

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

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UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

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

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

Joint Operating Agreement and Integration and Affiliation Agreement

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

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

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

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

The initial acquisition cost of MHS to UCHealth was \$400,000, with \$290,000 paid in cash at closing and \$110,000 in lease payments to be paid over 30 years. Effective October 1, 2012, a sublease agreement was executed with Children's Hospital Colorado to operate the pediatric units located at MHS and was valued at 15% of the organization. Children's Hospital Colorado paid the corresponding amount of the upfront payment and is responsible for its percentage of the ongoing lease payments to the City of Colorado Springs. The net acquisition cost to UCHealth after sublease to Children's Hospital Colorado was \$340,000. On June 4, 2015, MHS became the licensed operator of the pediatric services, and certain provisions of the sublease were temporarily suspended and replaced by a Management Services Agreement and Employee Lease between MHS and Children's Hospital Colorado. It is anticipated that the original provisions of the lease will be reinstated during or around July 2017.

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

Financial Highlights

- Inpatient volumes, measured in admissions and patient days, increased over 2015. Volumes include all volumes except those associated with the Center for Dependency, Addiction, and Rehabilitation ("CeDAR") and normal newborns. Admissions increased 3.5% in 2016 compared to 2015. Patient days increased 6.0% in 2016 compared to 2015. Medical/surgical admissions increased 4.3% in 2016 compared to 2015. Inpatient volume growth was partially driven by the continued operations of the new inpatient tower on the Anschutz Campus. The additional beds have helped reduce capacity constraints that were previously present for UCHA.
- Outpatient volumes, measured by clinic visits, increased 11.2% over 2015 clinic visits.
- Net patient service revenue of \$1,457,675 increased by \$134,198, or 10.1%, over 2015. Total operating revenue in 2016 was \$1,481,500, which is a \$152,478 increase over 2015. Total operating revenue consists of net patient revenue, grant revenue, and other operating revenue.
- Operating income was \$244,143 during the fiscal year, which is a 13.2% increase over 2015 operating income of \$215,627. The increase is due to a continued patient demand for UCHA services coupled with capacity growth due to recent expansions and a reduction of indigent care costs under the Affordable Care Act.
- According to Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, interest expense is defined as a non-operating expense and is classified as such in UCHA's basic financial statements. Operating income would be \$215,153 in 2016 and \$182,874 in 2015 if interest expense was included as an operating expense.
- Non-operating revenue and expenses in 2016 were (\$27,139), which was a \$25,424 decrease from 2015. This amount is primarily generated from investment income totaling \$30,764 and an unrealized loss on derivative instruments of \$12,040. The income is offset by interest expense of \$28,990. The year-over-year decrease was driven by lower investment market performance in 2016.
- Income before contributions was \$217,004 in 2016, which increased \$3,092 over 2015.
- In September 2015, UCHA issued Series 2015D Revenue Bonds ("Series 2015D") in the amount of \$200,180 to refund existing bonds that financed certain projects at the Anschutz Medical Campus, Poudre Valley Hospital, and Memorial Hospital. Series 2015D were issued as variable rate demand bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds have a three-year term that will expire in September 2018.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Hospital Highlights

- During fiscal year 2016, UCHA continued construction to build out the shelled floor and operating room space in the new patient tower, Anschutz Inpatient Pavilion 2. This project was approved to meet increased inpatient demand and help alleviate bed capacity constraints. It includes opening four inpatient floors, with 132 total beds and four operating rooms. The project has a total budgeted cost of \$82,556 and is expected to be completed in fiscal year 2017. \$18,416 was incurred on this project during the year ended June 30, 2016.
- In December 2014, UCHA approved a project to renovate the Anschutz Outpatient Pavilion to convert non-clinical space within the building to exam and procedure rooms and renovate the vacated Emergency Department to function as outpatient clinics. The project has a total budgeted cost of \$15,786 and is expected to be completed in fiscal year 2017. \$11,015 was incurred on this project during the year ended June 30, 2016.
- In May 2015, UCHealth completed an annual ratings update with Moody's and Standard & Poor's to rate the member organizations. Moody's maintained UCHA at Aa3 Stable. Standard & Poor's maintained its rating at AA-, but revised the outlook to Positive.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to UCHA's basic financial statements, which consist of the enterprise fund; the pension trust fund; and the University of Colorado Hospital Foundation, which is presented as a blended component unit, and the notes to the basic financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

UCHA has two types of funds: an enterprise fund, which accounts for all transactions related to UCHA's and the Foundation's business, as well as a fiduciary fund for UCHA's employee pension plan (for which the UCHA Board of Directors is the fiduciary).

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Financial Analysis and Results of Operations

Table 1
University of Colorado Hospital Authority
Balance Sheets

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

	2016	2015
	<u> </u>	<u> </u>
Current assets	\$ 624,733	\$ 628,669
Capital assets, net of accumulated depreciation	886,823	904,473
Non-current assets and other assets	<u>1,873,311</u>	<u>1,612,668</u>
Total assets	<u>3,384,867</u>	<u>3,145,810</u>
Deferred amortization on refundings	6,670	7,139
Deferred amortization related to pension plan	<u>30,207</u>	<u>24,675</u>
Total deferred outflows of resources	<u>36,877</u>	<u>31,814</u>
Total assets and deferred outflows of resources	<u>\$ 3,421,744</u>	<u>\$ 3,177,624</u>
Current liabilities	\$ 566,327	\$ 542,258
Long-term liabilities	<u>1,091,806</u>	<u>1,089,856</u>
Total liabilities	1,658,133	1,632,114
Deferred amortization related to pension plan	<u>3,451</u>	<u>6,810</u>
Total liabilities and deferred inflows of resources	<u>1,661,584</u>	<u>1,638,924</u>
Net position		
Invested in capital assets, net of related debt	179,161	175,524
Restricted		
Expendable		
Held by trustee for debt service	4,488	4,910
Restricted by donors	11,931	10,197
Non-expendable		
Permanent endowments	20,867	20,521
Unrestricted	<u>1,543,713</u>	<u>1,327,548</u>
Total net position	<u>1,760,160</u>	<u>1,538,700</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,421,744</u>	<u>\$ 3,177,624</u>

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Financial Analysis and Results of Operations (continued)

At June 30, 2016, UCHA's total net position was \$1,760,160, which is an increase in total net position of \$221,460, or 14.4%, from the prior year-end. UCHA classifies net position as invested in capital assets, net of related debt, restricted, and unrestricted. Capital assets, net of related debt, increased during the fiscal year due to debt principal payments and additional capital expenditures. The unrestricted net position increase was driven primarily by improved operating performance due to growing volumes, revenue enhancements, and continued cost controls.

