	20,868,851	20,709,560
Total liabilities	20,868,851	22,866,958
<b>Net Assets</b>		
Unrestricted	1,973,695	2,420,427
Total net assets	1,973,695	2,420,427
Total liabilities and net assets	\$ 22,842,546	\$ 25,287,385

**Denver Health and Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015 Restated See Note 21</b>
	<b>2016</b>	<b>2015 Restated See Note 21</b>
<b>Operating Revenues</b>		
Net patient service revenue	\$ 505,649,332	\$ 508,943,529
Capitation earned net of reinsurance expense	200,897,158	167,041,601
Medicaid disproportionate share and other safety net reimbursement	114,226,738	129,493,366
City and County of Denver payment for patient care services	30,777,300	30,777,300
Federal, state and other grants	61,762,927	63,105,757
City and County of Denver purchased services	23,111,964	20,118,276
Poison and drug center contracts	22,109,647	22,228,585
Other operating revenue	31,145,980	27,324,436
	<b>989,681,046</b>	<b>969,032,850</b>
<b>Operating Expenses</b>		
Salaries and benefits	595,508,941	525,936,197
Contracted services and nonmedical supplies	207,393,321	189,930,203
Medical supplies and pharmaceuticals	107,970,210	101,839,420
Managed care outside provider claims	49,865,526	55,666,631
Depreciation and amortization	41,773,814	39,817,690
	<b>1,002,511,812</b>	<b>913,190,141</b>
Total operating expenses	<b>1,002,511,812</b>	<b>913,190,141</b>
Operating income (loss)	<b>(12,830,766)</b>	<b>55,842,709</b>
<b>Nonoperating Revenues (Expenses)</b>		
Increase in equity in joint venture	13,000	116,000
Distribution from discretely presented component unit	5,000,000	-
Interest income	8,776,396	9,038,719
Interest expense	(15,348,615)	(16,023,707)
Net increase (decrease) in fair value of investments	4,548,798	(8,840,767)
Gain on disposition of capital assets	177,446	1,073,790
	<b>3,167,025</b>	<b>(14,635,965)</b>
Total nonoperating revenues (expenses)	<b>3,167,025</b>	<b>(14,635,965)</b>
Income (loss) before capital contributions	<b>(9,663,741)</b>	<b>41,206,744</b>
<b>Contributions Restricted for Capital Assets</b>	<b>2,951,762</b>	<b>1,171,953</b>
	<b>2,951,762</b>	<b>1,171,953</b>
Increase (decrease) in net position	<b>(6,711,979)</b>	<b>42,378,697</b>
<b>Total Net Position, Beginning of Year, As Previously Reported</b>	<b>364,575,816</b>	<b>370,369,661</b>
Adjustment for restatement	<b>-</b>	<b>(48,172,542)</b>
<b>Total Net Position, Beginning of Year, Restated</b>	<b>364,575,816</b>	<b>322,197,119</b>
<b>Total Net Position, End of Year</b>	<b>\$ 357,863,837</b>	<b>\$ 364,575,816</b>

**Denver Health Medical Plan, Inc.**  
**(A Component Unit of Denver Health and Hospital Authority)**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>		
Premiums earned, net of reinsurance, including \$62 million and \$57 million received from Denver Health and Hospital Authority in 2016 and 2015, respectively	\$ 137,914,551	\$ 119,357,658
Total operating revenues	137,914,551	119,357,658
<b>Operating Expenses</b>		
Leased employee services from Denver Health and Hospital Authority	6,942,162	6,778,759
Rent and other administrative expenses paid to Denver Health and Hospital Authority	470,818	368,361
Contracted services and nonmedical supplies	6,787,776	6,541,606
Medical claims and capitation paid to Denver Health and Hospital Authority	61,038,138	60,111,175
Medical and pharmacy claims incurred	57,369,276	45,116,876
Total operating expenses	132,608,170	118,916,777
Operating income	5,306,381	440,881
<b>Nonoperating Revenues</b>		
Distribution to Denver Health and Hospital Authority	(5,000,000)	-
Investment income	1,085,350	759,765
Net increase in fair value of investments	(781,854)	234,337
Total nonoperating revenues (expenses)	(4,696,504)	994,102
Increase in net assets	609,877	1,434,983
<b>Total Net Assets, Beginning of Year</b>	31,037,736	29,602,753
<b>Total Net Assets, End of Year</b>	\$ 31,647,613	\$ 31,037,736

**DHHA Southwest Clinic, Inc.**  
**(A Component Unit of Denver Health and Hospital Authority)**  
**Statements of Operations**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Revenues, Gains and Other Support</b>		
Contributed management services	\$ 87,884	\$ 84,437
Facility rental from Denver Health and Hospital Authority	268,736	-
Interest income	<u>2,060</u>	<u>17,056</u>
Total revenues, gains and other support	<u>358,680</u>	<u>101,493</u>
<b>Operating Expenses</b>		
Contributed management services	87,884	84,437
Other operating expenses	71,037	59,080
Depreciation expense	333,032	-
Interest expense, including amortization of loan cost of \$159,288 and \$159,290, respectively	<u>469,779</u>	<u>420,207</u>
Total operating expenses	<u>961,732</u>	<u>563,724</u>
<b>Operating Loss</b>	(603,052)	(462,231)
<b>Capital Contribution</b>	<u>156,320</u>	<u>86,168</u>
<b>Change in Net Assets</b>	(446,732)	(376,063)
<b>Net Assets, Beginning of Year</b>	<u>2,420,427</u>	<u>2,796,490</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,973,695</u>	<u>\$ 2,420,427</u>

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**Denver Health and Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b> <b>Restated</b> <b>See Note 21</b>
<b>Cash Flows from Operating Activities</b>		
Collections from patient services	\$ 516,682,400	\$ 518,123,251
Collections from capitation, net of reinsurance	203,772,612	165,006,942
Medicaid disproportionate share reimbursement and upper payment limit reimbursement	103,790,525	149,484,039
City and County of Denver payment for hospital services	30,765,796	30,308,589
Collections from poison and drug center contracts	21,570,581	22,500,151
Collections from federal, state and other grants	59,750,925	58,423,637
City and County of Denver purchased services	20,409,735	20,949,178
Other operating receipts	30,157,427	29,098,807
Payments for salaries and benefits	(589,150,714)	(518,791,936)
Payments to suppliers	(310,581,763)	(289,903,280)
Payments for managed care outside provider claims	(51,612,333)	(53,607,568)
	35,555,191	131,591,810
<b>Cash Flows from Capital and Related Financing Activities</b>		
Purchases of capital assets	(106,308,406)	(53,521,363)
Receipt of capital contributions	2,271,738	1,171,953
Repayments of bonds payable and other long-term debt	(11,564,364)	(9,172,804)
Proceeds from the issuance of bonds and Certificates of Participation	31,427,162	50,001
Distribution (to) from discretely presented component unit	5,000,000	-
Payment of bond and Certificates of Participation	-	(629,895)
Proceeds from the sale of capital assets	185,500	14,831,372
Cash paid for interest	(14,658,080)	(14,631,630)
	(93,646,450)	(61,902,366)
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale and maturities of investments	252,977,107	35,575,493
Purchases of investments	(200,075,098)	(104,748,249)
Interest income	8,378,367	8,663,019
	61,280,376	(60,509,737)
Net cash provided by (used in) investing activities		
	3,189,117	9,179,707
<b>Cash and Cash Equivalents, Beginning of Year</b>	54,287,849	45,108,142
<b>Cash and Cash Equivalents, End of Year</b>	\$ 57,476,966	\$ 54,287,849

**Denver Health and Hospital Authority**  
**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b> <b>Restated</b> <b>See Note 21</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Cash and cash equivalents	\$ 57,248,886	\$ 53,891,036
Restricted cash and cash equivalents	228,080	396,813
	<u>\$ 57,476,966</u>	<u>\$ 54,287,849</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	<u>\$ (12,830,766)</u>	<u>\$ 55,842,709</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	41,773,814	39,817,690
Provision for bad debts	97,030,647	100,473,431
Changes in assets and liabilities		
Patient accounts receivable, net	(104,963,717)	(100,853,312)
Due from other governmental entities	(4,189,283)	(4,882,202)
Due from discretely presented component unit	210,524	(691,986)
Due from City and County of Denver	(2,701,735)	805,807
Other receivables	4,078,790	(1,145,395)
Inventories	(659,492)	(1,584,364)
Prepaid expenses and other assets	1,302,978	(994,852)
Accounts payable and accrued expenses	(163,282)	2,637,228
Accrued salaries, wages and employee benefits	4,817,261	5,958,652
Accrued compensated absences	1,540,966	1,185,609
Estimated third-party payor settlements	18,755,614	29,960,266
Medical malpractice liability	1,423,041	425,988
Unearned revenue	(8,148,169)	2,856,541
Accrued claims	(1,722,000)	1,780,000
	<u>48,385,957</u>	<u>75,749,101</u>
Net cash provided by operating activities	<u>\$ 35,555,191</u>	<u>\$ 131,591,810</u>
<b>During 2016 and 2015, the Authority Recorded the Following Noncash Transactions</b>		
Capital asset acquisitions included in accounts payable	<u>\$ 11,653,984</u>	<u>\$ 13,584,009</u>

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# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### ***Organization***

The Denver Health and Hospital Authority (the Authority) was created in 1994 by the State of Colorado (the state) as a political subdivision of the state pursuant to Article 29 of Title 25, Colorado Revised Statutes, as amended (the Act). As contemplated in the Act, on January 1, 1997, substantially all of the programs, services, and facilities of the City and County of Denver's (the City) Department of Health and Hospitals Enterprise Fund were transferred to the Authority pursuant to the Transfer Agreement between the Authority and the City.

#### ***Definition of Reporting Entity***

The Authority follows Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which activities, organizations, and functions are included within the financial reporting entity. GASB pronouncements set forth the financial accountability of an organization's elected governing body as the basic criterion for including a possible component organization in the primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

The Authority is financially accountable for DHHA Pavilion M, Inc., 601 Broadway Inc. and beginning in 2016 Canadian Consumer Product and Pharmaceutical Safety Inc., each a blended component unit. The Authority is not a component unit of any other primary governmental entity.

#### ***The Authority***

The Authority is a fully integrated healthcare delivery system, which employs a single physician group and operates four divisions: the Denver Health Medical Center, the City Fund, the Rocky Mountain Poison and Drug Center (RMPDC), and what is referred to by the Authority as the Restricted Fund. The Restricted Fund consists of a majority of grants the Authority has been awarded where the funds are used as directed by the grantor.

The Denver Health Medical Center is an acute care hospital licensed for 525 total beds, including 93 intensive care beds, that provides inpatient medical and mental health services, an ambulatory care center, emergency medical services including Level 1 Trauma, nine federally qualified community health centers in Denver that provide outpatient services, as well as a federally qualified Women's Mobile Clinic. The Authority also operates 17 school-based clinics in Denver that provide outpatient services to students.

The City Fund is 100% funded by the City (except for depreciation expense) in accordance with an operating agreement between the Authority and the City, which is amended each year. Operations included in the City Fund are the Public Health Department, which assesses community public health needs in areas such as HIV and AIDS treatment and prevention, and provides services related to the medical investigation of disease, medical recommendations to the City for disease control, and provision of disease control, administration of vital records, and maintenance of vital

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

statistics. Also included in the City Fund is prisoner care at the Denver Justice Center and Denver County Jail and the Denver C.A.R.E.S. shelter, which is a 100-bed nonmedical detoxification center, including limited services for residential treatment.

The RMPDC is a certified regional poison center as recognized by the American Association of Poison Control Centers and serves as a regional drug information center. It also provides poison and drug information services to medical professionals and consumers in other states through contractual agreements.

### ***Rocky Mountain Drug Safety Inc. and Canadian Consumer Product and Pharmaceutical Safety Inc.***

In September 2015, the Authority created a Colorado not-for-profit corporation Rocky Mountain Drug Safety Inc. (RMDS), of which it is the sole member. Three Authority employees comprise the Board of Directors. The purpose of RMDS is to be the sole member of a Canadian not-for-profit corporation Canadian Consumer Product and Pharmaceutical Safety Inc. (CCPPS). The CCPPS Board of Directors is comprised of two Authority employees and one independent director. CCPPS will perform collection and analysis of drug and pharmaceutical data, to enhance treatment, prevention and mitigation of drug abuse and adverse drug events. CCPPS is presented as a blended component unit because the Authority has the ability to exert its will on CCPPS and the exclusion of CCPPS's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between CCPPS and the Authority have been eliminated in the basic financial statements.

### ***DHHA Pavilion M, Inc.***

DHHA Pavilion M, Inc. (Pavilion M) is a Colorado organization formed by the Authority in March 2010 to construct, finance and own a four-story facility to house certain inpatient, outpatient and medical services associated with the Authority's operations. The Authority created Pavilion M for the sole purpose of financing and constructing the facility. By structuring the arrangements for owning and financing the facility to take advantage of New Market Tax Credits, the Authority significantly reduced the net funding that it had to provide to construct the facility. Pavilion M is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

In June 2010, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$10.6 million and the total was invested in three Community Development Entities (CDEs). Pavilion M was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to construct the facility. The land occupied by the building is leased to Pavilion M by the Authority. The Pavilion M Board of Directors consists of three Authority employees. Pavilion M is presented as a blended component unit because it provides services entirely to the Authority and exclusion of Pavilion M's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between Pavilion M and the Authority have been eliminated in the basic financial statements. Separate financial statements of Pavilion M can be obtained from the Authority at 303.602.7045, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 655 Broadway, Denver, Colorado 80203.

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***601 Broadway, Inc.***

601 Broadway, Inc. (601 Broadway) is a Colorado organization formed by the Authority in June 2015 to develop land located at the northwest corner of 6<sup>th</sup> Avenue and Broadway Boulevard, in the City and County of Denver, Colorado. The Authority created 601 Broadway for the sole purpose of financing construction through the issuance of a note payable to a bank. 601 Broadway is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

The construction project is an administrative services building for Authority employees. The expected cost of the facility is approximately \$60,000,000. The Authority determined that it could reduce the cost of financing the construction of the facility by creating 601 Broadway and contributing \$14,500,000 to the entity. 601 Broadway then obtained a loan from a local bank in the amount \$50,000,000. The Authority contributed approximately \$5.8 million and \$8.7 million to 601 Broadway as of December 31, 2016 and 2015, respectively. As of December 31, 2016, 601 Broadway had drawn approximately \$31.5 million on the construction loan. Once the building is in use, 601 Broadway will fund the debt service on the loan from monthly rent payments received from the Authority for the use of the facility. The land occupied by the building is leased to 601 Broadway by the Authority. The Authority is the sole member of 601 Broadway. The 601 Broadway Board of Directors consists of three Authority employees. 601 Broadway is presented as a blended component unit because it provides services entirely to the Authority and exclusion of 601 Broadway's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between 601 Broadway and the Authority have been eliminated in the basic financial statements.

### ***Denver Health Medical Plan, Inc.***

Denver Health Medical Plan, Inc. (the Plan) is a Colorado nonprofit organization formed by the Authority in 1997 as a health maintenance organization to provide comprehensive healthcare services on a prepaid basis to its members. The Plan is governed by a nine-member Board of Directors, which is appointed by the Authority. The majority of the Plan's Board of Directors consists of Board members and executive staff of the Authority. The Plan's members consist of current and former employees of the Authority and their dependents, the City, the Denver Employee Retirement Plan, Child Health Plan Plus participants, and Medicare Choice (dual eligibles) and Medicare Select Low Income Plan. In 2014, the Plan began offering individual commercial coverage through Connect for Health Colorado, the Colorado insurance marketplace developed as a result of the Affordable Care Act. The Authority is able to impose its will on the Plan and is financially accountable for the Plan. Accordingly, the Plan is presented as a discretely presented component unit.

Financial statements for the Plan, prepared on a statutory basis of accounting, can be obtained from the Authority at 303.602.2005, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 655 Broadway, Denver, Colorado 80203.

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***DHHA Southwest Clinic, Inc.***

DHHA Southwest Clinic, Inc. (Southwest Clinic) is a Colorado nonprofit organization formed by the Authority in September 2014 to purchase land and construct, finance and own an outpatient and urgent care clinic in Southwest Denver, that began providing outpatient medical services associated with the Authority's operations in April 2016. The Authority created Southwest Clinic for the sole purpose of financing and constructing the facility. By structuring the arrangements for owning and financing the facility to take advantage of New Market Tax Credits, the Authority significantly reduced the net funding that it must provide to construct the facility. Southwest Clinic is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

The members of Southwest Clinic are the Authority and Denver Community Health Service Inc., (DCHS) a Colorado nonprofit corporation. The Board of Directors of Southwest Clinic consists of one member who is an Authority Board Director, and two members who are DCHS Board Directors. Two Authority employees act as non-voting officers of Southwest Clinic. The Authority is financially accountable for Southwest Clinic, and therefore it is a discretely presented component unit.

In May 2014, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$7.3 million and the total was invested in three CDEs. Southwest Clinic was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to purchase land and was used to construct the facility. The Authority leased the building from Southwest Clinic starting in April 2016 for 20 years. Lease payments were made of \$269,000 in 2016. In 2016, the Authority made a capital contribution of \$156,000 to Southwest Clinic to fund interest costs and project overages.

### ***Denver Health and Hospitals Foundation***

The Denver Health and Hospitals Foundation (the Foundation) is a not-for-profit charity formed for the benefit of the Authority. The Foundation's mission is to support the Authority in its mission to provide quality patient care. Significant areas of support include, but are not limited to, maternal and child health, community health, volunteer functions, trauma prevention and care, among others. Fund-raising efforts for the benefit of the Authority are undertaken by the Foundation, and the Authority is entitled to and has the ability to access resources held by the Foundation to fund its programs; however, the assets held by the Foundation and the annual funding are not significant to the Authority's operations as a whole and the Authority does not appoint a voting majority of the Foundation's Board. Therefore, the Foundation is not presented as a component unit of the Authority.

The Authority does provide certain accounting and administrative functions for the Foundation at no cost. During 2016 and 2015, the Foundation paid the Authority approximately \$2.7 million and \$3.4 million, respectively, in pass through grants and donations. During 2016, the Foundation made a \$700,000 capital contribution to the Authority for capital projects related to patient care.

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***HSS, Inc.***

The Authority is an equity owner of HSS, Inc. (HSS). HSS services customers in the healthcare industry, as well as other organizations and governmental agencies. Services provided by HSS include security services and courier services, which are utilized by the Authority. In 2009, the Authority was granted 9.5% of the outstanding shares of stock in HSS at no cost. The Authority has recorded this as an investment in equity of a joint venture. The change in the value of the Authority's share of net equity has been recorded as nonoperating income. The Authority paid HSS approximately \$4.0 million and \$4.4 million in 2016 and 2015 respectively, for services rendered for security and transportation.

### ***Relationship with the City and County of Denver***

The Act states that the City shall have no control over the operations of the Authority. Principal agreements between the Authority and the City dated January 1, 1997 include the Operating Agreement and the Personnel Services Agreement. The Operating Agreement is amended annually.

The Operating Agreement provides for and defines the services the Authority will provide to the City and be provided by the City to the Authority as well as the basis for determining compensation for such services. The agreement was entered into in order to ensure the citizens of the City would have access to quality preventative, acute, and chronic healthcare regardless of their ability to pay. The Authority and the City intend to continue to be collaborative and supportive in carrying out the objectives through annual City payments to the Authority.

The Personnel Services Agreement provides for the lease of City employees to the Authority and the Authority's payment obligations with respect to such employees.

For each of the years ended December 31, 2016 and 2015, the Authority recognized revenue from the City for Authority services of approximately \$30,777,000 as compensation for costs incurred for treatment of medically indigent Denver residents.

The City purchased services revenue includes amounts relating to support services and expenses incurred by the Authority for other City agencies. These costs are reimbursed by the City and amounted to approximately \$23,112,000 and \$20,118,000 in 2016 and 2015, respectively. Revenue is recognized as services are provided. As of December 31, 2016, the City has an outstanding commitment to provide funding to the Authority not to exceed \$18,400,000 for debt financed clinic construction within the City limits of Denver, Colorado.

### ***Basis of Presentation***

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB.

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Use of Estimates***

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Cash and Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of operational depository and checking accounts.

### ***Investments, Restricted and Board-designated Investments***

Investments consist of U.S. treasuries and government obligations, asset-backed securities, corporate notes and bonds, and mutual funds. Investments are carried at fair value, which is based upon quoted market prices, except the bond reserve funds invested in guaranteed investment contracts, which are carried at cost. Investments whose maturities at the time of acquisition are one year or less are classified as short-term investments. All other investments are classified as long-term.

Restricted investments include assets held in investment accounts restricted for future debt service as specified in the related bond agreement.

Board-designated investments include assets held in investment accounts set aside by the Board of Directors for future capital projects, over which the Board retains control and at its discretion subsequently use for other purposes.

Interest, dividends, and realized and unrealized gains and losses, based on the specific-identification method, are included in nonoperating revenue and expenses when earned or realized.

### ***Patient Accounts Receivable***

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Inventories***

Inventories consist principally of medical and surgical supplies, pharmaceuticals, and food products and are stated at the lower of cost or market, with cost determined on an average-cost basis.

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or, fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The Authority uses the estimated useful lives recommended by the American Hospital Association. Useful lives for building and improvements are 15 to 40 years and equipment and software are 3 to 20 years. The Authority's capitalization threshold for capital purchases is \$5,000.

### ***Deferred Outflows of Resources***

The Authority reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

### ***Accrued Compensated Absences***

The Authority has vacation and sick leave policies covering substantially all of its employees. Employees may accumulate earned but unused benefits up to a specified maximum. The Authority has recorded the accrued liability for these compensated absences in the basic financial statements. The Authority has recorded a long-term liability for supplemental sick leave benefits for certain employees that were eligible for this benefit as of January 1, 1997, at the time the Department of Health and Hospital's Enterprise Fund was transferred to the Authority.

### ***Unearned Revenue***

Unearned revenue consists primarily of certain grant receipts received in advance of the applicable expenditures, advance payments received for the Disproportionate Share Hospital (DSH) Program and Upper Payment Limit (UPL) Programs, as well as RMPDC contract revenue received in advance of performing contract services.

### ***Accrued Claims***

Claim liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claim liabilities are recomputed using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

### ***Deferred Loss on Refunding***

The cost of debt refunding is deferred and amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter, and reported as deferred outflows of resources on the Authority's statements of net position.

# Denver Health and Hospital Authority

## Notes to Financial Statements

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### ***Cost-sharing Defined Benefit Pension Plan***

The Authority participates in a cost-sharing multiple-employer defined benefit pension plan, Denver Employees Retirement Plan (DERP). 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 DERP and additions to/deductions from DERP's fiduciary net position have been determined on the same basis as they are reported by DERP. 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.

### ***Deferred Inflows of Resources***

The Authority reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

### ***Net Position***

The Authority's net position is classified as follows:

*Net Investment in Capital Assets* – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase, construction or improvement of those assets. Any significant unspent related debt proceeds and the corresponding portion of the debt would be included in either restricted or unrestricted net position.

*Unrestricted* – consists of the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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

### ***Revenues and Expenses***

The Authority's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services and include patient service and other revenue. Nonoperating revenues include investment income and unrealized gains/losses on investments, change in equity in joint venture, distributions from discretely presented component unit and gain on disposition of capital assets. Nonoperating expenses include interest expense on outstanding debt obligations. Operating expenses are all expenses incurred to provide healthcare services, excluding financing costs.

### ***Net Patient Service Revenue***

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered

# Denver Health and Hospital Authority

## Notes to Financial Statements

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and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### **Capitation Earned**

Capitation revenue is earned based on the month in which members are entitled to healthcare services. Excess of loss reinsurance expense is deducted from gross capitation revenue.

### **Federal, State and Other Grants**

Grants and contracts consist primarily of contractual agreements with governments and private entities for the Authority to conduct research and education and to provide healthcare services. These agreements represent exchange transactions between the Authority and the grantors and, accordingly, are included in operating activities. Revenue is recognized under these agreements as related expenses are incurred.

### **Poison and Drug Center Contracts**

Poison and Drug Center contract revenue is derived primarily from contractual agreements with public and private entities for the provision of a medical call center and other consultative services. Revenue is recognized based on the performance of contract deliverables or as related (cost-reimbursable) expenses are incurred.

### **Managed Care – Outside Provider Claims**

Costs of healthcare services delivered by outside providers are accrued and included in expense in the period the service is rendered, including estimates for healthcare costs, which have been incurred but not yet reported, and are included in accrued claims liability.

### **Income Taxes**

The income generated by the Authority, as an instrumentality of the state, is excluded from federal income taxes under Section 115 of the Internal Revenue Code (the Code). However, taxes will be assessed on income derived from business activities not substantially related to the Authority's, 601 Broadway's, CCPPS's or Pavilion M's exempt function (unrelated business income).

### **Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is

# Denver Health and Hospital Authority

## Notes to Financial Statements

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approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue at the end of the reporting period starting when management is reasonably assured it will meet all of the meaningful use objectives and all other contingencies have been met.

Regarding meaningful use for eligible hospitals, in 2016, the Authority attested that it met all applicable program year 2015 Stage 2 Year 1 Core and Menu Set objectives for the Medicare EHR Incentive Programs during the 90-day period April through June 2015. The Authority anticipates attesting that it will meet the program year 2016 Stage 2 Year 2 Core and Menu Set objectives for the Medicare EHR Incentive Programs during a 90-day period ending not later than December 31, 2016. During 2016, the Authority recorded approximately \$603,000 of meaningful use revenue for the hospital. This compares to a \$1.2 million in reduction to meaningful use revenue for the hospital in 2015 due to the payback of funds resulting from Medicaid meaningful use audit.

Regarding meaningful use for eligible providers, the Authority attested on behalf of 47 eligible providers that they met the AIU (Adopt, Implementation, Upgrade) guidelines for the Medicaid EHR Incentive Program. In the future, the Authority will attest for additional eligible providers based upon implementation of a certified system that meets the applicable meaningful use Core and Menu Set objectives for the outpatient setting. In 2016, the Authority recorded approximately \$1.0 million of meaningful use for eligible providers, compared to \$1.7 million in 2015.

### Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

*Medicare.* Inpatient acute care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospital outpatient services are reimbursed on a prospective payment system. Outpatient services and procedures that are clinically comparable and use similar resources are grouped into Ambulatory Payment Classifications. Federally Qualified Healthcare (FQHC) services rendered to Medicare program beneficiaries were paid based on a cost reimbursement methodology until June 30, 2015. Under that methodology, the Authority received a tentative rate with final settlement determined after submission of an annual cost report by the Authority. Effective July 1, 2015, these services are now paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, will now be paid based on the lesser of the Authorities' actual charge or the applicable PPS rate. The Authority is also reimbursed for certain capital and medical education costs and allowable bad debts at a tentative rate with final settlement determined after submission of

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor. The Authority's classification of patients under the Medicare program and the appropriateness of the admissions are subject to an independent audit by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare Administrative Contractor through December 31, 2013.

*Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services are primarily reimbursed by the Medicaid program based on the costs incurred. The Authority is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid Administrative Contractor. The Authority's Medicaid cost reports have been audited by the Colorado Department of Health Care Policy and Financing through the year ended December 31, 2013. The Authority also provides services under a Medicaid prepaid health plan referred to as the Denver Health Medicaid Choice (DH Medicaid Choice) program for which it receives capitation for services.

*Other Payors.* The Authority has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates per day or visit.

*Indigent Care, Charity Care and Community Service.* The Authority, as part of its mission, provides healthcare services to City residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local, and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$51,190,000 and \$45,666,000 for the years ended December 31, 2016 and 2015, respectively.

Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the Colorado Disproportionate Share Hospital Program (DSH Program).

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
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Gross patient service revenue and the level of uncompensated care provided, based on the Authority's established rates, during the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Gross charges, including charges forgone for charity	\$ 2,113,878,132	\$ 2,058,906,267
Charges forgone for charity care	<u>(148,318,654)</u>	<u>(134,144,032)</u>
Gross patient service revenue	1,965,559,478	1,924,762,235
Capitation earned under prepaid health plans	(200,897,158)	(167,041,601)
Contractual adjustments	(1,161,982,341)	(1,148,303,674)
Provision for bad debts	<u>(97,030,647)</u>	<u>(100,473,431)</u>
Net patient service revenue	<u>\$ 505,649,332</u>	<u>\$ 508,943,529</u>
Uncompensated care		
Contractual adjustments	\$ 1,161,982,341	\$ 1,148,303,674
Provision for bad debts	97,030,647	100,473,431
Charity care	<u>148,318,654</u>	<u>134,144,032</u>
	<u>\$ 1,407,331,642</u>	<u>\$ 1,382,921,137</u>

The Authority receives partial reimbursement for uncompensated care from the DSH Program, provider fee payments and the City. The Authority estimates the level of uncompensated care by payor classification based on established rates.

**Note 3: Disproportionate Share Hospital (DSH) Program and Upper Payment Limit (UPL) Programs**

The Authority participates in the DSH Program. The Authority qualifies as a DSH as it serves a high proportion of medically indigent and uninsured patients. The DSH Program was created in 1991 through an amendment to the Colorado State Medicaid Program and was approved by the CMS.

Under the DSH Program, the state utilizes a provider fee as the local match for federal funding. The state pays the Authority two months in advance at the end of the year. This results in unearned revenue included in the statements of net position. The state has paid the Authority \$17,695,000 and \$22,391,000 in advance for the years ended December 31, 2016 and 2015, respectively. The payments received through the DSH Program are based on the cost of uncompensated charity care.

In addition, the Authority receives upper payment limit (UPL) reimbursements, which is designed to increase the Medicaid reimbursement rate up to the Authority's Medicaid cost not to exceed the Medicare reimbursement rate.

The provider fee serves as the state match for federal DSH and UPL funds which are drawn by the state and paid to the Authority using the provider fee methodology developed as part of the Colorado Healthcare Affordability Act. The Authority recognizes revenue to align with the current

# Denver Health and Hospital Authority

## Notes to Financial Statements

**December 31, 2016 and 2015**

state fiscal year that the award relates to. The revenue is based off of the initial award amount communicated and adjusted when it's approved by the State of Colorado. The Authority recognizes revenue in the year in which notification of the award amount has been received and ratably over the state fiscal year. The Authority recorded safety net reimbursements (net of provider fee expense paid) totaling approximately \$91,279,000 and \$105,718,000 for the years ended December 31, 2016 and 2015, respectively. The Authority records as expense the corresponding provider fee assessment due the state and the Colorado Hospital Association.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the state from federal sources. Implementation of this act occurred during April of 2010. The resulting safety net revenue and expense for 2016 and 2015 had the following effect on the financial statements:

	<b>2016</b>	<b>2015 Restated</b>
Colorado Indigent Care Program revenue	\$ 66,500,080	\$ 100,082,657
Supplemental Medicaid base rate revenue	13,313,765	14,021,512
Supplemental Medicaid outpatient hospital revenue	6,982,507	5,076,328
Supplemental Medicaid high level neonatal intensive care unit	-	1,922,396
Hospital quality incentive payment	5,511,645	2,144,643
Ambulance Upper Payment Limit revenue	3,537,140	2,100,000
Outstationing revenue	1,377,776	(3,568,168)
Primary care funds	4,977,865	5,050,794
Physician certification revenue	12,025,960	2,663,204
	114,226,738	129,493,366
Provider fee expense (included in contracted services and non-medical supplies)	(22,948,074)	(23,774,971)
	\$ 91,278,664	\$ 105,718,395

At December 31, 2016 and 2015, the Authority had a prepaid for provider fee expense which is recorded on the statements of net position in the amounts of approximately \$3,814,000 and \$4,038,000, respectively.

#### **Note 4: Investments and Restricted Investments**

Colorado Statutes require that the Authority use eligible depositories for all cash deposits, as defined by the Public Deposit Protection Act (PDPA). Under 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 (FDIC).

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The Authority uses eligible depositories for all its deposits and investments. Remaining cash balances are swept daily to a Class I money market account or AAAM rated local government investment pool. Any cash balances in other bank accounts are negligible and covered by FDIC insurance.

Cash, cash equivalents and investments at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 57,248,886	\$ 53,891,036
Restricted cash and cash equivalents	<u>228,080</u>	<u>396,813</u>
Total cash and cash equivalents	<u>57,476,966</u>	<u>54,287,849</u>
Long-term investments		
Mortgage-backed securities	4,291,505	8,775,912
U.S. government agency notes	1,001,844	16,898,607
Corporate bonds	49,561,146	64,830,648
Corporate asset-backed bonds	72,349	90,363
Municipal bonds	17,926,651	15,854,491
Mutual funds		
Global equity fund	4,900,972	4,427,255
Commodity and commodity futures fund	6,786,958	6,821,304
Debt fund	119,115,389	116,551,432
Domestic equity fund	19,462,008	16,209,136
International equity fund	3,776,769	3,491,456
Emerging markets fund	2,254,466	2,092,006
Alternative funds	<u>11,591,185</u>	<u>9,015,592</u>
Total long-term investments	<u>240,741,242</u>	<u>265,058,202</u>
Total cash, cash equivalents and investments, excluding restricted investments	<u>\$ 298,218,208</u>	<u>\$ 319,346,051</u>

Restricted investments at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Bond proceeds restricted as provided in bond agreements		
Cash equivalents	\$ 483,656	\$ 506,560
Long-term investments	33,002,755	56,571,750
Guaranteed investment contract	<u>14,702,855</u>	<u>14,655,587</u>
	<u>\$ 48,189,266</u>	<u>\$ 71,733,897</u>

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### **Credit Risk**

The Authority’s investment policy applies the prudent person standard and is applied in the context of managing an overall portfolio. Investment responsibilities shall be undertaken “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use.”

The Authority’s investments are restricted to the following Standard & Poor’s (S&P) or equivalent investment quality ratings or higher.