At June 30, 2016, UCHA's unrestricted cash and investment position increased \$189,722 compared to June 30, 2015.

Days cash on hand for UCHA, excluding cash and investments restricted and held for affiliates, was 473.2 days, and net days in accounts receivable was 40.0 days as of June 30, 2016, compared to 455.7 days cash on hand and 39.7 net days in accounts receivable as of June 30, 2015.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Revenue and Expenses

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

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

	Fiscal Years Ended June 30,	
	2016	2015
Operating revenue		
Net patient service revenue	\$ 1,457,675	\$ 1,323,477
Other operating revenue	<u>23,825</u>	<u>5,545</u>
Total operating revenue	<u>1,481,500</u>	<u>1,329,022</u>
Operating expenses		
Wages, contract labor, and benefits	530,636	471,597
Supplies	341,492	302,657
Purchased services and other expenses	294,124	276,324
Depreciation and amortization	<u>71,105</u>	<u>62,817</u>
Total operating expenses	<u>1,237,357</u>	<u>1,113,395</u>
Operating income	<u>244,143</u>	<u>215,627</u>
Non-operating revenues and expenses		
Interest expense	(28,990)	(32,753)
Investment income	30,764	43,219
Unrealized loss on derivative instruments	(12,040)	(2,917)
Loss on disposal of capital assets	(53)	(291)
Other, net	<u>(16,820)</u>	<u>(8,973)</u>
Total non-operating revenue and expenses	<u>(27,139)</u>	<u>(1,715)</u>
Income before contributions	217,004	213,912
Contributions restricted for capital assets	-	16,102
Contributions restricted, other	<u>4,456</u>	<u>2,546</u>
Change in net position	221,460	232,560
Total net position, beginning of year	<u>1,538,700</u>	<u>1,306,140</u>
Total net position, end of year	<u>\$ 1,760,160</u>	<u>\$ 1,538,700</u>

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Net Patient Service Revenue

Net patient service revenue increased by \$134,198, or 10.1%, in 2016 compared to 2015. The detail of net patient service revenue can be found in Note 3 of the basic financial statements.

UCHA provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. Based on an analysis of direct and indirect costs specific to the procedures performed, the cost of these services was \$19,928 and \$19,717 in 2016 and 2015, respectively.

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a 50% discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. The discounts for 2016 and 2015 were approximately \$77,008 and \$79,691, respectively.

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to increase Medicaid payments to hospitals and expand coverage under public healthcare programs. The program became effective on January 1, 2010. For the year ended June 30, 2016, UCHA was charged \$43,665 in hospital provider fees compared to \$42,030 in 2015 and received \$59,376 in 2016 in disproportionate share revenue as compensation for indigent and uninsured care services provided compared to \$54,634 in 2015.

UCHA benefits the community by providing programs, including those listed above, for uninsured and underinsured patients. The total benefit to UCHA's communities for these programs was \$90,481 in 2016, which is an increase of \$8,946 over the 2015 benefit of \$81,535, and is determined by applying an adjusted cost to charge ratio to the charges under these programs and reducing the benefit amount by any actual reimbursement received for these programs.

Operating Expenses

Operating expenses increased by \$123,962, or 11.1%, in 2016 from 2015, driven by continued growth and patient demand coupled with expanded patient capacity from recent expansion projects.

Wages, contract labor, and benefits expense of \$530,636 was a \$59,039, or 12.5%, increase from 2015. This increase includes an 11% increase in salaries, a 28% increase in contract labor, and a 12% increase in benefits. These increases were driven by the additional employees needed with the opening of the new tower in 2013 and continued growth in operations during the past fiscal year. Contract labor increased as a result of the continued growth of operations and fulfilling staffing needs in the new tower over the past fiscal year.

Medical and non-medical supplies expense of \$341,492 increased \$38,835, or 12.8%, in 2016. This increase is driven by growth in operations through the expansion and increased sales of high-cost specialty drugs.

Purchased services and other expenses of \$294,124 increased over 2015 by \$17,800, or 6.4%. The increase in purchased services in 2016 is partially due to the implementation of the UCHA provider fee under the CICP Safety Net Provider Program with the Act. This fee was \$43,665 in fiscal year 2016 compared to \$42,030 in 2015. The remaining increase is attributable to an increase in services purchased from the University of Colorado Denver ("UCD"), University Physicians, Inc. ("UPI"), and other contractual services.

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

Interest Expense

In accordance with GASB Statement No. 34, UCHA records interest expense as a non-operating expense. Interest expense in 2016 was \$28,990 compared to \$32,753 in 2015. In addition to the interest expense for the Health System bonds, UCHA recorded interest income from affiliates of \$12,355 and \$13,949 in 2016 and 2015, respectively, to offset interest expense from Health System debt.

Investment Income

Equity and Fixed Income Investments

Non-operating gain from UCHA's equity, fixed income, and cash investments was \$30,764 in 2016 and \$43,219 in 2015. Interest and dividend income from investments was \$37,128 for the year and realized/unrealized loss was \$3,768. The decrease in investment income was due to market conditions that existed during the year. Investment expense was \$2,596 for the year.