Straight-debt securities – BBB- and up to 10% of the portfolio may be rated below investment grade

Asset-backed securities – A-

Money market mutual funds – AAA

Local government investment pools – AAAM-G or AAAM

U.S. treasuries and U.S. government agencies – AA+

The Authority or its managers may purchase bonds of state governments, local governments, or corporations. New purchases will primarily be rated at a minimum Baa3/BBB- by any of the rating agencies, however, up to 10% of the combined portfolio may be rated below investment grade.

The following is a summary of the Authority’s investments at December 31, 2016 and 2015 with average credit ratings based on S&P ratings or equivalent:

	2016		2015	
	Investments	S & P Rating	Investments	S & P Rating
Cash and cash equivalents				
Cash and cash equivalents	\$ 1,387,976	N/A	\$ 53,711,651	N/A
Restricted cash and cash equivalents	227,276	N/A	396,813	N/A
Class I or government money market fund	55,861,714	AAA	179,385	AAA
Total cash and cash equivalents	57,476,966		54,287,849	

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

	<u>2016</u>		<u>2015</u>	
	<u>Investments</u>	<u>S &amp; P Rating</u>	<u>Investments</u>	<u>S &amp; P Rating</u>
Long-term investments				
Mortgage-backed securities	4,291,505	AA+	8,775,912	AA+
U.S. government agency notes	1,001,844	AA+	16,898,607	AA+
Corporate bonds	-	N/A	2,828,250	AA+
Corporate bonds	2,712,425	AA-	-	N/A
Corporate bonds	3,714,109	A	3,711,825	A
Corporate bonds	9,212,839	A-	12,212,845	A-
Corporate bonds	25,986,268	BBB+	38,199,608	BBB+
Corporate bonds	7,795,330	BBB	7,733,745	BBB
Corporate bonds	140,175	N/A	144,375	N/A
Corporate asset-backed bonds	72,349	D	90,363	D
Municipal bonds	1,925,694	AA+	1,921,176	AA+
Municipal bonds	5,622,507	AA	5,676,213	AA
Municipal bonds	4,854,218	AA-	5,121,270	AA-
Municipal bonds	543,635	A+	160,933	A+
Municipal bonds	1,880,909	BBB+	-	BBB+
Municipal bonds	2,939,618	N/A	2,974,899	N/A
Municipal bonds	160,070	N/R	-	N/R
Open End Mutual Funds	167,887,747	N/A	158,608,181	N/A
	<u>240,741,242</u>		<u>265,058,202</u>	
Total cash, cash equivalents and investments, excluding restricted investments	<u>\$ 298,218,208</u>		<u>\$ 319,346,051</u>	

**Denver Health and Hospital Authority**  
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The following is a summary of the Authority's restricted investments at December 31, 2016 and 2015 with average credit ratings based on S&P ratings or equivalent:

	<b>2016</b>		<b>2015</b>	
	<b>Investments</b>	<b>S &amp; P Rating</b>	<b>Investments</b>	<b>S &amp; P Rating</b>
Bond proceeds restricted as provided in bond agreements				
Cash equivalents	\$ 483,656	N/A	\$ 506,560	N/A
Long-term investments	7,636,190	AA+	7,464,111	AA+
Long-term investments	25,366,565	N/A	49,107,639	N/A
Guaranteed investment contracts	<u>14,702,855</u>	AA+	<u>14,655,587</u>	AA+
	<u>\$ 48,189,266</u>		<u>\$ 71,733,897</u>	

**Interest Rate Risk**

The Authority's investment policy manages exposure to market value losses arising from rising interest rates in several ways. The maximum maturity for any single security is 31 years. The duration of total assets must be less than six years. As of December 31, 2016, approximately \$4,364,000, or 1.81% of total long-term investments were in corporate asset-backed bonds and government mortgage-backed securities. As of December 31, 2015, approximately \$8,866,000, or 3.35%, of total long-term investments were in these types of securities. The following is a summary of the duration, average weighted maturity of the portfolio, and average weighted effective maturity as of December 31, 2016:

<b>Portfolio Component</b>	<b>Par Value</b>	<b>Duration</b>	<b>Average Weighted Maturity (Years)</b>	<b>Average Weighted Effective Maturity (Years)</b>
Working capital account	\$ 96,798,978	1.4	2.06	1.53
Investment account	25,385,876	2.52	3.61	3.50
Other reserve account	367,160	3.28	3.40	3.4
Medical malpractice reserve account	<u>4,726,529</u>	<u>4.17</u>	<u>5.42</u>	<u>4.57</u>
Total components	<u>\$ 127,278,543</u>	<u>1.72</u>	<u>2.48</u>	<u>2.03</u>

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### **Concentration of Credit Risk**

The Authority's investment policy requires diversification of the portfolio to limit credit risk and states as follows:

Diversification: The investments shall be diversified by:

- i) Limiting investments to avoid over concentration in securities from a specific issuer or business.
- ii) Limiting investments in securities that have higher credit risks.
- iii) Investing in securities with varying maturities.
- iv) Continuously investing a portion of the portfolio in readily available funds, such as money market accounts, repurchase agreements, local government investment pools, and bank account sweep programs, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- v) No single financial institution will hold more than 5% of the Authority's portfolio value, excluding U.S. government or U.S. government agency securities. As of December 31, 2016, the Authority owned \$4.7 million (3.68% of the portfolio) of Deutsche Bank bonds, \$4.5 million (3.56% of the portfolio) of AT&T Inc. bonds, \$4.4 million (3.51% of the portfolio) of HSBC Holdings bonds, \$4.3 million (3.42% of the portfolio) of Bank of America bonds and \$3.3 million (2.60% of the portfolio) of Citigroup bonds.
- vi) The following maximum limits, by investment type, are established for the Authority's total investments portfolio, including cash and cash equivalents. It is the intent of the Authority to invest in the following investment categories. The percentage stated is a "not to exceed" limitation. Investments are not required in every investment type. For example, it is permitted to own 80% in agency securities and 20% in repurchase agreements, and own no other securities.

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Investment Type	Maximum Percentage of Portfolio
Repurchase agreements	25%
Collateralized certificates of deposit	25%
U.S. Treasury notes and bills	100%
U.S. government agency securities	90%
U.S. government CMOs	20%
Bankers acceptances	10%
Commercial paper	50%
Money market funds	30%
Eurodollar certificates of deposit	10%
Local government investment pools	25%
State and local government bonds	50%
Corporate bonds	75%
Commercial asset-backed securities	25%
Short term bond mutual funds	50%
Long Term Growth Portfolio (Mutual Funds)	25%

- vii) Additional investments established for bond proceeds include the above investment contracts, and flexible repurchase agreements (Flex Repos), which can be up to 100% of bond proceeds.

In the event that an allocation percentage is exceeded, such event is disclosed to the Finance Committee of the Board of Directors and corrected as soon as possible. The portfolio was in compliance with the allocation percentages as of December 31, 2016 and 2015.

**Note 5: Disclosures About Fair Value of Assets and Liabilities**

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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	December 31, 2016			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in	Significant	Significant
		Active Markets	Other	Unobservable
	for Identical	Observable	Inputs	
	Assets	Inputs	(Level 3)	
	(Level 1)	(Level 2)	(Level 3)	
Long-term Investments				
Mortgage-backed securities	\$ 4,291,505	\$ -	\$ 4,291,505	\$ -
U.S. government agency notes	1,001,844	-	1,001,844	-
Corporate bonds	49,561,146	49,561,146	-	-
Corporate asset-backed bonds	72,349	-	72,349	-
Municipal bonds	17,926,651	-	17,926,651	-
Mutual funds				
Global equity fund	4,900,972	4,900,972	-	-
Commodity and commodity				
futures fund	6,786,958	6,786,958	-	-
Debt fund	119,115,389	119,115,389	-	-
Domestic equity fund	19,462,008	19,462,008	-	-
International equity fund	3,776,769	3,776,769	-	-
Emerging markets fund	2,254,466	2,254,466	-	-
Alternative funds	11,591,185	11,591,185	-	-
	<u>\$ 240,741,242</u>	<u>\$ 217,448,893</u>	<u>\$ 23,292,349</u>	<u>\$ -</u>

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
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	December 31, 2015			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in	Significant	Significant
		Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Long-term Investments				
Mortgage-backed securities	\$ 8,775,912	\$ -	\$ 8,775,912	\$ -
U.S. government agency notes	16,898,607	-	16,898,607	-
Corporate bonds	64,830,648	64,830,648	-	-
Municipal bonds	15,854,491	-	15,854,491	-
Corporate asset-backed bonds	90,363	-	90,363	-
Mutual funds				
Global equity fund	4,427,255	4,427,255	-	-
Commodity and commodity futures fund	6,821,304	6,821,304	-	-
Debt fund	116,551,432	116,551,432	-	-
Domestic equity fund	16,209,136	16,209,136	-	-
International equity fund	3,491,456	3,491,456	-	-
Emerging markets fund	2,092,006	2,092,006	-	-
Alternative funds	9,015,592	9,015,592	-	-
	<u>\$ 265,058,202</u>	<u>\$ 223,438,829</u>	<u>\$ 41,619,373</u>	<u>\$ -</u>

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

**Interest Rate Swap Agreement**

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

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**Note 6: Capital Assets**

Capital assets, by major category, at December 31, 2016 and 2015 are as follows:

<b>December 31, 2016</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not being depreciated				
Land	\$ 22,413,152	\$ 241,993	\$ (8,054)	\$ 22,647,091
Construction in progress	<u>57,588,629</u>	<u>91,189,819</u>	<u>(67,395,654)</u>	<u>81,382,794</u>
Total capital assets, not being depreciated	<u>80,001,781</u>	<u>91,431,812</u>	<u>(67,403,708)</u>	<u>104,029,885</u>
Capital assets, being depreciated				
Buildings and improvements	520,694,740	17,535,815	-	538,230,555
Equipment and software	<u>256,664,014</u>	<u>62,983,823</u>	<u>(251,110)</u>	<u>319,396,727</u>
Total capital assets, being depreciated	<u>777,358,754</u>	<u>80,519,638</u>	<u>(251,110)</u>	<u>857,627,282</u>
Less accumulated depreciation				
Buildings and improvements	228,308,831	21,775,803	-	250,084,634
Equipment and software	<u>219,589,522</u>	<u>19,571,671</u>	<u>(251,110)</u>	<u>238,910,083</u>
Total accumulated depreciation	<u>447,898,353</u>	<u>41,347,474</u>	<u>(251,110)</u>	<u>488,994,717</u>
Total capital assets, being depreciated, net	<u>329,460,401</u>	<u>39,172,164</u>	<u>-</u>	<u>368,632,565</u>
Capital assets, net	<u>\$ 409,462,182</u>	<u>\$ 130,603,976</u>	<u>\$ (67,403,708)</u>	<u>\$ 472,662,450</u>

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

December 31, 2015	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 26,388,299	\$ 1,583	\$ (3,976,730)	\$ 22,413,152
Construction in progress	<u>10,927,943</u>	<u>55,637,955</u>	<u>(8,977,269)</u>	<u>57,588,629</u>
Total capital assets, not being depreciated	<u>37,316,242</u>	<u>55,639,538</u>	<u>(12,953,999)</u>	<u>80,001,781</u>
Capital assets, being depreciated				
Buildings and improvements	533,542,548	6,022,333	(18,870,141)	520,694,740
Equipment and software	<u>259,267,960</u>	<u>12,732,335</u>	<u>(15,336,281)</u>	<u>256,664,014</u>
Total capital assets, being depreciated	<u>792,810,508</u>	<u>18,754,668</u>	<u>(34,206,422)</u>	<u>777,358,754</u>
Less accumulated depreciation				
Buildings and improvements	214,276,744	23,121,280	(9,089,193)	228,308,831
Equipment and software	<u>218,627,493</u>	<u>16,298,410</u>	<u>(15,336,381)</u>	<u>219,589,522</u>
Total accumulated depreciation	<u>432,904,237</u>	<u>39,419,690</u>	<u>(24,425,574)</u>	<u>447,898,353</u>
Total capital assets, being depreciated, net	<u>359,906,271</u>	<u>(20,665,022)</u>	<u>(9,780,848)</u>	<u>329,460,401</u>
Capital assets, net	<u>\$ 397,222,513</u>	<u>\$ 34,974,516</u>	<u>\$ (22,734,847)</u>	<u>\$ 409,462,182</u>

### Note 7: Concentrations of Credit Risk – Patient Accounts Receivable and Due from Other Governmental Entities

The Authority grants credit without collateral to its patients, most of whom are residents of the City and, except for the patient self-pay category, are generally insured under third-party payor agreements. Expected credit losses are provided for in the allowance for estimated uncollectibles. Net patient accounts receivable by payor category at December 31, 2016 and 2015 are as follows:

	2016	2015
Medicare	\$ 19,557,181	\$ 18,710,237
Medicaid	20,383,943	16,861,775
Commercial insurance carriers	31,042,819	26,689,311
Patient self-pay	<u>1,799,542</u>	<u>2,589,092</u>
Total	<u>\$ 72,783,485</u>	<u>\$ 64,850,415</u>

# Denver Health and Hospital Authority

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Receivables from the Medicare and Medicaid programs represent a concentrated credit risk for the Authority. Management does not believe that there is a significant risk of loss associated with these programs. Management believes various other payors, subject to differing economic conditions, do not represent significant concentrated credit risks to the Authority.

### **Note 8: Acquisitions**

On October 17, 2016, the Authority purchased land and building from 38<sup>th</sup> & Kearney Partnership, LTD for \$1.1 million. This was the location of the Emergency Vehicle Maintenance and Repairs (EVMARs) business. Additionally, the Authority purchased assets from SPENCHEA, LTD for \$500,000 that included inventory, equipment and an intangible benefit for future ambulance repair services. The Authority did not assume the responsibility for any outstanding liabilities. The Authority also hired the employees of EVMARs and has continued running the repair and maintenance business. Prior to this purchase, EVMARs serviced the Authority's ambulance fleet. This combination was initiated in order to decrease costs to service the Authority's ambulance fleet. The amount paid above the value of the equipment and inventory (intangible value) was \$430,000 and is shown as a deferred outflow on the financials which is amortized over the life of the equipment or five years.

### **Note 9: Long-term Debt and Other Long-term Liabilities**

#### ***2007, 2009, 2010 and 2014 Revenue Bonds***

In May 2007, the Authority issued \$130,650,000 of Healthcare Revenue Bonds, Series 2007A. The bond agreement provides for the payment of principal at maturity ranging from \$2,355,000 to \$4,230,000 that began in 2008 and continues through 2020 and mandatory sinking fund redemption payments ranging from \$4,445,000 to \$12,930,000 beginning in 2021 through 2036. Interest is payable semiannually at fixed rates ranging from 4.75% to 5.25%.

Also in May 2007, the Authority issued \$79,385,000 of Healthcare Revenue Bonds, Series 2007B. The bond agreement provides for mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount and accrued interest to the redemption date. Sinking fund payments ranging from \$1,095,000 to \$9,220,000 began in 2008 and continue until 2033. Interest is payable each quarter and will equal 67% of the three-month LIBOR, plus a spread equal to 1.10% (1.66% at December 31, 2016).

The net proceeds of the Series 2007A and 2007B Bonds were used to: (i) refund all the outstanding 1998A, 2001A and 2004A Healthcare Revenue Bonds in the total principal of \$132.5 million, (ii) to pay or reimburse the costs of acquiring, constructing, renovating, and equipping Authority facilities, (iii) to fund the reserve fund under the master indenture in the amount of \$13.5 million, and (iv) to pay certain expenses incurred in connection with this bond issuance. Bonds are to be repaid from operations of the Authority, excluding revenue from grants, gifts, donations, pledges, or contributions specified by the donor for a specific purpose.

# Denver Health and Hospital Authority

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In connection with the Series 2007B Bonds, the Authority entered into an interest rate swap agreement with a counterparty (the Swap) in a notional amount equal to the principal amount of the Series 2007B Bonds. The Swap provides that the Authority pay the counterparty a fixed rate of 4.688% on the notional amount and the counterparty pay the Authority a floating rate based on 67% of the three-month LIBOR, plus a specified fixed spread. Due to fluctuations in the interest rate market there is a negative fair value of approximately \$(13,538,000) and \$(14,955,000) at December 31, 2016 and 2015, respectively. The fair value is disclosed as current and long-term liabilities on the statements of net position at December 31, 2016 and 2015. The Authority does not currently have a policy of requiring the counterparty to post collateral in the event the Authority becomes exposed to credit risk. The Authority does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place. Together, these agreements negate any interest rate risk and in effect resulted in a fixed rate transaction. The Swap is subject to additional termination event risk whereby early termination could occur if the counterparty's (a) long-term senior unsecured debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) the long-term senior unsecured debt rating from Fitch is withdrawn, suspended, or falls below BBB- or if the Authority's (a) debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) debt rating from Fitch is withdrawn, suspended, or falls below BBB-. If the Swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the Swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the Swap's then fair value.