UCHA utilizes interest rate swaps to manage interest rate risk exposure on certain variable rate bonds. Interest rate swaps necessarily involve counterparty credit risk. UCHA seeks to control this risk by entering into transactions with high-quality counterparties and through exposure monitoring. UCHA is party to three floating-to-fixed swap agreements tied to the Series 2013A, 2013C, and 2015B Revenue Bonds (hereinafter referred to as "Series 2013A," "Series 2013C," and "Series 2015B," respectively). The Series 2015B swap agreement terminated in May 2016. UCHA entered into these agreements to create synthetic fixed rate bonds by converting the variable rates on the Series 2013A, 2013C, and 2015B bond issuances to a fixed rate, reducing interest rate risk. Therefore, cash flows on these three agreements are recorded as interest expense. These agreements are discussed in greater detail in Note 6 to the basic financial statements.

Management presents portfolio performance reports to the Finance Committee of the Health System Board of Directors on a quarterly basis. Management meets regularly with UCHA's investment advisor to review portfolio and investment manager performance and to identify and recommend changes to UCHA's investment strategy.

Investment expenses consist of fees paid to UCHA's investment managers and advisor. Investment expenses increased \$824, or 47%, from the prior year as a result of increased investment portfolio balances.

Other Non-Operating Expenses

Non-operating expenses of approximately \$16,820 in 2016 include \$16,282 for allocated expenses from UCHealth for donations in the current year to UCD to enhance the school's academic mission of educating students in health-related disciplines and professions furthering basic and applied biomedical research.

Non-operating expenses of approximately \$8,973 in 2015 include \$16,296 for allocated expenses from UCHealth for donations in the current year to UCD to enhance the school's academic mission of educating students in health-related disciplines and professions furthering basic and applied biomedical research. UCHA also received non-operating income of approximately \$8,392 for licensing revenues allocated from the Health System.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Capital Assets and Debt Administration

Capital Assets

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

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

	2016	2015
Land	\$ 48	\$ 48
Buildings and Improvements	742,187	721,249
Equipment	120,375	101,216
Construction in progress	24,213	81,960
Total	<u>\$ 886,823</u>	<u>\$ 904,473</u>

UCHA had \$886,823 invested in property, plant, and equipment, net of accumulated depreciation and impairment, at June 30, 2016 compared to \$904,473 in 2015. Net capital assets have decreased 2% from the prior year.

This year's additions to capital assets in excess of \$5,000 included:

Tower Expansion Buildout	\$ 18,416
AOP Renovation and Expansion	\$ 11,015
Boulder Multispecialty Center	\$ 5,839

Ongoing capital requirements are funded from a combination of operating cash and contributions. UCHA's annual capital budget, exclusive of the larger strategic projects, was \$21,850 in 2016 and \$20,649 in 2015. The 2016 capital budget is exclusive of the UCHHealth capital allocation. Cash flows related to capital expenditures totaled \$57,478 in 2016, compared to \$94,988 in 2015. Total depreciation expense on capital assets during 2016 was \$71,105, compared to \$62,817 for 2015.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Capital Assets and Debt Administration (continued)

Long-Term Debt

Long-term debt is summarized and discussed below:

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

	2016	2015
	<u>2016</u>	<u>2015</u>
Capital leases	\$ 906	\$ 1,577
2009A Revenue Bonds	42,135	43,119
2011A Revenue Bonds	-	200,180
2011B Revenue Bonds	99,500	100,485
2011C Revenue Bonds	50,915	56,820
2012A Revenue Bonds	269,871	277,750
2012B Revenue Bonds	50,000	50,000
2012C Revenue Bonds	87,510	87,510
2013A Revenue Bonds	90,695	92,695
2013B Revenue Bonds	11,135	12,140
2013C Revenue Bonds	65,305	66,780
2015A Revenue Bonds	151,330	151,330
2015B Revenue Bonds	57,405	57,405
2015C Revenue Bonds	56,850	56,850
2015D Revenue Bonds	199,100	-
Less current portion	(22,205)	(21,034)
Less long-term debt subject to short-term remarketing arrangements	<u>(265,585)</u>	<u>(265,585)</u>
	<u>\$ 944,867</u>	<u>\$ 968,022</u>

As of June 30, 2016, UCHA had \$944,867 in long-term debt, net of current portion, compared to \$968,022 at June 30, 2015. In fiscal year 2016, UCHA issued Series 2015D to fully refund the UCHA Series 2011A Revenue Bonds. UCHA issued Series 2015A, 2015B, and 2015C Revenue Bonds (collectively, the "2015 Series") in fiscal year 2015. Series 2015A Revenue Bonds ("Series 2015A") was a new money issuance to finance capital improvements on UCHealth campuses; Series 2015B refinanced Series 2006A Revenue Bonds; and Series 2015C Revenue Bonds ("Series 2015C") refinanced PVHS Series 2005F Revenue Bonds. The 2015 Series were issued as variable rate demand bonds that, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with certain remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2016, the principal amount of such bonds has been classified as a current liability in the accompanying balance sheets.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
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(\$s in thousands)

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

Demand for inpatient beds at the Anschutz Medical Campus is expected to continue in fiscal year 2017. The projected annual population growth rate over the next 10 years for Denver County is 14%, while growth in the counties surrounding UCHA is projected to be 23% for Adams County and 19% for Arapahoe County. The challenge and opportunity for UCHA will be to most effectively manage the utilization of available beds to the best advantage of UCHA, University of Colorado School of Medicine, and the community in the coming year.

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

The 2016-2017 budget, as approved by UCHA's Board of Directors, projects operating revenue at \$1,607,792 and an operating margin of 12.3%. EBITDA is budgeted at \$303,436, with an EBITDA margin of 19.0% and an increase in net position of \$253,294.

Requests for Information

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors
University of Colorado Hospital Authority
Aurora, Colorado

REPORT ON FINANCIAL STATEMENTS

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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.

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

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

OPINIONS

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1-11 and pension information on pages 61-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016, on our consideration of UCHA's internal control over financial reporting and on 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 and not to provide an opinion on 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 UCHA's internal control over financial reporting and compliance.