During 2013, the Authority made early discounted principal payments on the 2007B Bonds on original principal totaling \$4,395,000, for a net payment of \$3,348,000. These principal payments were normally due between December 2013 and December 2018. The associated Swap was not amended for this early extinguishment of principal. As a result, the Authority recorded a gain on early extinguishment of debt of approximately \$1,047,000. A loss on Swap ineffectiveness of \$290,000, which was included in interest expense, was also incurred resulting in a net gain of \$758,000. The difference between the Swap liability and the loss from the portion of the Swap that is ineffective is approximately \$13,499,981 and \$14,856,023 at December 31, 2016 and 2015, respectively, and is a deferred outflows of resources on the Authority's statements of net position. Total payments during 2016 and 2015 for principal on the 2007A and 2007B Bonds were \$3,475,000 and \$3,310,000, respectively. Interest paid, including Swap interest, was approximately \$8,273,000 and \$8,472,000 for each of the years ended December 31, 2016 and 2015, respectively.

In December 2009, the Authority issued \$6,240,000 of Healthcare Revenue Bonds Series 2009A bearing interest at 6.25%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$7,725,000 of the Authority's Healthcare Revenue Bonds, Series 2007B, to pay the costs of issuance, and to fund an interest rate exchange agreement termination payment. The bond agreement provides for the payment of principal that began in 2010 and continues through 2033 in amounts ranging from \$85,000 to \$640,000. Interest is payable semiannually at a fixed rate of 6.25%. Payments during 2016 and 2015 for principal on the bonds were \$640,000 and \$630,000, respectively. Interest payments were approximately \$174,000 and \$213,000 for each of the years ended December 31, 2016 and 2015, respectively.

The 2009 defeasance resulted in a difference between the reacquisition price and the carrying value (\$7,725,000) of the defeased debt of \$1.5 million, which was recorded as a deferred gain. The

# Denver Health and Hospital Authority

## Notes to Financial Statements

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difference between the present value of the old debt service on the debt refunded in 2009 and the new debt service resulted in an economic gain of approximately \$746,000.

The 2007 defeasance resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$2.0 million, \$2.7 million and \$4.4 million on the 1998A Bonds, 2001A Bonds and the 2004A Bonds, respectively. These differences, which are reported in the accompanying basic financial statements as a net deferred loss on refunding, is being charged to operations through 2033 using the straight-line method. At December 31, 2016, the unamortized net deferred loss, which includes the 2009 deferred gain noted above, was approximately \$4.3 million and \$4.6 million, respectively.

Total debt considered defeased at December 31, 2016 is \$140.2 million.

In June 2010, the Authority issued \$29,000,000 of Healthcare Recovery Zone Facility Revenue Bonds Series 2010, bearing interest rates from 4.00% to 5.625%. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$10.6 million, in order to facilitate the financing of the construction of Pavilion M. Principal payments began in 2011 and continue through 2040 in amounts ranging from \$440,000 to \$1,890,000. For the years ended 2016 and 2015, principal payments were made of \$535,000 and \$515,000, respectively. Interest payments were approximately \$1,463,000 and \$1,483,000 for each of the years ended December 31, 2016 and 2015, respectively.

In June 2010, Pavilion M received the proceeds of six note payables to three separate CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to build a 74,500 square foot four-story building on the Authority campus to house outpatient and inpatient adolescent psychiatry, a dialysis center and outpatient surgery. The notes payable have interest only payments through June 2017. Beginning December 2017, principal payments will be made through June 2045, ranging from approximately \$998,000 to \$1,549,000. During 2016 and 2015, Pavilion M made interest payments of \$455,454.

In May 2014, the Authority issued \$67,870,000 of Healthcare Revenue Bonds Series 2014A. These bonds had a net premium of \$1,146,069 which will be amortized over the life of the debt. The net proceeds of the bonds will be used to renovate the Authority's inpatient care areas and improve and construct facilities at the main healthcare campus in accordance with master facilities planning. The 2014A Bonds bear interest rates from 4.00% to 5.25%, with principal payments beginning in 2027 through 2045 ranging from \$2,000,000 to \$5,470,000. During 2016 and 2015, the Authority made interest payments of approximately \$3,334,000.

In May 2014, the Authority issued \$16,945,000 of Healthcare Revenue Bonds Taxable Services 2014B Bonds. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$7.3 million, in order to facilitate the financing of the construction of an outpatient and urgent care clinic in Southwest Denver. The 2014B Bonds bear interest from 1.70% to 5.15%, with principal payments beginning in 2016 and continuing through 2026 in amounts ranging from \$845,000 to \$2,255,000. For the years ended 2016 and 2015, principal payments were made of \$2,175,000 and \$0, respectively. During 2016 and 2015, the Authority made interest payments of approximately \$622,000.

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

#### ***Debt Covenants***

Per the Master Trust Indentures, the Authority's long-term debt service coverage ratio, calculated at the end of each fiscal year, cannot be less than 1.15% for the 2007, 2009, 2010 and 2014 Bonds. The Authority believes it is in compliance with these requirements.

#### ***Other Long-term Debt***

In September 2007, the Authority entered into an agreement with the City to enable its acquisition of property for use in the construction and operation of a clinic providing healthcare services. The amount of the loan is \$1,200,000 due in one payment on January 1, 2026 and does not bear interest.

On February 8, 2008, the Authority signed a promissory note with the City's Office of Economic Development, as the borrower of \$4,300,000, advanced by the City, pursuant to a Loan Agreement between the Authority and the City dated December 18, 2007, in which the City received funds from the Housing and Urban Development (HUD) in connection with the Northeast Park Hill Urban Redevelopment Plan. Interest is paid quarterly at a variable interest rate on the unpaid principal balance on the first day of January, April, July and October. Beginning July 1, 2009, and on each July 1 thereafter, the Authority will make, in addition to quarterly payments of interest, payments of principal sufficient to repay amounts due under the Section 108 note. The entire unpaid balance of the principal and accrued interest will be due and payable on or before July 1, 2025. As of December 31, 2016 and 2015, the Authority has received \$4,070,181 from the City under this loan. During 2016 and 2015, the Authority paid \$230,000 and \$215,000, respectively, in principal payments to HUD. Interest and HUD fees paid on this loan for 2016 and 2015 totaled \$16,460 and \$14,130, respectively. During 2016 and 2015, \$80,380 and \$71,870, respectively, was reimbursed as a capital contribution by the City.

In 2013, the Authority elected to transition to a new information systems vendor. As part of the restructuring agreement with the prior vendor, the Authority has executed a note payable in the amount of \$18,500,000, payable in 2014 through 2020 for restructuring of the existing long-term agreement. The note carries no interest; however, the Authority has discounted the principal to the net present value based on market borrowing rates. During 2016 and 2015, the Authority accreted interest expense of approximately \$1,300,000 and \$1,518,000, respectively, and made principal and interest payments of approximately \$4,071,000 for both years, bringing the liability to approximately \$13,686,000 at December 31, 2016.

In July 2015, the Authority created a Colorado not-for-profit corporation 601 Broadway in order to obtain financing for an administrative service building adjacent to the Authority's main campus. 601 Broadway will incur debt of approximately \$50,000,000, once the Authority has funded approximately \$14,500,000 of construction costs. As of December 31, 2016, 601 Broadway had drawn debt of \$31,477,000. Further debt draws will be made through the completion of construction in 2017. No principal payments were made on this debt in 2016, but interest payments began on December 31, 2015. The debt bears interest at 3.9% until the date the debt is fully drawn. Thereafter the debt bears interest at a fixed rate equal to 65% of the sum of (i) the seven year U.S. Treasury Rate on December 1, 2030 plus (ii) 225 basis points. Interest on the certificates shall be computed on the basis of the actual number of days elapsed in a 360-day year consisting of twelve 30-day months. Interest costs have been capitalized as a component of construction in progress,

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based on interest costs of borrowing specifically used for construction of the building. In 2016 and 2015, approximately \$392,000 and \$0 of interest expense was capitalized, respectively.

**Year-end Debt Balances**

Long-term debt (including capital leases) at December 31 consisted of the following:

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue Bonds, Series 2007A and B and Series 2009, due in increasing annual installments beginning 2007 through 2034 (net of unamortized bond discount of \$112,848 and \$118,514 as of December 31, 2016 and 2015, respectively)	\$ 169,897,152	\$ 174,006,485
Revenue Bonds, Series 2010, due in increasing annual installments beginning 2011 through 2040 (net of unamortized bond discount of \$335,498 and \$349,558 as of December 31, 2016 and 2015, respectively)	25,744,501	26,265,442
Revenue Bonds, Series 2014, due in increasing annual installments beginning 2016 through 2045 (net of unamortized bond premium of \$1,052,332 and \$1,088,614 as of December 31, 2016 and 2015, respectively)	83,692,327	85,903,614
Pavilion M notes payable to CDEs	37,607,050	37,607,050
601 Broadway notes payable	31,477,163	50,001
Other long-term debt	17,431,435	20,432,766
Capital lease obligations	1,220,469	1,658,405
Total current and long-term debt	367,070,097	345,923,763
Less current portion	(12,828,083)	(11,576,885)
Total long-term debt	<u>\$ 354,242,014</u>	<u>\$ 334,346,878</u>

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***Changes in Long-term Debt and Other Long-term Liabilities***

Changes in long-term debt and other long-term liabilities for the years ended December 31 are as follows:

<b>December 31, 2016</b>	<b>Date of Issuance</b>	<b>Beginning Balance</b>	<b>Additions and Discount/ Premium Amortization</b>	<b>Principal Payments</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Series 2007A and B, net of discount	May 2007	\$ 171,226,486	\$ 5,666	\$ (3,475,000)	\$ 167,757,152	\$ 3,655,000
Series 2009	December 2009	2,780,000	-	(640,000)	2,140,000	620,000
Series 2010, net of discount	June 2010	26,265,441	14,060	(535,000)	25,744,501	555,000
Series 2014A and B, net of premium	May 2014	85,903,614	(36,287)	(2,175,000)	83,692,327	2,255,000
Pavilion M notes payable	June 2010	37,607,050	-	-	37,607,050	998,507
601 Broadway notes payable	July 2015	50,001	31,427,162	-	31,477,163	-
Other long-term debt	Various	20,382,766	1,300,097	(4,301,429)	17,381,434	4,316,429
Capital leases	Various	1,658,405	-	(437,936)	1,220,469	428,147
Compensated absences liability		23,986,938	1,540,966	-	25,527,904	25,274,146
Postemployment benefits		5,694,069	1,261,457	(396,000)	6,559,526	-
<b>Total</b>		<u>\$ 375,554,770</u>	<u>\$ 35,513,121</u>	<u>\$ (11,960,365)</u>	<u>\$ 399,107,526</u>	<u>\$ 38,102,229</u>

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<b>December 31, 2015</b>	<b>Date of Issuance</b>	<b>Beginning Balance</b>	<b>Additions and Discount/ Premium Amortization</b>	<b>Principal Payments</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Series 2007A and B, net of discount	May 2007	\$ 174,530,820	\$ 5,666	\$ (3,310,000)	\$ 171,226,486	\$ 3,475,000
Series 2009	December 2009	3,410,000	-	(630,000)	2,780,000	640,000
Series 2010, net of discount	June 2010	26,766,381	14,060	(515,000)	26,265,441	535,000
2014A and B, net of premium	May 2014	85,939,901	(36,287)	-	85,903,614	2,175,000
Pavilion M notes payable	June 2010	37,607,050	-	-	37,607,050	-
601 Broadway notes payable		-	50,001	-	50,001	-
Other long-term debt	Various	23,200,803	1,518,392	(4,286,429)	20,432,766	4,301,429
Capital leases	Various	2,089,779	-	(431,374)	1,658,405	450,456
Compensated absences liability		22,801,329	1,185,609	-	23,986,938	23,591,399
Postemployment benefits		4,637,369	1,258,300	(201,600)	5,694,069	-
<b>Total</b>		<u>\$ 380,983,432</u>	<u>\$ 3,995,741</u>	<u>\$ (9,374,403)</u>	<u>\$ 375,604,770</u>	<u>\$ 35,168,284</u>

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***Debt Service Requirements***

Annual debt service requirements to maturity for the healthcare revenue bonds, capital leases and other long-term debt are as follows at December 31:

Year Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total
2017	\$ 43,230,855	\$ 15,130,909	\$ 1,849,654	\$ 60,211,418
2018	12,409,467	14,509,761	1,529,485	28,448,713
2019	13,104,353	13,847,622	1,310,435	28,262,410
2020	13,362,152	13,167,068	1,160,885	27,690,105
2021	9,903,027	12,556,236	1,041,075	23,500,338
2022-2026	56,233,626	56,123,419	3,974,121	116,331,166
2027-2031	68,966,002	42,966,802	2,367,359	114,300,163
2032-2036	85,564,290	26,159,138	305,341	112,028,769
2037-2041	38,031,546	10,628,497	-	48,660,043
2042-2045	25,660,793	2,870,470	-	28,531,263
	<u>366,466,111</u>	<u>\$ 207,959,922</u>	<u>\$ 13,538,355</u>	<u>\$ 587,964,388</u>
Total long-term debt payments				
Unamortized discount on 2007A and 2010B Bonds	(448,346)			
Unamortized premium on 2014 A Bonds	<u>1,052,332</u>			
Total carrying amount of long-term debt	<u>\$ 367,070,097</u>			

The net swap payments were calculated using rates as of December 31, 2016 and making assumptions regarding interest rate changes between 2016 and 2033. As rates vary, variable rate bond interest payments and net swap payments will vary.

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**Note 10: Managed Care Initiatives**

***Denver Health Medicaid Choice***

Effective May 1, 2004, the Authority entered into a prepaid provider contract with State of Colorado Health Care Policy and Financing (HCPF), to provide healthcare to Medicaid members enrolled in the State's Primary Care Provider (PCP) program, and formerly capitated with the Authority through Rocky Mountain Health Maintenance Organization (HMO). This program is known as DH Medicaid Choice. As of December 31, 2016 and 2015, there were 75,920 and 69,918, respectively, eligible enrollees of DH Medicaid Choice.

The Authority is at full risk for all covered benefits, including outpatient pharmacy and authorized care provided at non-Authority care sites, for all members assigned to it.

Capitation from the State of Colorado HCPF is recognized as revenue during the period in which the Authority is obligated to provide services to these designated members. For services rendered by non-Authority providers to eligible members, the Authority pays in accordance with Medicaid fee schedules or contracted rates.

The cost of healthcare services is accrued in the period in which treatment is provided to a member, based in part on estimates, including an accrual for claims Incurred But Not Reported (IBNR). The Authority maintains reinsurance coverage for inpatient claims above \$225,000 and \$200,000 in 2016 and 2015, respectively, subject to certain per diem limitations. For services rendered by the Authority, the gross charges are included in patient service revenue prior to contractual adjustments, and are also included in deductions from revenue as contractual adjustments.

For the years ended December 31, 2016 and 2015, net capitation revenue after reinsurance, before administrative fees for this initiative totaled approximately \$200,897,000 and \$167,042,000, respectively.

Pharmacy claims, and costs for non-Authority care, including IBNR accruals for the same periods totaled approximately \$49,866,000 and \$55,667,000, respectively. These amounts are included in managed care outside provider claims.

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The Authority establishes liabilities for both reported and unreported medical and hospital expenses related to DH Medicaid Choice, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ 10,957,000	\$ 9,177,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	51,152,695	58,491,892
Decrease in provision for insured events of prior years	(1,287,169)	(2,825,261)
Total incurred claims and claim adjustment expenses	<u>49,865,526</u>	<u>55,666,631</u>
Payments		
Claims and claim adjustment expenses attributable to insured events of the current year	44,999,397	48,898,154
Claims and claim adjustment expenses attributable to insured events of prior year	<u>6,588,129</u>	<u>4,988,477</u>
Total payments	<u>51,587,526</u>	<u>53,886,631</u>
Unpaid claims and claim adjustment expenses, end of year	<u>\$ 9,235,000</u>	<u>\$ 10,957,000</u>

Incurred claims and claim payments directly above do not include billed charges of approximately \$283 million and \$270 million for 2016 and 2015, respectively, for the cost of care provided at the Denver Health Medical Center for DH Medicaid Choice members.

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

#### ***Denver Health Medical Plan, Inc. – Discretely Presented Component Unit***

Denver Health Medical Plan, Inc. (the Plan) is a Colorado HMO whose enrollment includes employees of the Authority, the City, retirees enrolled with the Denver Employees Retirement Plan (DERP), and Child Health Plan Plus participants. In 2006, the Plan became licensed as a Special Needs Medicare Advantage Prescription Drug Plan provided to residents of Denver County, Colorado. At December 31, 2016 and 2015, there were 26,098 and 20,303 members enrolled in the Plan, respectively. Approximately 44% and 53% of Plan enrollment originated through Authority employee enrollment during 2016 and 2015, respectively. The Plan is presented as a discretely presented component unit. There have been no eliminations of 2016 or 2015 financial transactions between the Plan and the Authority on either the Authority's statements of net position or the Authority's statements of revenues, expenses and changes in net position.

The Plan recognizes premiums from subscribing groups as revenue in the period to which healthcare coverage relates. Premiums earned include premiums from the Authority for the years ended December 31, 2016 and 2015 of approximately \$62,384,000 and \$56,936,000, respectively. Such premiums are included in the accompanying statements of revenues, expenses and changes in net position as premiums earned. Excess risk insurance is maintained by the Plan for inpatient claims in excess of \$250,000 per patient per year for 2016 and 2015, subject to certain per diem limits.

A significant portion of healthcare services are provided by the Authority, for which the Authority is reimbursed on a capitated or fee-for-service basis, depending on the healthcare network chosen by the member. For the years ended December 31, 2016 and 2015, respectively, the Plan incurred capitation expense to the Authority totaling approximately \$21,908,000 and \$23,359,000, and fee-for-service claims of approximately \$39,130,000 and \$36,752,000.

During 2016, the Plan made a profit distribution to the Authority of \$5.0 million. At December 31, 2016 and 2015, the Plan has a capital contribution from the Authority of \$500,000, which is restricted and invested in a long-term investment held jointly by the Plan and the Colorado Division of Insurance. This contribution is included in the Authority's receivable from the Plan, which when combined with other amounts due, totals approximately \$1.8 million and \$2.0 million as of December 31, 2016 and 2015, respectively. The Plan has no employees, and is managed by employees leased from the Authority. In addition, the Plan pays the Authority certain other administrative expenses. The amounts paid by the Plan to the Authority for management services and other expenses totaled approximately \$7,413,000 for 2016 and \$7,146,000 for 2015.

**Denver Health and Hospital Authority**  
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The Plan establishes liabilities for both reported and unreported medical and Authority expenses, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses, net of reinsurance, beginning of year	\$ 13,848,000	\$ 11,182,000
Incurred claims and claim adjustment expenses, net of reinsurance recoveries		
Provision for insured events of the current year	121,800,203	105,411,110
Decrease in provision for insured events of prior years	<u>(3,392,789)</u>	<u>(183,059)</u>
Total incurred claims and claim adjustment expenses, net of reinsurance recoveries	<u>118,407,414</u>	<u>105,228,051</u>
Payments, net of reinsurance recoveries		
Claims and claim adjustment expenses attributable to insured events of the current year	127,552,827	114,210,916
Claims and claim adjustment expenses attributable to insured events of prior year	<u>(10,836,991)</u>	<u>(11,648,865)</u>
Total payments, net of reinsurance recoveries	<u>116,715,836</u>	<u>102,562,051</u>
Unpaid claims and claim adjustment expenses, net of reinsurance recoveries, end of year	<u>\$ 15,539,578</u>	<u>\$ 13,848,000</u>

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
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**Note 11: Operating Lease Commitments**

The Authority leases certain property and equipment under noncancelable operating leases. Future minimum lease payments under noncancelable operating leases as of December 31, 2016 are as follows:

Year Ending December 31,	Minimum Operating Lease Payments
2017	\$ 3,205,561
2018	1,006,853
2019	705,216
2020	365,000
2021	365,000
Thereafter	1,437,960
	\$ 7,085,590

Rental expense under noncancelable operating leases totaled approximately \$4,486,000 and \$2,535,000 for the years ended December 31, 2016 and 2015, respectively.

**Note 12: Pension and OPEB Plans**

***Plan Description***

Certain employees of the Authority as well as other nonuniformed employees of the City and certain related agencies, including employees leased to the Authority, participate in DERP. DERP is a cost-sharing multiple-employer defined benefit pension plan established by the City to provide pension benefits for its employees. DERP is no longer available to Authority employees hired January 1, 2001 or later. As a result, the Authority established an Enhanced Defined Contribution Plan. Authority employees hired prior to January 1, 2001 have the option to elect to drop their DERP participation and join the Enhanced Defined Contribution Plan, which is described in Note 14. Sections 18.401 through 18.430.7 of the City's Revised Municipal Code establish the plan and provide complete information on DERP. DERP issues a publicly available financial report that includes financial statements and required supplementary information. That report is available by either contacting DERP at 777 Pearl Street, Denver, Colorado 80203 or on the internet at [www.derp.org](http://www.derp.org).

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Benefits Provided***

DERP provides retirement benefits plus death and disability benefits for its members and their beneficiaries. Participants who retire at or after age 65 or age 55 if the sum of age plus credited service is 75 or more (rule of 75) are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to as much as 2% of their final average salary, for each year of credited service. Final average salary is the average salary based on the employee's highest salary in a 36-consecutive month period of credited service. Employees with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Benefit and contribution provisions are determined annually by an independent actuary, recommended by DERP's board, and enacted into ordinance by the Denver City Council.

### ***Contributions***

During 2016, combined employer and employees' contributions to DERP were 19.5% (11.5% employer and 8.0% employees) of applicable salaries, of which 18.30% was for pension benefits and 1.20% was for health benefits. During 2015, combined employer and employees' contributions to the Plan were 19.5% (11.5% employer and 8.0% employees) of applicable salaries, of which 18.28% was for pension benefits and 1.22% was for health benefits.

The health benefits' account was established by City Ordinance in 1991 to provide, beginning January 1, 1992, postemployment healthcare benefits in the form of a premium supplement to retired members, their spouses and dependents, spouses and dependents of deceased active and retired members, and members of the Plan awaiting approval of retirement applications. During 2016 and 2015, the monthly health insurance premium supplement was \$12.50 per year of service for retired participants under the age of 65, and \$6.25 per year of service for retirees aged 65 and older. The health insurance premium supplement can be applied to the payment of medical, dental, and/or vision insurance premiums. The benefit recipient pays any remaining portion of the premiums.

Before consideration of the premium supplement or premiums paid by the employer, the premiums charged to retirees are the same as charged to active employees for the same coverage. This results in an implicit rate subsidy, which is considered an other postemployment benefit (OPEB). Because the Plan is a cost-sharing multiple-employer plan, the actuarially determined obligation for OPEB is not reflected as a liability in the financial statements of the participating employers. Expense related to the implicit rate subsidy OPEB represents contractually required contributions under the cost-sharing multi-employer plan.

Effective January 1, 2001 and until October 1, 2003, active members of DERP who were eligible for a normal or rule of 75 retirement could choose to enter the Deferred Retirement Option Plan (DROP) for a maximum of four years. While participating in DROP, the member continues to work for the employer, earning a regular salary. The member's monthly retirement benefits are deposited into a DROP account maintained by DERP. The balance in a member's DROP account earns interest at a rate equal to the actuarial assumed rate of return. Sections 18-422 through 18-429 of the Revised Municipal Code of the City and County of Denver should be referred to for more complete information on DROP. Upon retirement, members have access to the funds accumulated during their participation in DROP.

**Denver Health and Hospital Authority**  
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***Employer-made Contributions Based on the Legally Required Rates***

Total annual employee and employer contributions to DERP by the Authority in 2016 and 2015 were approximately \$10,199,000 and \$10,288,000, respectively. This represents 2.1% in 2016 and 2.3% in 2015 of the Authority's total payroll of all employees. Authority contributions (employer only) to DERP for the years ended December 31, 2016 and 2015 were \$6,778,008 and \$6,471,773, respectively. The Authority's total payroll for all employees was approximately \$483,376,000 and \$440,856,000 for 2016 and 2015, respectively.

Total annual contributions to DERP by the Authority for postemployment healthcare benefits were approximately \$499,000 and \$531,000 for 2016 and 2015, respectively. This represents 0.11% and 0.12% of the Authority's total payroll for 2016 and 2015, respectively.

***Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2016 and 2015, the Authority reported a liability of \$119,914,669 and \$94,527,507, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and 2014 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2014 and 2013, respectively, rolled forward to December 31, 2015 and 2014, respectively. The Authority's proportion of the net pension liability was based on actual contributions of the Authority to the pension plan relative to the actual contributions of all participating employers for the measurement period. At December 31, 2015, the Authority's proportion was 10.17%, which was a decrease of .62% from its proportion measured as of December 31, 2014. The December 31, 2014, Authority proportion of 10.79% was a decrease of 1% from its proportion measured as of December 31, 2013.

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For the years ended December 31, 2016 and 2015, the Authority recognized pension expense of approximately \$11,876,000 and \$6,424,000, respectively. At December 31, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>Year Ended December 31, 2016</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between project and actual earning on pension plan investments	\$ 19,100,963	\$ -
Assumption changes	5,358,798	-
Changes between expected and actual experience	2,133,229	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	-	7,428,789
Authority's contributions subsequent to the measurement date	<u>6,778,008</u>	<u>-</u>
Total	<u>\$ 33,370,998</u>	<u>\$ 7,428,789</u>
<b>Year Ended December 31, 2015</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between project and actual earning on pension plan investments	\$ 4,988,160	\$ -
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	-	5,807,134
Authority's contributions subsequent to the measurement date	<u>6,471,773</u>	<u>-</u>
Total	<u>\$ 11,459,933</u>	<u>\$ 5,807,134</u>

**Denver Health and Hospital Authority**  
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At December 31, 2016, the Authority reported \$6,778,008, as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions will be recognized in pension expense as follows:

<b>Year Ending December 31,</b>	
2017	\$ 4,131,357
2018	5,033,020
2019	6,105,766
2020	3,894,058
	\$ 19,164,201

**Actuarial Assumptions**

The total pension liability in the December 31, 2014 and 2013, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<b>2014</b>		
Inflation	2.75%	
Salary Increases	3.25%	Average, including inflation
Ad Hoc cost of living adjustments	0.00%	Average
Investment rate of return	7.75%	Net of pension plan investment expense, including inflation
<b>2013</b>		
Inflation	2.75%	
Salary Increases	3.25%	Average, including inflation
Ad Hoc cost of living adjustments	0.00%	Average
Investment rate of return	8.00%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected Via Scale AA to 2020, with multipliers specified to Gender and Payment Status of Employee as appropriate with adjustments for mortality improvements.

The actuarial assumptions used in the December 31, 2014 and 2013 valuations were based on the results of an actuarial experience study as of January 1, 2008 through December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by

# Denver Health and Hospital Authority

## Notes to Financial Statements

December 31, 2016 and 2015

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S Equities	22.50%	4.30%
Non-U.S. developed	15.50%	6.00%
Emerging Markets	8.00%	9.80%
Core Fixed Income	11.50%	0.80%
Debt	2.50%	5.90%
Private Debt	6.50%	8.40%
Real Estate	8.00%	6.40%
Absolute Return	5.00%	3.60%
Energy MLPs	7.00%	7.30%
Private Equity/Other	13.50%	7.70%
Cash	0.00%	0.50%
	100%	

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.75% and 8% for the years ended December 31, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### **Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The Authority's proportionate share of the net pension liability at December 31, 2016 has been calculated using a discount rate of 7.75%. The following presents the Authority's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Authorities proportionate share of the net pension liability	\$ 153,283,218	\$ 119,914,669	\$ 91,574,841

# Denver Health and Hospital Authority

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### ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued DERP financial report.

### **Note 13: Deferred Compensation Plan**

The Authority offers their employees deferred compensation plans created in accordance with Code Section 457. The plans are available to all Authority employees and permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or approval for hardship cases.

The Authority's plan is administered and operated by the Authority through a Board Retirement Plan Committee. A trust agreement was established between the Authority and a third party to hold and invest the plan assets and for assistance in administering the plan.

The assets of the plans are held irrevocably by a third-party administrator; consequently, neither the assets nor liabilities are reflected in the accompanying basic financial statements of the Authority.

### **Note 14: Defined Contribution Plan and Enhanced Defined Contribution Plan**

The Denver Health and Hospital Authority 401(a) Defined Contribution Plan (Defined Contribution Plan) was established to extend benefits to employees in lieu of those benefits provided by the Social Security Act, as allowed by Colorado Revised Statutes Section 24-54-101. The plan was created in accordance with Code Sections 401 and 501. Benefits are not available to employees or their beneficiaries until retirement or death. Employees are required to contribute 6.2% of base compensation to the Defined Contribution Plan. The Authority has elected to contribute 3% of base compensation as a matching contribution. The contributions are not to exceed the maximum permissible amounts of the social security tax.

Because employees hired subsequent to January 1, 2001 are not eligible to participate in DERP, the Enhanced Defined Contribution Plan was established as a benefit to these Authority employees. Authority employees hired prior to January 1, 2001 may exercise an option to drop DERP participation and join the Enhanced Defined Contribution Plan.

Through August 23, 2015, the Authority elected to contribute 6.0% of eligible compensation up to the maximum compensation allowable by the Internal Revenue Service as an enhanced additional contribution. Effective August 23, 2015, the Authority amended the Enhanced Defined Contribution Plan to change the 6.0% enhanced contribution as follows:

- For employees hired after August 23, 2015, to contribute a 3.0% enhanced contribution that is subject to a three year vesting period.

# Denver Health and Hospital Authority

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- To contribute up to an additional 3.5% enhanced contribution, also subject to three year vesting period, that is matched 100% to the percent of eligible wages the employee voluntarily defers and contributes to the Authority's 457 Deferred Compensation Plan.
- Employees hired on or before August 23, 2015 continue to be immediately vested in all employee and employer contributed balances.

Total annual contributions to the Defined Contribution Plan and the Enhanced Defined Contribution Plan by the Authority in 2016, 2015 and 2014 were approximately \$37,814,000, \$29,586,000 and \$28,906,000, respectively. Employee contributions in 2016, 2015 and 2014 were approximately \$28,727,000, \$25,857,000 and \$22,853,000, respectively.

A trust agreement was established between the Authority and a third party to hold and invest plan assets and to assist in administering the plans. These plan assets are not recorded in the Authority's basic financial statements.

### Note 15: Healthcare Premium Supplement Plan

The Denver Health and Hospital Authority Healthcare Premium Supplement Plan (the Supplement Plan) was established in January 1, 2001 and is administered by the Authority as a single-employer defined benefit OPEB plan. Any employee of the Authority is eligible for healthcare premium supplement payments if the employee: (1) has attained the age of at least 55; (2) retires and commences benefits under the Enhanced Defined Contribution Plan (see Note 14) after completing at least 10 years of service; and (3) has been eligible to receive enhanced benefits under the Enhanced Defined Contribution Plan for at least 10 full years beginning on or after January 1, 2001.

The Plan was amended effective January 1, 2011, so that the benefits provided can be used for any allowable healthcare expense or premium.

The total lifetime benefit paid by the Supplement Plan is based on years of service as follows:

<b>Years of Services</b>	<b>Total Benefit</b>
10 - 14	\$ 14,400
15 - 19	21,600
20 - 24	28,800
25 - 29	36,000
30 - 34	43,200

Each additional five-year increment above year 34 results in an additional \$7,200 benefit.

Members are not required to contribute to the Supplement Plan. For the years ended December 31, 2016 and 2015, the Authority funded \$396,000 and \$201,600, respectively, to a third-party beneficiary for retirees qualified for the benefit and retiring after 2010. Otherwise, the Supplement Plan is unfunded as of December 31, 2016. However, any eligible retirees retiring in the future

# Denver Health and Hospital Authority

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will have their lifetime benefit deposited with a third-party administrator in the year in which they retire.

The annual OPEB cost for 2016 and 2015 was approximately \$1,261,000 and \$1,258,000, respectively. The net OPEB obligation at December 31, 2016 and 2015 is \$6,559,526 and \$5,694,069, respectively.

Relevant actuarial methods and significant assumptions are as follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Projected Unit Credit
Actuarial accrued liability	\$9,378,338
Discount rate	3.75%
Salary increase liability	3.25%
Amortization period	30 years, open

#### **Note 16: Supplemental Executive Retirement Plan**

In 2014, the Authority created a Supplemental Executive Retirement Plan (SERP Plan) for the purpose of providing deferred compensation for a select group of executive managers. The SERP Plan is an unfunded, non-qualified deferred compensation arrangement under Section 457(f) of the Internal Revenue Code. The effective date of the SERP Plan was January 1, 2014. In January 2015 and February 2016, the Authority contributed to a Rabbi Trust retirement account an amount equal to 5% of the executive base pay, and 10% of the base pay of the Chief Executive Officer of the Authority. Participants become vested to the contribution three calendar years after the contribution, or the year in which they turn 65 years of age, whichever is sooner. Distributions are made annually in February of each year to vested participants. As of December 31, 2016, one contribution was fully vested due to age, and five others vested due to a qualifying event. As of December 31, 2015, two contributions were fully vested due to age, and one other vested due to a qualifying event. These amounts were accrued as a liability at December 31, 2016 and 2015 in the amounts of approximately \$73,800 and \$116,000, respectively. Executive managers participating in DERP are not eligible to be included in the SERP Plan.

#### **Note 17: Risk Management**

The Authority is exposed to various risks and losses related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, property damage, workers' compensation, auto liability, and unemployment.