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September 14, 2016
Denver, Colorado

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

	2016	2015
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash and cash equivalents	\$ 43,728	\$ 123,609
Patient accounts receivable, less allowances for uncollectible accounts of \$27,063 and \$30,329, respectively	164,014	166,922
Receivables from related parties	91,558	21,294
Receivables from affiliates for debt	7,365	6,965
Other receivables	5,381	3,776
Inventories	30,097	25,193
Prepaid expenses	17,005	15,325
Investments designated for liquidity support	<u>265,585</u>	<u>265,585</u>
Total current assets	<u>624,733</u>	<u>628,669</u>
Non-current assets		
Restricted investments, bonds	4,488	4,910
Restricted investments, other	190	1,105
Restricted investments and pledges, donors	32,673	32,182
Capital assets, net of accumulated depreciation	886,823	904,473
Long-term investments	1,307,769	1,038,166
Other investments	7,457	7,456
Receivable from affiliates for debt	518,850	527,129
Other assets	<u>1,884</u>	<u>1,720</u>
Total non-current assets	<u>2,760,134</u>	<u>2,517,141</u>
Total assets	<u>3,384,867</u>	<u>3,145,810</u>
Deferred Outflows of Resources		
Deferred amortization on refundings	6,670	7,139
Deferred amortization related to pension plan	<u>30,207</u>	<u>24,675</u>
Total deferred outflows of resources	<u>36,877</u>	<u>31,814</u>
Total assets and deferred outflows of resources	<u>\$ 3,421,744</u>	<u>\$ 3,177,624</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

	2016	2015
	<u>2016</u>	<u>2015</u>
Liabilities		
Current liabilities		
Current portion of long-term debt	\$ 22,205	\$ 21,034
Accounts payable and accrued expenses	103,392	104,181
Accounts payable - construction	1,410	8,689
Accrued compensated absences	23,021	21,359
Accrued interest payable	3,247	4,421
Payables to affiliates	118	-
Fair value of derivative instruments	4,256	4,477
Estimated third-party settlements, net	143,093	112,512
Long-term debt subject to short-term remarketing arrangements	<u>265,585</u>	<u>265,585</u>
Total current liabilities	566,327	542,258
Long-term liabilities		
Long-term debt, less current portion	944,867	968,022
Fair value of derivative instruments, less current portion	38,530	26,269
Net pension liability	105,858	92,917
Other long-term liabilities	<u>2,551</u>	<u>2,648</u>
Total liabilities	<u>1,658,133</u>	<u>1,632,114</u>
Deferred Inflows of Resources		
Deferred amortization related to pension plan	<u>3,451</u>	<u>6,810</u>
Total deferred inflows of resources	<u>3,451</u>	<u>6,810</u>
Total liabilities and deferred inflows of resources	<u>1,661,584</u>	<u>1,638,924</u>
Net Position		
Invested in capital assets, net of related debt	179,161	175,524
Restricted expendable		
Held by trustee for debt service	4,488	4,910
Restricted by donors	11,931	10,197
Restricted non-expendable		
Permanent endowments	20,867	20,521
Unrestricted	<u>1,543,713</u>	<u>1,327,548</u>
Total net position	<u>1,760,160</u>	<u>1,538,700</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 3,421,744</u>	<u>\$ 3,177,624</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

(\$s in thousands)

	2016	2015
	<u> </u>	<u> </u>
Operating revenue		
Net patient service revenue, net of provision for bad debts of \$55,594 and \$60,150, respectively	\$ 1,457,675	\$ 1,323,477
Other operating revenue	23,825	5,545
Total operating revenue	<u>1,481,500</u>	<u>1,329,022</u>
Operating expenses		
Wages, contract labor, and benefits	530,636	471,597
Supplies	341,492	302,657
Purchased services and other expenses	294,124	276,324
Depreciation and amortization	71,105	62,817
Total operating expenses	<u>1,237,357</u>	<u>1,113,395</u>
Operating income	<u>244,143</u>	<u>215,627</u>
Non-operating revenue and expenses		
Interest expense	(28,990)	(32,753)
Investment income	30,764	43,219
Unrealized loss on derivative instruments	(12,040)	(2,917)
Loss on disposal of capital assets	(53)	(291)
Other, net	(16,820)	(8,973)
Total non-operating revenue and expenses	<u>(27,139)</u>	<u>(1,715)</u>
Income before contributions	217,004	213,912
Contributions restricted for capital assets and transfers	-	16,102
Contributions restricted, other	4,456	2,546
Change in net position	221,460	232,560
Total net position, beginning of year	<u>1,538,700</u>	<u>1,306,140</u>
Total net position, end of year	<u>\$ 1,760,160</u>	<u>\$ 1,538,700</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

	2016	2015
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 1,487,139	\$ 1,360,009
Cash payments to suppliers for goods and services	(672,311)	(588,222)
Cash payments to employees/UCDHSC/other on behalf of employees	(491,674)	(433,139)
Cash received from or on behalf of affiliates	(87,238)	5,584
Other receipts	8,980	(27,603)
Net cash provided by operating activities	<u>244,896</u>	<u>316,629</u>
Cash flows from capital and related financing activities		
Proceeds from long-term debt	-	208,180
Notes receivable executed with affiliates	-	(161,491)
Proceeds from intercompany bonds	7,879	-
Principal repayments under capital lease obligations	(671)	(520)
Principal repayments of long-term debt	(20,415)	(19,585)
Payments of interest on long-term debt	(30,593)	(31,937)
Capital expenditures	(57,478)	(94,988)
Receipt of contributions	13,698	8,740
Proceeds from sale of capital assets	8	2,527
Net cash used in capital and related financing activities	<u>(87,572)</u>	<u>(89,074)</u>
Cash flows from investing activities		
Investment income	69,846	46,253
Distributions from joint ventures	297	297
Proceeds from sale and maturities of investments	1,221,560	694,543
Purchases of investments	<u>(1,528,908)</u>	<u>(986,695)</u>
Net cash used in investing activities	<u>(237,205)</u>	<u>(245,602)</u>
Net decrease in cash and cash equivalents	(79,881)	(18,047)
Cash and cash equivalents, beginning of year	<u>123,609</u>	<u>141,656</u>
Cash and cash equivalents, end of year	<u>\$ 43,728</u>	<u>\$ 123,609</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	<u>\$ 244,143</u>	<u>\$ 215,627</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	71,105	62,817
Provision for bad debts	55,594	60,149
Donations to the School of Medicine	(16,820)	(17,364)
Increase in patient accounts receivable	(52,686)	(68,976)
Increase in estimated third-party settlements	30,581	45,359
(Increase) decrease in other receivables and receivables from related parties and affiliates	(84,919)	1,745
Increase in inventories	(4,904)	(2,606)
Increase in prepaid expenses and other assets	(2,142)	(749)
(Decrease) increase in accounts payable and accrued expenses	(789)	30,036
Increase (decrease) in payable to UCHealth	118	(11,867)
Increase in net pension liability and pension-related deferred inflows and outflows of resources	4,050	2,128
Increase in accrued compensated absences and other long-term liabilities	<u>1,565</u>	<u>330</u>
Total adjustments	<u>753</u>	<u>101,002</u>
Net cash provided by operating activities	<u>\$ 244,896</u>	<u>\$ 316,629</u>

(continued on the following page)

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

(continued from the previous page)

Non-cash transactions

Donated pharmaceuticals	\$	4,026	\$	1,568
Construction in progress accrued	\$	1,410	\$	8,689
Unrealized loss	\$	(49,784)	\$	(10,057)
Capital lease executed	\$	-	\$	159
Refunding of debt	\$	200,180	\$	57,405
Other investments	\$	-	\$	8,392

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Fiduciary Net Position

June 30, 2016 and 2015

(\$s in thousands)

	<u>2016</u>	<u>2015</u>
Assets		
Investments	<u>\$ 578,346</u>	<u>\$ 526,333</u>
Net Assets		
Held in trust for pension benefits	<u>\$ 578,346</u>	<u>\$ 526,333</u>

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2016 and 2015

(\$s in thousands)

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

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$ in thousands)

(1) Organization and Mission

The University of Colorado Hospital Authority ("UCHA") was created pursuant to Section 23-21-503 of the Colorado Revised Statutes and is a political subdivision and body corporate of the State of Colorado. UCHA owns and operates a 637-licensed-bed, non-sectarian, general acute care hospital; the Anschutz Centers for Advanced Medicine, which include the Anschutz Outpatient Pavilion, the Anschutz Inpatient Pavilion 1, the Anschutz Inpatient Pavilion 2, the Anschutz Cancer Pavilion, the Center for Dependency, Addiction, and Rehabilitation ("CeDAR"), and the Rocky Mountain Lions Eye Institute; six outlying outpatient primary care clinics; twelve outlying specialty clinics; and the University of Colorado Hospital Foundation (the "Foundation"), collectively known as UCHA. UCHA is the primary teaching hospital for the University of Colorado Denver ("UCD"), which is comprised of the Schools of Medicine, Nursing, Pharmacy, and Dentistry; the Graduate School, and the School of Public Health. UCHA's mission is to advance healthcare for its patients and their families through healing, discovery, and education.

Effective July 1, 2012, UCHA entered into a joint operating agreement with Poudre Valley Health Care Inc. ("PVHS") and University of Colorado Health ("UCHealth" or the "Health System"), a newly formed non-profit corporation (collectively, the "members"), resulting in a joint venture among the organizations. The joint venture will enhance the capacity of the members to protect, sustain, and expand their respective missions. As a joint venture, all future operations of UCHA will be combined with PVHS, and, together, these combined operations will be the basis for possible future expansion and diversification of the Health System. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other's master trust indenture and, thereby, pledge their gross revenues to secure each member's obligations. UCHA and PVHS are reported as component units of UCHealth in UCHealth's separately issued basic financial statements.

Subsequent to the formation of the joint venture, UCHealth formed UCH-MHS, a non-profit corporation, for the purpose of acquiring the assets of Memorial Health System. Collectively, PVHS, UCH-MHS, and the Health System are referred to as the "affiliates" of UCHA.

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

(b) Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, deferred outflows of resources and deferred inflows of resources; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

(c) Net Position

UCHA's net position is classified as follows:

- *Invested in capital assets, net of related debt* – consists of capital assets net of accumulated depreciation reduced by the amount of outstanding debt issued to finance the purchase or construction of those assets.
- *Restricted* – consists of net position with constraints on its use imposed by external parties, such as creditors (through debt covenants) and donors. The non-expendable portion includes net position required through agreement with donors to be retained in perpetuity.
- *Unrestricted* – consists of the remaining net position that is available for unrestricted use.

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$ in thousands)

(2) Summary of Significant Accounting Policies (continued)

(d) Cash and Cash Equivalents

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

(e) Investments and Restricted Investments

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

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

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

(f) Inventories

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

(g) Capital Assets

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(h) *Compensated Absences*

UCHA employees use paid time off ("PTO") for vacation, holidays, personal short-term illness, family member illness, and personal absences. Extended illness pay ("EIP") is used to continue salary during extended absences due to employee medical disability or serious health conditions. UCHA employees generally earned PTO and EIP based on length of service and actual hours worked. Effective June 30, 2013, the EIP program ended with vested hours continuing for active employees. Upon retirement, the liability for each employee's remaining accrued EIP is settled in full at 25% of the remaining balance. Employees who terminate employment prior to retirement forfeit their unused EIP balances. UCHA records PTO expense as it is earned. Accrued EIP is based on amounts estimated to become payable to retirees from UCHA. The current portion of PTO and EIP is based on employee tenure, rate of pay, and accrued hours. Amounts in excess of an employee's annual accrual are classified as long-term liabilities.

(i) *Deferred Amortization on Refundings*

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

(j) *Financial Instruments*

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, restricted investments, long-term investments, interest rate swap agreements, current liabilities, and long-term debt obligations. The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, and current liabilities approximate fair value. Management's estimate of the fair value of the other financial instruments is described in Notes 5, 6, and 10 to the basic financial statements.