The Authority is covered under the limits of the Colorado Governmental Immunity Act. For 2016, in tort litigation covered by the Colorado Governmental Immunity Act, injury to one person in any single occurrence is limited to the amount of \$350,000, and for injury to two or more persons in a single occurrence, the limitation is \$990,000 with the stated limitation that no person may recover in excess of \$350,000. With respect to malpractice liability, the Authority carries excess healthcare professional and general liability coverage with limits of \$1,000,000 per occurrence and

# Denver Health and Hospital Authority

## Notes to Financial Statements

**December 31, 2016 and 2015**

\$3,000,000 in the aggregate with a self-insured retention amount of \$250,000. In addition, the Authority carries an umbrella policy with limits of \$5,000,000 per occurrence and \$5,000,000 in the aggregate. The Authority carries a separate professional liability policy to cover physicians who provide services under contract with the Authority. This policy provides coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

At December 31, 2016, the amount of medical malpractice and other liability was \$4,483,667. The Authority relied upon an actuarial estimate of the medical malpractice to record IBNR losses and loss adjustment expenses. A discount rate of 2.5% was applied to the actuarially determined liability as of December 31, 2016. Changes in the reported liability for the years ended December 31, 2016 and 2015 are as follows:

		<b>Beginning Balance</b>	<b>Provision and Changes in Estimates</b>	<b>Claims Paid</b>	<b>Ending Balance</b>
2015	\$	2,634,638	\$ 1,283,589	\$ (857,601)	\$ 3,060,626
2016		3,060,626	2,456,312	(1,033,271)	4,483,667

The Authority carries a separate healthcare professional and general liability policy to cover the Authority’s healthcare services provided in the City’s jail medical facilities. This policy provides coverage in the amount of \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a self-insured retention of \$150,000. A second policy provides excess umbrella liability coverage in the jail medical facilities in the amount of \$5,000,000 per occurrence and \$5,000,000 in the aggregate.

For other types of risk, the Authority generally carries commercial policies with deductibles ranging from \$50,000 to \$500,000 and limits of \$1,000,000 to \$10,000,000.

On January 1, 2002, the Authority was issued a “self-insurance permit” by the Colorado Department of Labor and Employment, Division of Workers’ Compensation, which allows the Authority to be its own insurance carrier for workers’ compensation risk. The Authority carries an excess workers’ compensation insurance policy with a self-insured retention limit of \$600,000. At December 31, 2016 and 2015, the amount of workers’ compensation liability was \$3,659,641 and \$3,247,165, respectively. This liability is based on actuarial estimates of the workers’ compensation to record IBNR losses and loss adjustment expenses. Changes in the reported liability for the years ended December 31, 2016 and 2015 are as follows:

		<b>Beginning Balance</b>	<b>Provision and Changes in Estimates</b>	<b>Claims Paid</b>	<b>Ending Balance</b>
2015	\$	3,622,528	\$ 1,511,707	\$ (1,887,070)	\$ 3,247,165
2016		3,247,165	1,674,886	(1,262,410)	3,659,641

There were no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last three years. In the opinion of the Authority’s legal counsel and management, resolution of actions relating to the Authority will not have a material effect on the Authority’s financial position or results of operations.

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

#### **Note 18: Contingencies**

##### ***Cost Report***

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Such audits could lead to reimbursement to the grantor agencies. The Authority has recorded all known and estimable liabilities related to such issues. Management believes unrecorded disallowances, if any, will not be significant.

##### ***Taxpayer Bill of Rights***

The Authority believes it is exempt from the provisions of Article X, Section 20 of the Colorado Constitution Taxpayer Bill of Rights (TABOR) because the Authority is not a “district” within the meaning of Section 2(b) of TABOR. In addition, the Authority believes it is exempt from TABOR because the Authority meets the definition of an “enterprise,” as defined by Section 2(d) of TABOR.

##### ***Litigation***

In the normal course of operations, the Authority is at times involved in litigation related to claims made under insurance contracts, employee liability, and general liability. In the opinion of management, all known material liabilities have been recorded, and the resolution of these matters will not have a material effect on the Authority’s financial position, results of operations, or liquidity.

##### ***Healthcare Policy and Financing Division***

The Authority contracts with the State of Colorado Healthcare Policy and Financing Division (HCPF) to provide capitated healthcare services to Medicaid eligible participants enrolled in Medicaid Choice. Final settlement of some prior year contracts has not yet occurred. The Authority has evaluated each contract year and recorded estimates of amounts that are probable and estimable as due. Final reconciliation and settlement with HCPF may result in differing amounts.

##### ***Academic Medical Center Connection***

The Authority has been a member of University HealthSystem Consortium, (UHC) a nonprofit corporation. In 2015, UHC became VHA-UHC Alliance NewCO, Inc., and subsequently changed its name to Academic Medical Center Connection (AMCC). As a member of AMCC, the Authority had rights to patronage returns, but no actual interest in the company. In April of 2015, AMCC sold substantially all of its assets and operations to Vizient, Inc. (Vizient). AMCC received cash and shares of common stock in Vizient as a result. As a result of these transactions, Vizient stock was distributed to AMCC participating patrons, which included the Authority. To receive stock shares, the Authority signed a Stockholders Agreement. The agreement limits the Authority’s ability to redeem the stock for current book value based on time restrictions. In 2016, the Authority received the stock certificates but the value of the stock is at zero and will vest over

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

time. The stock can only be sold back to Vizient. As such, the Authority has not recorded any financial transactions related to this.

#### Note 19: Commitments

The Authority entered into multiple construction contracts to remodel existing buildings and to construct new buildings during 2016 and prior. Under these contracts, the Authority has committed to pay contractors approximately \$22,595,000 in future periods.

#### Note 20: Condensed Combining Financial Information

The following tables include condensed combining balance sheet information for the Authority and its blended component units as of December 31, 2016 and 2015.

	December 31, 2016				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
<b>Condensed Statement of Net Position</b>					
Current assets	\$ 199,697,721	\$ 227,276	\$ (290,825)	\$ 93,187	\$ 199,727,359
<b>Noncurrent Assets</b>					
Capital assets, net of accumulated depreciation	395,890,354	28,276,887	48,495,209	-	472,662,450
Other long-term assets	340,282,503	41,155	587,888	-	340,911,546
Total noncurrent assets	736,172,857	28,318,042	49,083,097	-	813,573,996
Total assets	935,870,578	28,545,318	48,792,272	93,187	1,013,301,355
<b>Deferred Outflows of Resources</b>	51,585,290	-	-	-	51,585,290
Total assets and deferred outflows of resources	<u>\$ 987,455,868</u>	<u>\$ 28,545,318</u>	<u>\$ 48,792,272</u>	<u>\$ 93,187</u>	<u>\$ 1,064,886,645</u>
<b>Liabilities and Deferred Inflows of Resources</b>					
Current liabilities	\$ 156,970,419	\$ 1,036,373	\$ 2,856,349	\$ 38,227	\$ 160,901,368
Long-term liabilities	470,606,945	36,608,543	31,477,163	-	538,692,651
Deferred inflows of resources	7,428,789	-	-	-	7,428,789
Total liabilities and deferred inflows of resources	635,006,153	37,644,916	34,333,512	38,227	707,022,808
<b>Net Position</b>					
Net investment in capital assets	111,590,723	-	-	-	111,590,723
Unrestricted	240,858,992	(9,099,598)	14,458,760	54,960	246,273,114
Total net position	<u>352,449,715</u>	<u>(9,099,598)</u>	<u>14,458,760</u>	<u>54,960</u>	<u>357,863,837</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 987,455,868</u>	<u>\$ 28,545,318</u>	<u>\$ 48,792,272</u>	<u>\$ 93,187</u>	<u>\$ 1,064,886,645</u>

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

	December 31, 2015 - Restated			
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	Total
<b>Condensed Statement of Net Position</b>				
Current assets	\$ 180,617,110	\$ 396,573	\$ 459	\$ 181,014,142
<b>Noncurrent Assets</b>				
Capital assets, net of accumulated depreciation	369,646,401	29,406,594	10,409,187	409,462,182
Other long-term assets	390,532,902	130,946	615,893	391,279,741
Total noncurrent assets	760,179,303	29,537,540	11,025,080	800,741,923
Total assets	940,796,413	29,934,113	11,025,539	981,756,065
<b>Deferred Outflows of Resources</b>	30,908,808	-	-	30,908,808
Total assets and deferred outflows of resources	<u>\$ 971,705,221</u>	<u>\$ 29,934,113</u>	<u>\$ 11,025,539</u>	<u>\$ 1,012,664,873</u>
<b>Liabilities and Deferred Inflows of Resources</b>				
Current liabilities	\$ 162,970,098	\$ 37,866	\$ 2,257,438	\$ 165,265,402
Long-term liabilities	439,359,470	37,607,050	50,001	477,016,521
Deferred inflows of resources	5,807,134	-	-	5,807,134
Total liabilities and deferred inflows of resources	608,136,702	37,644,916	2,307,439	648,089,057
<b>Net Position</b>				
Net investment in capital assets	77,825,006	-	-	77,825,006
Unrestricted	285,743,513	(7,710,803)	8,718,100	286,750,810
Total net position	363,568,519	(7,710,803)	8,718,100	364,575,816
Total liabilities, deferred inflows of resources and net position	<u>\$ 971,705,221</u>	<u>\$ 29,934,113</u>	<u>\$ 11,025,539</u>	<u>\$ 1,012,664,873</u>

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Authority and its blended component units for the years ended December 31, 2016 and 2015.

	Year Ended December 31, 2016				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
<b>Operating Revenues</b>					
Net patient service revenue	\$ 505,649,332	\$ -	\$ -	\$ -	\$ 505,649,332
Capitation earned net of reinsurance expense	200,897,158	-	-	-	200,897,158
Medicaid disproportionate share and other safety net reimbursement	114,226,738	-	-	-	114,226,738
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300
Federal, state and other grants	61,762,927	-	-	-	61,762,927
City and County of Denver purchased services	23,111,964	-	-	-	23,111,964
Poison and drug center contracts	22,109,647	-	-	-	22,109,647
Other operating revenue	<u>30,676,521</u>	<u>386,993</u>	<u>-</u>	<u>82,466</u>	<u>31,145,980</u>
Total operating revenues	989,211,587	386,993	-	82,466	989,681,046
<b>Operating Expenses</b>					
Salaries and benefits	595,508,941	-	-	-	595,508,941
Contracted services and nonmedical supplies	207,264,561	101,254	-	27,506	207,393,321
Medical supplies and pharmaceuticals	107,970,210	-	-	-	107,970,210
Managed care outside provider claims	49,865,526	-	-	-	49,865,526
Depreciation and amortization	<u>40,526,308</u>	<u>1,219,498</u>	<u>28,008</u>	<u>-</u>	<u>41,773,814</u>
Total operating expenses	<u>1,001,135,546</u>	<u>1,320,752</u>	<u>28,008</u>	<u>27,506</u>	<u>1,002,511,812</u>
Operating income (loss)	(11,923,959)	(933,759)	(28,008)	54,960	(12,830,766)
<b>Nonoperating Revenues (Expenses)</b>					
Increase in equity in joint venture	13,000	-	-	-	13,000
Equity distribution from discretely presented component unit	5,000,000	-	-	-	5,000,000
Interest income	8,775,415	418	563	-	8,776,396
Interest expense	(14,892,601)	(455,454)	(560)	-	(15,348,615)
Net increase in fair value of investments	4,548,798	-	-	-	4,548,798
Gain on disposition of capital assets	<u>177,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,446</u>
Total nonoperating revenues (expenses)	<u>3,622,058</u>	<u>(455,036)</u>	<u>3</u>	<u>-</u>	<u>3,167,025</u>
Income before capital contributions	(8,301,901)	(1,388,795)	(28,005)	54,960	(9,663,741)
<b>Contributions Restricted for Capital Assets</b>	<u>(2,816,903)</u>	<u>-</u>	<u>5,768,665</u>	<u>-</u>	<u>2,951,762</u>
Increase (decrease) in net position	(11,118,804)	(1,388,795)	5,740,660	54,960	(6,711,979)
<b>Total Net Position, Beginning of Year, Restated</b>	<u>363,568,519</u>	<u>(7,710,803)</u>	<u>8,718,100</u>	<u>-</u>	<u>364,575,816</u>
<b>Total Net Position, End of Year</b>	<u>\$ 352,449,715</u>	<u>\$ (9,099,598)</u>	<u>\$ 14,458,760</u>	<u>\$ 54,960</u>	<u>\$ 357,863,837</u>

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

	Year Ended December 31, 2015 - Restated			
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	Total
<b>Operating Revenues</b>				
Net patient service revenue	\$ 508,943,529	\$ -	\$ -	\$ 508,943,529
Capitation earned net of reinsurance expense	167,041,601	-	-	167,041,601
Medicaid disproportionate share and other safety net reimbursement	129,493,366	-	-	129,493,366
City and County of Denver payment for patient care services	30,777,300	-	-	30,777,300
Federal, state and other grants	63,105,757	-	-	63,105,757
City and County of Denver purchased services	20,118,276	-	-	20,118,276
Poison and drug center contracts	22,228,585	-	-	22,228,585
Other operating revenue	26,940,239	384,197	-	27,324,436
<b>Total operating revenues</b>	<b>968,648,653</b>	<b>384,197</b>	<b>-</b>	<b>969,032,850</b>
<b>Operating Expenses</b>				
Salaries and benefits	525,936,197	-	-	525,936,197
Contracted services and nonmedical supplies	189,831,595	98,608	-	189,930,203
Medical supplies and pharmaceuticals	101,839,420	-	-	101,839,420
Managed care outside provider claims	55,666,631	-	-	55,666,631
Depreciation and amortization	38,563,132	1,240,555	14,003	39,817,690
<b>Total operating expenses</b>	<b>911,836,975</b>	<b>1,339,163</b>	<b>14,003</b>	<b>913,190,141</b>
<b>Operating income (loss)</b>	<b>56,811,678</b>	<b>(954,966)</b>	<b>(14,003)</b>	<b>55,842,709</b>
<b>Nonoperating Revenues (Expenses)</b>				
Increase in equity in joint venture	116,000	-	-	116,000
Interest income	9,037,964	498	257	9,038,719
Interest expense	(15,567,998)	(455,454)	(255)	(16,023,707)
Net decrease in fair value of investments	(8,840,767)	-	-	(8,840,767)
Gain on disposition of capital assets	1,073,790	-	-	1,073,790
<b>Total nonoperating revenues (expenses)</b>	<b>(14,181,011)</b>	<b>(454,956)</b>	<b>2</b>	<b>(14,635,965)</b>
<b>Income before capital contributions</b>	<b>42,630,667</b>	<b>(1,409,922)</b>	<b>(14,001)</b>	<b>41,206,744</b>
<b>Contributions Restricted for Capital Assets</b>	<b>(7,560,148)</b>	<b>-</b>	<b>8,732,101</b>	<b>1,171,953</b>
<b>Increase (decrease) in net position</b>	<b>35,070,519</b>	<b>(1,409,922)</b>	<b>8,718,100</b>	<b>42,378,697</b>
<b>Total Net Position, Beginning of Year, as Previously Reported</b>	<b>376,670,542</b>	<b>(6,300,881)</b>	<b>-</b>	<b>370,369,661</b>
Adjustment for restatement	(48,172,542)	-	-	(48,172,542)
<b>Total Net Position, Beginning of Year, Restated</b>	<b>328,498,000</b>	<b>(6,300,881)</b>	<b>-</b>	<b>322,197,119</b>
<b>Total Net Position, End of Year</b>	<b>\$ 363,568,519</b>	<b>\$ (7,710,803)</b>	<b>\$ 8,718,100</b>	<b>\$ 364,575,816</b>

# Denver Health and Hospital Authority

## Notes to Financial Statements

### December 31, 2016 and 2015

The following tables include condensed combining statements of cash flows information for the Authority and its blended component units for the years ended December 31, 2016 and 2015.

	Year Ended December 31, 2016				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
<b>Condensed Statement of Cash Flows</b>					
Net cash provided by (used in) operating activities	\$ 35,724,488	\$ (169,297)	\$ -	\$ -	\$ 35,555,191
Net cash provided by capital and related financing activities	(93,946,410)	-	1	299,959	(93,646,450)
Net cash used in investing activities	<u>61,279,813</u>	<u>-</u>	<u>563</u>	<u>-</u>	<u>61,280,376</u>
Net increase (decrease) in cash and cash equivalents	3,057,891	(169,297)	564	299,959	3,189,117
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>53,891,036</u>	<u>396,573</u>	<u>240</u>	<u>-</u>	<u>54,287,849</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 56,948,927</u>	<u>\$ 227,276</u>	<u>\$ 804</u>	<u>\$ 299,959</u>	<u>\$ 57,476,966</u>

	Year Ended December 31, 2015 - Restated			
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	Total
<b>Condensed Statement of Cash Flows</b>				
Net cash provided by (used in) operating activities	\$ 131,761,177	\$ (169,297)	\$ -	\$ 131,591,880
Net cash provided by capital and related financing activities	(61,902,349)	-	(17)	(61,902,366)
Net cash used in investing activities	<u>(60,509,994)</u>	<u>-</u>	<u>257</u>	<u>(60,509,737)</u>
Net increase (decrease) in cash and cash equivalents	9,348,834	(169,297)	240	9,179,777
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>44,542,201</u>	<u>565,941</u>	<u>-</u>	<u>45,108,142</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 53,891,035</u>	<u>\$ 396,644</u>	<u>\$ 240</u>	<u>\$ 54,287,919</u>

#### Note 21: Restatement

During 2016, the Authority determined certain governmental revenues and expenses related to the State of Colorado provider fee that had been accrued for at year-end had not been earned or incurred. This included provider fee payments received and made prior to the period which they relate. The effect of this error was accounts receivables and accounts payables related to the provider fee should not have been recorded and for payments received or made in advance of the time of service, the need to record unearned revenues and prepaid expenses. This error is cumulative from before 2015. The effect of this change on the 2015 financial statements increased the operating income by \$3,374,905. This misstatement had a cumulative effect on beginning net assets of \$48,172,542.