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

(k) *Endowments*

UCHA's endowments consist of individual funds restricted by donors for a variety of purposes. The State of Colorado's Uniform Prudent Management of Institutional Funds Act requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, UCHA classifies as non-expendable restricted net position the original value of the gifts donated to the permanent endowment. The appreciation on donor-restricted endowment funds is classified as expendable restricted net position until those amounts are appropriated for expenditure by UCHA. UCHA may spend the net appreciation on the endowment funds based on the individual endowment fund agreements, and considers factors such as duration and preservation of the fund, purposes of the fund, general economic conditions, possible effects of inflation and deflation, expected total return from investment income, and other resources of the Foundation when determining the amounts to authorize and spend in an individual year. The amount of net appreciation on endowments that is available for expenditure at June 30, 2016 and 2015 was \$1,760 and \$1,275, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(l) Revenue and Expenses

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

(m) Net Patient Service Revenue

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

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

(n) Risk Management

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

(o) Income Taxes

UCHA is a political subdivision and body corporate of the State of Colorado and, as such, the income generated by UCHA in the exercise of its essential government function is exempt from federal income tax under Section 115 of the Code. UCHA also has a determination letter from the IRS, which states that it is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Code. UCHA has recognized a tax liability of \$2,452 and \$3,164 at June 30, 2016 and 2015, respectively, for unrelated business income taxes.

(p) Pension Plans

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(q) Recently Adopted Accounting Pronouncement

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

(r) Reclassifications

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

(3) Net Patient Service Revenue

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

	<u>2016</u>	<u>2015</u>
Gross charges	\$ 5,811,796	\$ 5,129,785
Third-party contractual allowances	(4,221,840)	(3,668,475)
Indigent and charity care	(50,555)	(51,409)
Provision for bad debt	(55,594)	(60,150)
Self-pay packages and other discounts	(77,008)	(79,691)
Reimbursement under the Colorado Provider Fee Program, net of pass-through payments	<u>50,876</u>	<u>53,417</u>
Net patient service revenue	<u>\$ 1,457,675</u>	<u>\$ 1,323,477</u>

UCHA has programs that receive add-on payments to the established rate or that are paid at a reasonable cost by third-party payors. Amounts received for these additional payments from Medicare, Medicaid, and TriCare programs are subject to audit and retroactive adjustment. Generally, provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue under the Medicare and Medicaid programs in 2016 and 2015 was approximately \$479,871 and \$439,804, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$ in thousands)

(3) Net Patient Service Revenue (continued)

(a) Medicare

Inpatient acute care services rendered to Medicare beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a Diagnostic-Related Group patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are paid based upon the Ambulatory Payment Classification system. UCHA is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by UCHA and audits thereof by the Medicare administrative contractor. UCHA's classifications of patients under the Medicare program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with UCHA. UCHA's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2013.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services are reimbursed by a combination of fee schedule and a tentative payment rate with final settlement determined after submission of an annual cost report by UCHA and audits thereof by the Medicaid fiscal intermediary. UCHA's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with UCHA. UCHA's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2010.

(c) Other Payors

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

(d) Self-Pay

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a 50% discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were \$77,008 and \$79,691 in 2016 and 2015, respectively.

(e) Disproportionate Share Hospital and Charity Care Policy

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2016 and 2015, UCHA was charged \$43,665 and \$42,030 in hospital provider fees and received \$59,376 and \$54,634 in disproportionate share and Medicaid supplemental payments as compensation for indigent and underinsured care services provided, respectively. Under a separate agreement with University Physicians, Inc. ("UPI"), UCHA reduced its provider fee revenue by \$1,219 in 2015, as a pass-through transaction to UPI for its share of services performed. UCHA also offset its provider fee expense by \$531 in 2015 as a pass-through transaction to UPI for its share of this cost. No amounts were passed through to UPI in 2016.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(3) Net Patient Service Revenue (continued)

(e) Disproportionate Share Hospital and Charity Care Policy (continued)

Based on an analysis of the direct and indirect costs of the procedures performed, the cost of charity care services provided was \$19,928 and \$19,717 for the years ended June 30, 2016 and 2015, respectively.

(f) Community Benefit

Based on the application of an adjusted cost to charge ratio to the procedures performed, reduced by actual reimbursement received, UCHA provided \$90,481 and \$81,535 in total benefits to the community for uninsured and underinsured patients in 2016 and 2015, respectively.

(4) Restricted and Unrestricted Pledges

UCHA records pledges as restricted or unrestricted receivables based on the donors' specifications and UCHA's satisfaction of the donors' restrictions. Long-term receivables are discounted to reflect the net present value of the pledge and amortized over the life of the pledge.

The balance of contributions receivable at June 30, 2016 was \$50 (unrestricted) and \$643 (restricted). The balance of contributions receivable at June 30, 2015 was \$50 (unrestricted) and \$738 (restricted).

The total current portion of unrestricted contributions receivable of \$50 and \$50 as of June 30, 2016 and 2015, respectively, is classified as other receivables. The total current portion of restricted contributions receivable is \$623 and \$708 as of June 30, 2016 and 2015, respectively. The total long-term portion of restricted contributions receivable is \$20 and \$30 as of June 30, 2016 and 2015, respectively.

(5) Deposits and Investments

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

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

At June 30, 2016 and 2015, UCHA's unrestricted cash deposits had a book balance of \$43,728 and \$123,609, respectively, and a bank balance of approximately \$57,972 and \$143,008, respectively. UCHA's receivables and investments restricted by donors included cash deposits that had a book and bank balance of \$28,643 and \$28,326 at June 30, 2016 and 2015, respectively. The difference between the bank balance and the book balance is related to outstanding reconciling items. These balances are covered by federal depository insurance up to the applicable maximum, as applicable.

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(5) Deposits and Investments (continued)

The members effectively pool their cash and investments within UCHHealth's investment account structure to ease the cash and investment functions within the Health System. The balances below as of June 30, 2016 and 2015 reflect UCHA's share of the cash and investments held at the Health System level.

	June 30, 2016		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	\$ 43,728	\$ -	\$ 43,728
Assets limited as to use	-	37,330	37,330
Investments designated for liquidity support	-	265,585	265,585
Long-term investments	-	1,307,769	1,307,769
	<u>\$ 43,728</u>	<u>\$ 1,610,684</u>	<u>\$ 1,654,412</u>

	June 30, 2015		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	\$ 123,609	\$ -	\$ 123,609
Assets limited as to use	-	38,167	38,167
Investments designated for liquidity support	-	265,585	265,585
Long-term investments	-	1,038,166	1,038,166
	<u>\$ 123,609</u>	<u>\$ 1,341,918</u>	<u>\$ 1,465,527</u>

Enterprise fund investments consist of the following:

	June 30,	
	2016	2015
Restricted by trustee under bond agreement	\$ 4,488	\$ 4,910
Restricted investments, other	190	1,105
Restricted by donor	32,652	32,152
Designated for liquidity support	265,585	265,585
Long-term investments	<u>1,307,769</u>	<u>1,038,166</u>
Total investments	<u>\$ 1,610,684</u>	<u>\$ 1,341,918</u>

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(5) Deposits and Investments (continued)

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

	June 30,	
	2016	2015
Cash equivalents	\$ 25,883	\$ 18,756
U.S. Treasury bills	117,030	98,636
U.S. government agency, pool, and mortgage-backed securities	33,163	30,928
Asset-backed securities	38,870	38,913
Mutual bond funds	319,568	279,507
Treasury inflation protected securities ("TIPS")	89,387	98,401
Corporate bonds	86,833	99,837
Equity securities	901,681	676,759
Interest and dividends receivable	1,380	1,048
Miscellaneous investment payable	(3,111)	(867)
Total investments	\$ 1,610,684	\$ 1,341,918

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

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

(a) Credit Risk

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

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(5) Deposits and Investments (continued)

(a) Credit Risk (continued)

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

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

	2016		2015	
	2016 Fair Value	Average Rating	2015 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	\$ 33,163	AA+	\$ 30,928	AAA
Asset-backed securities	\$ 38,870	AA+	\$ 38,913	AA+
Mutual bond funds	\$ 319,568	BBB	\$ 279,507	BBB-
TIPS	\$ 89,387	AA+	\$ 98,401	AA+
Corporate bonds				
Financials	\$ 26,430	BBB+	\$ 36,708	A-
Industrials	26,277	A-	23,401	BBB+
Municipal taxable	718	AA	633	AA
Other corporate bonds	826	AA	413	A
Other global corporate bonds	23,088	A	31,218	A
Private placements	9,494	BBB+	7,464	A-
Total corporate bonds	\$ 86,833		\$ 99,837	

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Notes to Basic Financial Statements
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(5) Deposits and Investments (continued)

(a) Credit Risk (continued)

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

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

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(5) Deposits and Investments (continued)

(b) Interest Rate Risk

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

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

	2016		2015	
	2016 Fair Value	Modified Duration	2015 Fair Value	Modified Duration
U.S. Treasury bills	\$ 117,030	4.80	\$ 98,636	5.49
U.S. government agency, pool, and mortgage-backed securities	\$ 33,163	3.69	\$ 30,928	3.91
Asset-backed securities	\$ 38,870	4.42	\$ 38,913	2.00
Mutual bond funds	\$ 319,568	4.33	\$ 279,507	4.05
TIPS	\$ 89,387	7.88	\$ 98,401	6.91
Corporate bonds				
Financials	\$ 26,430	2.11	\$ 36,708	0.94
Industrials	26,277	3.19	23,401	0.70
Municipal taxable	718	10.97	633	0.26
Other corporate bonds	826	2.10	413	1.92
Other global corporate bonds	23,088	2.21	31,218	6.03
Private placements	9,494	3.23	7,464	2.82
Total corporate bonds	\$ 86,833		\$ 99,837	

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Notes to Basic Financial Statements
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(5) Deposits and Investments (continued)

(b) Interest Rate Risk (continued)

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

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

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Notes to Basic Financial Statements
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(5) Deposits and Investments (continued)

(c) Foreign Currency Risk

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

Currency	Enterprise Fund Fair Value		Pension Trust Fund Fair Value	
	2016	2015	2016	2015
Australian Dollar	\$ 5,276	\$ 3,452	\$ 3,627	\$ 2,181
Brazilian Real	2,542	1,796	1,860	2,005
Canadian Dollar	7,740	5,426	5,545	3,695
Chilean Peso	201	183	123	106
Colombia Peso	256	88	97	51
Czech Koruna	444	63	337	50
Danish Krone	2,168	2,616	2,977	3,358
Egyptian Pound	27	31	16	18
Euro	48,373	49,984	23,455	27,221
Hong Kong Dollar	15,667	14,560	10,158	10,661
Hungarian Forint	494	32	372	153
Indian Rupee	5,388	2,758	5,324	4,159
Indonesian Rupiah	1,301	505	966	948
Israel New Shekel	469	662	304	524
Japanese Yen	25,102	27,184	17,003	20,283
Kenyan Schilling	106	-	84	-
Malyasian Ringgit	486	475	296	390
Mexican Peso	2,079	819	1,356	984
New Zealand Dollar	293	63	200	37
Norwegian Krone	1,863	1,621	504	295
Phillipines Peso	484	272	460	309
Polish Zloty	613	219	443	232
Qatari Riyal	147	143	89	83
Russian Ruble	499	452	304	434
Singapore Dollars	2,625	2,624	544	443
South African Rand	3,786	2,150	2,633	1,451
South Korean Won	10,570	6,305	5,764	4,030
Swedish Krona	3,807	4,470	2,316	3,095
Swiss Franc	12,537	11,214	7,279	5,878
Taiwan New Dollar	5,961	2,814	4,215	3,801
Thailand Baht	1,784	938	890	389
Turkish Lira	915	506	626	865
United Arab Emirates Dirham	172	98	110	57
United Kingdom Pound Sterling	24,902	24,240	13,139	11,341
	<u>\$ 189,077</u>	<u>\$ 168,763</u>	<u>\$ 113,416</u>	<u>\$ 109,527</u>