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

The following financial statement line items for fiscal year 2015 were affected by the correction of the misstatement:

	<b>As Originally Reported</b>	<b>As Restated</b>	<b>Effect of Change</b>
<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
Medicaid disproportionate share and other safety net reimbursement	\$ 124,870,486	\$ 129,493,366	\$ 4,622,880
Total operating revenue	964,409,970	969,032,850	4,622,880
Contracted services and nonmedical supplies	188,682,228	189,930,203	1,247,975
Total operation expenses	911,942,166	913,190,141	1,247,975
Operating income	52,467,804	55,842,709	3,374,905
Income before capital contributions	37,831,839	41,206,744	3,374,905
Increase in net position	39,003,792	42,378,697	3,374,905
<b>Statement of Net Position</b>			
Due from other governmental entities	47,737,679	16,824,159	(30,913,520)
Prepaid expenses and other assets	6,496,668	10,534,400	4,037,732
Total current assets	207,889,930	181,014,142	(26,875,788)
Total assets	1,008,631,853	981,756,065	(26,875,788)
Total assets and deferred outflows of resources	1,039,540,661	1,012,664,873	(26,875,788)
Accounts payable and accrued expenses	52,732,419	48,263,188	(4,469,231)
Unearned revenue	3,788,349	26,179,429	22,391,080
Total current liabilities	147,343,553	165,265,402	17,921,849
Total liabilities	624,360,074	642,281,923	17,921,849
Total liabilities and deferred inflows of resources	630,167,208	648,089,057	17,921,849
Unrestricted net position	331,548,447	286,750,810	(44,797,637)
Total liabilities, deferred inflows of resources and net assets	1,039,540,661	1,012,664,873	(26,875,788)
<b>Statement of Cash Flows</b>			
Medicaid disproportionate share reimbursement and upper payment limit reimbursement	150,732,014	149,484,039	(1,247,975)
Payments to suppliers	(291,151,255)	(289,903,280)	1,247,975
Operating income	52,467,804	55,842,709	3,374,905
Due from other governmental entities	2,822,598	(4,882,202)	(7,704,800)
Prepaid expenses and other assets	28,436	(994,852)	(1,023,288)
Accounts payable and accrued expenses	365,965	2,637,228	2,271,263
Unearned revenue	(225,379)	2,856,541	3,081,920

**Denver Health and Hospital Authority**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 22: Subsequent Events**

Subsequent to year-end, the Authority signed a letter of intent with a third party company to provide program support and co-management for a unit of the hospital.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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## **Required Supplementary Information**

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**Denver Health and Hospital Authority**  
**Schedules of Required Supplementary Information**  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**

	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	10.17%	10.79%
Authority's proportionate share of the net pension liability	\$ 119,914,669	\$ 94,527,507
Authority's covered-employee payroll	40,906,565	42,015,157
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	293.14%	224.98%
Plan fiduciary net position as a percentage of the total pension liability	62.26%	70.12%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for only those years for which information is available. Information presented in this schedule has been determined as of the Authority's measurement date (December 31 immediately preceding the Authority's most recent fiscal year-end) of the collective net pension liability in accordance with GASB 68.

The discount rate used was 7.75% for 2015 and 8.00% for 2014.

**Denver Health and Hospital Authority**  
**Schedules of Required Supplementary Information**  
**Schedule of the Authority's Contributions**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 6,778,008	\$ 6,471,773
Contributions in relation to the contractually required contribution	6,778,008	6,471,773
Contribution deficiency (excess)	-	-
Authority's covered-employee payroll	38,910,745	40,906,565
Contributions as a percentage of covered-employee payroll	17.42%	15.81%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for only those years for which information is available. Information presented in this schedule has been determined as of the Authority's most recent fiscal year-end (December 31, 2016) in accordance with GASB 68.

**Funding Valuation Date:** January 1, 2015

Notes Actuarially determined contribution rates are calculated as of December 31 of each year and are applicable for the following calendar (fiscal) year.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Payroll, Annually Established 30-Year Closed Bases
Remaining Amortization Period	Approximately 28 Years
Asset Valuation Method	Smoothed market
Inflation	2.75%
Salary Increases	3.25% to 7.25%
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the period 2008 - 2012.
Mortality	RP-2000 Combined Mortality Table Projected Via Scale AA to 2020. With Multipliers Specific to General and Payment Status of Employee.

**Other Information:**

Notes There were no benefit changes during the year.  
As of October 1, 2015, the valuation interest rate was lowered from 8% to 7.75%.

The latest experience study was conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012. At that time, the recommended mortality table was expected to produce a margin of 8% on the retired male mortality experience and 7% on the retired female experience [Denver Employees Retirement Plan 2013 Actuarial Experience Study for the period ended December 31, 2012, Page 24, 25].

**Denver Health and Hospital Authority**  
**Other Postemployment Benefits**  
**Years Ended December 31, 2016 and 2015**

Schedule of Funding Progress - Unaudited

Healthcare Premium Supplement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
January 1, 2017	\$ -	\$ 9,378,338	0%	\$ 9,378,338	\$ 397,761,679	2.36%
January 1, 2015	\$ -	\$ 7,457,019	0%	\$ 7,457,019	\$ 321,087,311	2.32%
January 1, 2013	\$ -	\$ 5,732,568	0%	\$ 5,732,568	\$ 268,282,209	2.14%
January 1, 2011	\$ -	\$ 3,782,682	0%	\$ 3,782,682	\$ 225,461,933	1.68%
January 1, 2009	\$ -	\$ 1,777,279	0%	\$ 1,777,279	\$ 199,854,979	0.89%

The required supplementary information is based on a biennial actuarial valuation of the Authority's Healthcare Premium Supplement Plan for the year January 1, 2016 through December 31, 2016, updated for additional accrued benefits in the subsequent fiscal year.

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## **Supplementary Information**

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**Denver Health and Hospital Authority**  
**Consolidating Schedule – Statement of Net Position Information**  
**December 31, 2016**

	The Authority					DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority				
<b>Assets and Deferred Outflows of Resources</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 56,948,927	\$ -	\$ -	\$ -	\$ 56,948,927	\$ -	\$ -	\$ 299,959	\$ 57,248,886
Restricted cash and cash equivalents	-	-	-	-	-	227,276	804	-	228,080
Patient accounts receivable, net	72,783,485	-	-	-	72,783,485	-	-	-	72,783,485
Due from other governmental entities	13,055,419	225,158	-	12,429,389	25,709,966	-	-	-	25,709,966
Due from City and County of Denver	2,238,521	174,618	24,225	1,533	2,438,897	-	-	-	2,438,897
Other receivables	7,011,640	123,711	3,908,853	4,561,318	15,605,522	-	-	93,187	15,698,709
Interest receivable	1,205,056	-	-	-	1,205,056	-	-	-	1,205,056
Due from (to) and investment in discretely presented component units	(11,767,674)	(1,335,788)	22,936,560	(7,403,813)	2,429,285	-	(291,629)	(299,959)	1,837,697
Inventories	12,052,439	-	-	-	12,052,439	-	-	-	12,052,439
Prepaid expenses and other assets	10,361,178	-	125,946	37,020	10,524,144	-	-	-	10,524,144
<b>Total current assets</b>	<b>163,888,991</b>	<b>(812,301)</b>	<b>26,995,584</b>	<b>9,625,447</b>	<b>199,697,721</b>	<b>227,276</b>	<b>(290,825)</b>	<b>93,187</b>	<b>199,727,359</b>
<b>Noncurrent Assets</b>									
Notes receivable	44,393,015	-	-	-	44,393,015	-	-	-	44,393,015
Estimated third-party payor settlements receivable	4,258,361	-	-	-	4,258,361	-	-	-	4,258,361
Equity interest in joint venture	1,101,500	-	-	-	1,101,500	-	-	-	1,101,500
Restricted investments	48,189,266	-	-	-	48,189,266	-	-	-	48,189,266
Capital assets, net of accumulated depreciation	393,243,464	1,856,023	790,867	-	395,890,354	28,276,887	48,495,209	-	472,662,450
Long-term investments	204,241,242	-	-	-	204,241,242	-	-	-	204,241,242
Board designated investments	36,500,000	-	-	-	36,500,000	-	-	-	36,500,000
Other long-term assets	12,959	1,586,160	-	-	1,599,119	41,155	587,888	-	2,228,162
<b>Total noncurrent assets</b>	<b>731,939,807</b>	<b>3,442,183</b>	<b>790,867</b>	<b>-</b>	<b>736,172,857</b>	<b>28,318,042</b>	<b>49,083,097</b>	<b>-</b>	<b>813,573,996</b>
<b>Total assets</b>	<b>895,828,798</b>	<b>2,629,882</b>	<b>27,786,451</b>	<b>9,625,447</b>	<b>935,870,578</b>	<b>28,545,318</b>	<b>48,792,272</b>	<b>93,187</b>	<b>1,013,301,355</b>
<b>Deferred Outflows of Resources</b>									
Accumulated change in fair value of hedging derivatives	13,499,981	-	-	-	13,499,981	-	-	-	13,499,981
Deferred outflows of resources related to pension benefits	33,370,998	-	-	-	33,370,998	-	-	-	33,370,998
Deferred outflow - acquisitions	415,667	-	-	-	415,667	-	-	-	415,667
Loss on refunding of debt	4,298,644	-	-	-	4,298,644	-	-	-	4,298,644
<b>Total deferred outflows of resources</b>	<b>51,585,290</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,585,290</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,585,290</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 947,414,088</b>	<b>\$ 2,629,882</b>	<b>\$ 27,786,451</b>	<b>\$ 9,625,447</b>	<b>\$ 987,455,868</b>	<b>\$ 28,545,318</b>	<b>\$ 48,792,272</b>	<b>\$ 93,187</b>	<b>\$ 1,064,886,645</b>

**Denver Health and Hospital Authority**  
**Consolidating Schedule – Statement of Net Position Information**  
**December 31, 2016**

	The Authority								Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>									
<b>Current Liabilities</b>									
Current maturities of bonds payable	\$ 11,206,429	\$ -	\$ -	\$ -	\$ 11,206,429	\$ -	\$ -	\$ -	\$ 11,206,429
Current maturities of capital leases	428,147	-	-	-	428,147	-	-	-	428,147
Current maturities of notes payable	195,000	-	-	-	195,000	998,507	-	-	1,193,507
Medical malpractice liability	4,483,667	-	-	-	4,483,667	-	-	-	4,483,667
Accounts payable and accrued expenses	40,731,903	-	2,317,907	262,412	43,312,222	37,866	2,856,349	38,227	46,244,664
Accrued salaries, wages and employee benefits	38,291,813	-	-	-	38,291,813	-	-	-	38,291,813
Accrued compensated absences	25,274,146	-	-	-	25,274,146	-	-	-	25,274,146
Unearned revenue	17,761,200	-	105,933	4,860,651	22,727,784	-	-	-	22,727,784
Derivative interest rate swap liability	1,816,211	-	-	-	1,816,211	-	-	-	1,816,211
Accrued claims	9,235,000	-	-	-	9,235,000	-	-	-	9,235,000
<b>Total current liabilities</b>	<b>149,423,516</b>	<b>-</b>	<b>2,423,840</b>	<b>5,123,063</b>	<b>156,970,419</b>	<b>1,036,373</b>	<b>2,856,349</b>	<b>38,227</b>	<b>160,901,368</b>
<b>Long-term Liabilities</b>									
Long-term portion of liability for estimated third-party settlements	46,000,540	-	-	-	46,000,540	-	-	-	46,000,540
Long-term portion of compensated absences	253,758	-	-	-	253,758	-	-	-	253,758
Bonds payable, less current maturities	272,248,981	-	-	-	272,248,981	-	-	-	272,248,981
Capital lease obligations, less current maturities	792,322	-	-	-	792,322	-	-	-	792,322
Notes payable	13,115,005	-	-	-	13,115,005	36,608,543	31,477,163	-	81,200,711
Derivative interest rate swap liability	11,722,144	-	-	-	11,722,144	-	-	-	11,722,144
Net pension liability	119,914,669	-	-	-	119,914,669	-	-	-	119,914,669
Postemployment benefits	6,559,526	-	-	-	6,559,526	-	-	-	6,559,526
<b>Total long-term liabilities</b>	<b>470,606,945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>470,606,945</b>	<b>36,608,543</b>	<b>31,477,163</b>	<b>-</b>	<b>538,692,651</b>
<b>Total liabilities</b>	<b>620,030,461</b>	<b>-</b>	<b>2,423,840</b>	<b>5,123,063</b>	<b>627,577,364</b>	<b>37,644,916</b>	<b>34,333,512</b>	<b>38,227</b>	<b>699,594,019</b>
<b>Deferred Inflows of Resources</b>									
Deferred inflows of resources related to pension benefits	7,428,789	-	-	-	7,428,789	-	-	-	7,428,789
<b>Total liabilities and deferred inflows of resources</b>	<b>627,459,250</b>	<b>-</b>	<b>2,423,840</b>	<b>5,123,063</b>	<b>635,006,153</b>	<b>37,644,916</b>	<b>34,333,512</b>	<b>38,227</b>	<b>707,022,808</b>
<b>Net Position</b>									
Net investment in capital assets	108,943,833	1,856,023	790,867	-	111,590,723	-	-	-	111,590,723
Unrestricted	211,011,005	773,859	24,571,744	4,502,384	240,858,992	(9,099,598)	14,458,760	54,960	246,273,114
<b>Total net position</b>	<b>319,954,838</b>	<b>2,629,882</b>	<b>25,362,611</b>	<b>4,502,384</b>	<b>352,449,715</b>	<b>(9,099,598)</b>	<b>14,458,760</b>	<b>54,960</b>	<b>357,863,837</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 947,414,088</b>	<b>\$ 2,629,882</b>	<b>\$ 27,786,451</b>	<b>\$ 9,625,447</b>	<b>\$ 987,455,868</b>	<b>\$ 28,545,318</b>	<b>\$ 48,792,272</b>	<b>\$ 93,187</b>	<b>\$ 1,064,886,645</b>

**Denver Health and Hospital Authority**  
**Consolidating Schedule – Statement of Net Position Information**  
**December 31, 2015 – Restated**

	The Authority							Total Restated
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	
<b>Assets and Deferred Outflows of Resources</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 53,891,036	\$ -	\$ -	\$ -	\$ 53,891,036	\$ -	\$ -	\$ 53,891,036
Restricted cash and cash equivalents	-	-	-	-	-	396,573	240	396,813
Patient accounts receivable, net	64,850,415	-	-	-	64,850,415	-	-	64,850,415
Due from other governmental entities	7,333,791	257,698	-	9,232,670	16,824,159	-	-	16,824,159
Other receivables	11,845,445	123,218	3,328,369	4,480,467	19,777,499	-	-	19,777,499
Interest receivable	1,298,652	-	-	-	1,298,652	-	-	1,298,652
Due from (to) and investment in discretely presented component units	(15,385,369)	687,670	22,226,708	(5,481,007)	2,048,002	-	219	2,048,221
Inventories	11,392,947	-	-	-	11,392,947	-	-	11,392,947
Prepaid expenses and other assets	10,300,636	-	215,605	18,159	10,534,400	-	-	10,534,400
Total current assets	<u>145,527,553</u>	<u>1,068,586</u>	<u>25,770,682</u>	<u>8,250,289</u>	<u>180,617,110</u>	<u>396,573</u>	<u>459</u>	<u>181,014,142</u>
<b>Noncurrent Assets</b>								
Notes receivable	44,393,015	-	-	-	44,393,015	-	-	44,393,015
Estimated third-party payor settlements receivable	6,044,891	-	-	-	6,044,891	-	-	6,044,891
Equity interest in joint venture	1,088,500	-	-	-	1,088,500	-	-	1,088,500
Restricted investments	71,733,897	-	-	-	71,733,897	-	-	71,733,897
Capital assets, net of accumulated depreciation	366,128,969	2,375,443	1,141,989	-	369,646,401	29,406,594	10,409,187	409,462,182
Long-term investments	195,269,539	-	-	-	195,269,539	-	-	195,269,539
Board designaed investments	69,788,663	-	-	-	69,788,663	-	-	69,788,663
Other long-term assets	1,306,407	907,990	-	-	2,214,397	130,946	615,893	2,961,236
Total noncurrent assets	<u>755,753,881</u>	<u>3,283,433</u>	<u>1,141,989</u>	<u>-</u>	<u>760,179,303</u>	<u>29,537,540</u>	<u>11,025,080</u>	<u>800,741,923</u>
Total assets	<u>901,281,434</u>	<u>4,352,019</u>	<u>26,912,671</u>	<u>8,250,289</u>	<u>940,796,413</u>	<u>29,934,113</u>	<u>11,025,539</u>	<u>981,756,065</u>
<b>Deferred Outflows of Resources</b>								
Accumulated change in fair value of hedging derivatives	14,856,023	-	-	-	14,856,023	-	-	14,856,023
Deferred outflows of resources related to pension benefits	11,459,933	-	-	-	11,459,933	-	-	11,459,933
Loss on refunding of debt	4,592,852	-	-	-	4,592,852	-	-	4,592,852
Total deferred outflows of resources	<u>30,908,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,908,808</u>	<u>-</u>	<u>-</u>	<u>30,908,808</u>
Total assets and deferred outflows of resources	<u>\$ 932,190,242</u>	<u>\$ 4,352,019</u>	<u>\$ 26,912,671</u>	<u>\$ 8,250,289</u>	<u>\$ 971,705,221</u>	<u>\$ 29,934,113</u>	<u>\$ 11,025,539</u>	<u>\$ 1,012,664,873</u>

**Denver Health and Hospital Authority**  
**Consolidating Schedule – Statement of Net Position Information**  
**December 31, 2015 – Restated**

	The Authority							Total Restated
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>								
<b>Current Liabilities</b>								
Current maturities of bonds payable	\$ 6,825,000	\$ -	\$ -	\$ -	\$ 6,825,000	\$ -	\$ -	\$ 6,825,000
Current maturities of capital leases	450,456	-	-	-	450,456	-	-	450,456
Current maturities of notes payable	4,301,429	-	-	-	4,301,429	-	-	4,301,429
Medical malpractice liability	3,060,626	-	-	-	3,060,626	-	-	3,060,626
Accounts payable and accrued expenses	44,068,581	-	1,871,088	28,215	45,967,884	37,866	2,257,438	48,263,188
Due to (from) the City of Denver	(1,696,605)	2,639,466	-	-	942,861	-	-	942,861
Accrued salaries, wages and employee benefits	38,760,316	-	-	-	38,760,316	-	-	38,760,316
Accrued compensated absences	23,591,399	-	-	-	23,591,399	-	-	23,591,399
Unearned revenue	22,469,228	-	64,516	3,645,685	26,179,429	-	-	26,179,429
Derivative interest rate swap liability	1,933,698	-	-	-	1,933,698	-	-	1,933,698
Accrued claims	10,957,000	-	-	-	10,957,000	-	-	10,957,000
<b>Total current liabilities</b>	<b>154,721,128</b>	<b>2,639,466</b>	<b>1,935,604</b>	<b>3,673,900</b>	<b>162,970,098</b>	<b>37,866</b>	<b>2,257,438</b>	<b>165,265,402</b>
<b>Long-term Liabilities</b>								
Long-term portion of liability for estimated third-party settlements	29,031,456	-	-	-	29,031,456	-	-	29,031,456
Long-term portion of compensated absences	395,539	-	-	-	395,539	-	-	395,539
Bonds payable, less current maturities	279,350,541	-	-	-	279,350,541	-	-	279,350,541
Capital lease obligations, less current maturities	1,207,948	-	-	-	1,207,948	-	-	1,207,948
Notes payable	16,131,338	-	-	-	16,131,338	37,607,050	50,001	53,788,389
Derivative interest rate swap liability	13,021,072	-	-	-	13,021,072	-	-	13,021,072
Net pension liability	94,527,507	-	-	-	94,527,507	-	-	94,527,507
Postemployment benefits	5,694,069	-	-	-	5,694,069	-	-	5,694,069
<b>Total long-term liabilities</b>	<b>439,359,470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>439,359,470</b>	<b>37,607,050</b>	<b>50,001</b>	<b>477,016,521</b>
<b>Total liabilities</b>	<b>594,080,598</b>	<b>2,639,466</b>	<b>1,935,604</b>	<b>3,673,900</b>	<b>602,329,568</b>	<b>37,644,916</b>	<b>2,307,439</b>	<b>642,281,923</b>
<b>Deferred Inflows of Resources</b>								
Deferred inflows of resources related to pension benefits	5,807,134	-	-	-	5,807,134	-	-	5,807,134
<b>Total liabilities and deferred inflows of resources</b>	<b>599,887,732</b>	<b>2,639,466</b>	<b>1,935,604</b>	<b>3,673,900</b>	<b>608,136,702</b>	<b>37,644,916</b>	<b>2,307,439</b>	<b>648,089,057</b>
<b>Net Position</b>								
Net investment in capital assets	74,307,574	2,375,443	1,141,989	-	77,825,006	-	-	77,825,006
Unrestricted	257,994,936	(662,890)	23,835,078	4,576,389	285,743,513	(7,710,803)	8,718,100	286,750,810
<b>Total net position</b>	<b>332,302,510</b>	<b>1,712,553</b>	<b>24,977,067</b>	<b>4,576,389</b>	<b>363,568,519</b>	<b>(7,710,803)</b>	<b>8,718,100</b>	<b>364,575,816</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 932,190,242</b>	<b>\$ 4,352,019</b>	<b>\$ 26,912,671</b>	<b>\$ 8,250,289</b>	<b>\$ 971,705,221</b>	<b>\$ 29,934,113</b>	<b>\$ 11,025,539</b>	<b>\$ 1,012,664,873</b>

# Denver Health and Hospital Authority

## Consolidating Schedule – Revenues and Expenses Information

### Year Ended December 31, 2016

The Authority

	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total
<b>Operating Revenues</b>									
Net patient service revenue	\$ 502,177,932	\$ 3,467,813	\$ 3,587	\$ -	\$ 505,649,332	\$ -	\$ -	\$ -	\$ 505,649,332
Capitation earned net of reinsurance expense	200,897,158	-	-	-	200,897,158	-	-	-	200,897,158
Medicaid disproportionate share and other safety net reimbursement	114,226,738	-	-	-	114,226,738	-	-	-	114,226,738
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300	-	-	-	30,777,300
Federal, state and other grants	422,946	2,449,597	-	58,890,384	61,762,927	-	-	-	61,762,927
City and County of Denver purchased services	5,216,374	17,798,691	96,899	-	23,111,964	-	-	-	23,111,964
Poison and drug center contracts	-	-	22,109,647	-	22,109,647	-	-	-	22,109,647
Other operating revenue	28,889,703	1,785,537	-	1,281	30,676,521	386,993	-	82,466	31,145,980
<b>Total operating revenues</b>	<b>882,608,151</b>	<b>25,501,638</b>	<b>22,210,133</b>	<b>58,891,665</b>	<b>989,211,587</b>	<b>386,993</b>	<b>-</b>	<b>82,466</b>	<b>989,681,046</b>
<b>Operating Expenses</b>									
Salaries and benefits	519,584,268	20,855,727	12,579,825	42,489,121	595,508,941	-	-	-	595,508,941
Contracted services and nonmedical supplies	181,439,872	2,453,784	8,948,118	14,422,787	207,264,561	101,254	-	27,506	207,393,321
Medical supplies and pharmaceuticals	105,703,314	1,553,007	312	713,577	107,970,210	-	-	-	107,970,210
Managed care outside provider claims	49,865,526	-	-	-	49,865,526	-	-	-	49,865,526
Depreciation and amortization	39,685,667	519,423	321,218	-	40,526,308	1,219,498	28,008	-	41,773,814
<b>Total operating expenses</b>	<b>896,278,647</b>	<b>25,381,941</b>	<b>21,849,473</b>	<b>57,625,485</b>	<b>1,001,135,546</b>	<b>1,320,752</b>	<b>28,008</b>	<b>27,506</b>	<b>1,002,511,812</b>
<b>Operating income (loss)</b>	<b>(13,670,496)</b>	<b>119,697</b>	<b>360,660</b>	<b>1,266,180</b>	<b>(11,923,959)</b>	<b>(933,759)</b>	<b>(28,008)</b>	<b>54,960</b>	<b>(12,830,766)</b>
<b>Nonoperating Revenues (Expenses)</b>									
Increase in equity in joint venture	13,000	-	-	-	13,000	-	-	-	13,000
Interdepartmental transfers	1,849	55,170	24,884	(81,903)	-	-	-	-	-
Distribution from discretely presented component unit	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000
Grant funded capital expenditures	1,258,282	-	-	(1,258,282)	-	-	-	-	-
Interest income	8,775,415	-	-	-	8,775,415	418	563	-	8,776,396
Interest expense	(14,892,601)	-	-	-	(14,892,601)	(455,454)	(560)	-	(15,348,615)
Net increase in fair value of investments	4,548,798	-	-	-	4,548,798	-	-	-	4,548,798
Gain on disposition of capital assets	177,446	-	-	-	177,446	-	-	-	177,446
<b>Total nonoperating revenues (expenses)</b>	<b>4,882,189</b>	<b>55,170</b>	<b>24,884</b>	<b>(1,340,185)</b>	<b>3,622,058</b>	<b>(455,036)</b>	<b>3</b>	<b>-</b>	<b>3,167,025</b>
<b>Income (loss) before capital contributions</b>	<b>(8,788,307)</b>	<b>174,867</b>	<b>385,544</b>	<b>(74,005)</b>	<b>(8,301,901)</b>	<b>(1,388,795)</b>	<b>(28,005)</b>	<b>54,960</b>	<b>(9,663,741)</b>
<b>Contributions Restricted for Capital Assets</b>	<b>(3,559,365)</b>	<b>742,462</b>	<b>-</b>	<b>-</b>	<b>(2,816,903)</b>	<b>-</b>	<b>5,768,665</b>	<b>-</b>	<b>2,951,762</b>
<b>Increase (decrease) in net position</b>	<b>\$ (12,347,672)</b>	<b>\$ 917,329</b>	<b>\$ 385,544</b>	<b>\$ (74,005)</b>	<b>\$ (11,118,804)</b>	<b>\$ (1,388,795)</b>	<b>\$ 5,740,660</b>	<b>\$ 54,960</b>	<b>\$ (6,711,979)</b>

**Denver Health and Hospital Authority**  
**Consolidating Schedule – Revenues and Expenses Information**  
**Year Ended December 31, 2015 – Restated**

	The Authority					DHHA Pavilion M, Inc.	601 Broadway Inc.	Total Restated
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority			
<b>Operating Revenues</b>								
Net patient service revenue	\$ 504,636,392	\$ 4,296,574	\$ 10,563	\$ -	\$ 508,943,529	\$ -	\$ -	\$ 508,943,529
Capitation earned net of reinsurance expense	167,041,601	-	-	-	167,041,601	-	-	167,041,601
Medicaid disproportionate share and other safety net reimbursement	129,493,366	-	-	-	129,493,366	-	-	129,493,366
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300	-	-	30,777,300
Federal, state and other grants	489,854	2,256,577	-	60,359,326	63,105,757	-	-	63,105,757
City and County of Denver purchased services	2,895,441	17,125,936	96,899	-	20,118,276	-	-	20,118,276
Poison and drug center contracts	-	-	22,228,585	-	22,228,585	-	-	22,228,585
Other operating revenue	25,072,245	1,863,466	-	4,528	26,940,239	384,197	-	27,324,436
<b>Total operating revenues</b>	<b>860,406,199</b>	<b>25,542,553</b>	<b>22,336,047</b>	<b>60,363,854</b>	<b>968,648,653</b>	<b>384,197</b>	<b>-</b>	<b>969,032,850</b>
<b>Operating Expenses</b>								
Salaries and benefits	449,837,071	20,929,092	12,514,012	42,656,022	525,936,197	-	-	525,936,197
Contracted services and nonmedical supplies	160,948,651	2,942,531	9,094,457	16,845,956	189,831,595	98,608	-	189,930,203
Medical supplies and pharmaceuticals	99,585,484	1,364,688	3,297	885,951	101,839,420	-	-	101,839,420
Managed care outside provider claims	55,666,631	-	-	-	55,666,631	-	-	55,666,631
Depreciation and amortization	37,697,777	531,587	333,768	-	38,563,132	1,240,555	14,003	39,817,690
<b>Total operating expenses</b>	<b>803,735,614</b>	<b>25,767,898</b>	<b>21,945,534</b>	<b>60,387,929</b>	<b>911,836,975</b>	<b>1,339,163</b>	<b>14,003</b>	<b>913,190,141</b>
<b>Operating income (loss)</b>	<b>56,670,585</b>	<b>(225,345)</b>	<b>390,513</b>	<b>(24,075)</b>	<b>56,811,678</b>	<b>(954,966)</b>	<b>(14,003)</b>	<b>55,842,709</b>
<b>Nonoperating Revenues (Expenses)</b>								
Increase in equity in joint venture	116,000	-	-	-	116,000	-	-	116,000
Interdepartmental transfers	(218,222)	491	20,776	196,955	-	-	-	-
Grant funded capital expenditures	184,456	-	-	(184,456)	-	-	-	-
Interest income	9,037,964	-	-	-	9,037,964	498	257	9,038,719
Interest expense	(15,567,998)	-	-	-	(15,567,998)	(455,454)	(255)	(16,023,707)
Net decrease in fair value of investments	(8,840,767)	-	-	-	(8,840,767)	-	-	(8,840,767)
Gain on disposition of capital assets	1,073,790	-	-	-	1,073,790	-	-	1,073,790
<b>Total nonoperating revenues (expenses)</b>	<b>(14,214,777)</b>	<b>491</b>	<b>20,776</b>	<b>12,499</b>	<b>(14,181,011)</b>	<b>(454,956)</b>	<b>2</b>	<b>(14,635,965)</b>
<b>Income (loss) before capital contributions</b>	<b>42,455,808</b>	<b>(224,854)</b>	<b>411,289</b>	<b>(11,576)</b>	<b>42,630,667</b>	<b>(1,409,922)</b>	<b>(14,001)</b>	<b>41,206,744</b>
<b>Contributions Restricted for Capital Assets</b>	<b>(7,756,414)</b>	<b>196,266</b>	<b>-</b>	<b>-</b>	<b>(7,560,148)</b>	<b>-</b>	<b>8,732,101</b>	<b>1,171,953</b>
<b>Increase (decrease) in net position</b>	<b>\$ 34,699,394</b>	<b>\$ (28,588)</b>	<b>\$ 411,289</b>	<b>\$ (11,576)</b>	<b>\$ 35,070,519</b>	<b>\$ (1,409,922)</b>	<b>\$ 8,718,100</b>	<b>\$ 42,378,697</b>

**Denver Health and Hospital Authority**  
**Supplementary Budget to Actual Information**  
**Year Ended December 31, 2016**

	<b>Actual</b>	<b>Budget</b>	<b>Variance- Favorable (Unfavorable)</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 505,649,332	\$ 544,188,368	\$ (38,539,036)
Capitation earned net of reinsurance expense	200,897,158	180,160,872	20,736,286
Medicaid disproportionate share and other safety net reimbursement	114,226,738	128,350,777	(14,124,039)
City and County of Denver payment for patient care services	30,777,300	30,777,300	-
Federal, state and other grants	61,762,927	57,120,271	4,642,656
City and County of Denver purchased services	23,111,964	24,299,717	(1,187,753)
Poison and drug center contracts	22,109,647	24,162,306	(2,052,659)
Other operating revenue	31,145,980	30,281,242	864,738
<b>Total operating revenues</b>	<b>989,681,046</b>	<b>1,019,340,853</b>	<b>(29,659,807)</b>
<b>Operating Expenses</b>			
Salaries and benefits	595,508,941	583,973,725	(11,535,216)
Contracted services and nonmedical supplies	207,393,321	196,188,228	(11,205,093)
Medical supplies and pharmaceuticals	107,970,210	107,238,099	(732,111)
Managed care outside provider claims	49,865,526	58,043,105	8,177,579
Depreciation and amortization	41,773,814	43,730,017	1,956,203
<b>Total operating expenses</b>	<b>1,002,511,812</b>	<b>989,173,174</b>	<b>(13,338,638)</b>
<b>Operating income (loss)</b>	<b>(12,830,766)</b>	<b>30,167,679</b>	<b>(42,998,445)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Increase in equity in joint venture	13,000	-	13,000
Equity distribution from discrete comp unit	5,000,000	-	5,000,000
Interest income	8,776,396	9,229,347	(452,951)
Interest expense	(15,348,615)	(15,517,260)	168,645
	(1,559,219)	(6,287,913)	4,728,694
<b>Reconciliation to Income Before Capital Contributions</b>			
Add:			
Net increase in fair value of investments	4,548,798	-	4,548,798
Gain on disposition of capital assets	177,446	-	177,446
<b>Total nonoperating revenues (expenses)</b>	<b>4,726,244</b>	<b>-</b>	<b>4,726,244</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ (9,663,741)</b>	<b>\$ 23,879,766</b>	<b>\$ (33,543,507)</b>

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Directors  
Denver Health and Hospital Authority  
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 29, 2017. The financial statements of Denver Health Medical Plan, Inc. and DHHA Southwest Clinic, Inc., are discretely presented component units, and DHHA Pavilion M, Inc., 601 Broadway, Inc., and Canadian Consumer Product and Pharmaceutical Safety, Inc. which are blended component units, were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

Board of Directors  
Denver Health and Hospital Authority

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

### ***Compliance and Other Matters***

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

### ***Authority's Response to Findings***

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Authority's management in a separate letter dated March 29, 2017.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Denver, Colorado  
March 29, 2017