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Notes to Basic Financial Statements
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(5) Deposits and Investments (continued)

(d) Concentration of Credit Risk

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

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

(6) Investments with Fair Values that are Highly Sensitive to Interest Rate Changes

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

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

- *A floating-to-fixed swap agreement having an original notional value of \$71,235 and current notional amount of \$65,305, reducing on the dates and the amounts set forth in the Series 2013C bond offering documents describing principal payments.* This agreement was entered into in November 2006 and is scheduled to terminate in November 2031. In this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.5% and receives the sum of 61.8% of USD-LIBOR-BMA plus 0.31%. The objective of this agreement is generally to convert UCHA's floating-rate obligations with respect to the Series 2013C Revenue Bonds to fixed rate obligations. At June 30, 2016 and 2015, this swap had an approximate fair value of \$(16,155) and \$(11,629), respectively.
- *A floating-to-fixed swap agreement having an original notional value of \$100,160 and a current notional value of \$90,695, reducing on the dates and amounts set forth in the Series 2013A bond offering documents describing principal payments.* This agreement was entered into in October 2004 and is scheduled to terminate in November 2033. Under the terms of this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.631% and receives the sum of 62.2% of USD-LIBOR-BBA plus 0.30%. The objective of this agreement is generally to convert UCHA's floating-rate obligations with respect to the Series 2013A Revenue Bonds to fixed rate obligations. At June 30, 2016 and 2015, the floating-to-fixed swap had an approximate fair value of \$(26,631) and \$(19,009), respectively.

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Notes to Basic Financial Statements
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(6) Investments with Fair Values that are Highly Sensitive to Interest Rate Changes (continued)

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

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

(7) Fair Value Measurement

(a) Fair Value Hierarchy

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

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

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

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

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

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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	\$ 117,030	\$ 117,030	\$ -	\$ -
U.S. government agency, pool, and mortgage-backed securities	33,163	-	33,163	-
Asset-backed securities	38,870	-	35,560	3,310
Mutual bond funds	319,568	164,910	78,389	76,269
TIPS	89,387	2,469	86,918	-
Corporate bonds	86,833	-	86,833	-
Equity securities	901,681	649,390	178,035	74,256
Total investments by fair value level	<u>\$ 1,586,532</u>	<u>\$ 933,799</u>	<u>\$ 498,898</u>	<u>\$ 153,835</u>
Derivative instruments				
Interest rate swaps	\$ (42,786)	\$ -	\$ (42,786)	\$ -
Total derivative instruments	<u>\$ (42,786)</u>	<u>\$ -</u>	<u>\$ (42,786)</u>	<u>\$ -</u>
	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	\$ 98,636	\$ 98,636	\$ -	\$ -
U.S. government agency, pool, and mortgage-backed securities	30,928	-	30,928	-
Asset-backed securities	38,913	-	35,484	3,429
Mutual bond funds	279,507	113,414	127,909	38,184
TIPS	98,401	32,125	66,276	-
Corporate bonds	99,837	-	99,837	-
Equity securities	676,759	487,593	106,836	82,330
Total investments by fair value level	<u>\$ 1,322,981</u>	<u>\$ 731,768</u>	<u>\$ 467,270</u>	<u>\$ 123,943</u>
Derivative instruments				
Interest rate swaps	\$ (30,746)	\$ -	\$ (30,746)	\$ -
Total derivative instruments	<u>\$ (30,746)</u>	<u>\$ -</u>	<u>\$ (30,746)</u>	<u>\$ -</u>

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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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

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

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

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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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

The table below reconciles the total fair value disclosures above to the total fair value of enterprise fund and pension trust fund investments as disclosed in Note 5.

	June 30,	
	2016	2015
Enterprise fund investments		
Total investments by fair value level	\$ 1,586,532	\$ 1,322,981
Cash equivalents	25,883	18,756
Interest and dividends receivable	1,380	1,048
Miscellaneous investment payable	(3,111)	(867)
Total enterprise fund investments	\$ 1,610,684	\$ 1,341,918
Pension trust fund investments		
Total investments by fair value level	\$ 570,460	\$ 520,106
Cash equivalents	9,053	6,729
Interest and dividends receivable	207	215
Miscellaneous investment payable	(1,374)	(717)
Total pension trust fund investments	\$ 578,346	\$ 526,333

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(8) Capital Assets

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

	June 30, 2014	Additions	Transfers	Disposals	June 30, 2015	Additions	Transfers	Disposals	June 30, 2016
Capital assets, not being depreciated									
Land	\$ 2,523	\$ -	\$ -	\$ (2,475)	\$ 48	\$ -	\$ -	\$ -	\$ 48
Construction in progress	44,451	76,560	(39,051)	-	81,960	23,686	(81,349)	(84)	24,213
Total capital assets, not being depreciated	46,974	76,560	(39,051)	(2,475)	82,008	23,686	(81,349)	(84)	24,261
Capital assets, being depreciated									
Buildings and improvements	987,905	1,179	24,716	(81,253)	932,547	6,566	44,263	(3,007)	980,369
Fixed and moveable equipment	279,660	21,043	14,335	(16,295)	298,743	19,929	37,086	(12,164)	343,594
Total capital assets, being depreciated	1,267,565	22,222	39,051	(97,548)	1,231,290	26,495	81,349	(15,171)	1,323,963
Accumulated depreciation and impairment									
Buildings and improvements	264,111	28,127	-	(80,940)	211,298	29,886	-	(3,002)	238,182
Fixed and moveable equipment	179,829	33,964	-	(16,266)	197,527	37,901	-	(12,209)	223,219
Total accumulated depreciation and impairment	443,940	62,091	-	(97,206)	408,825	67,787	-	(15,211)	461,401
Total capital assets, net	\$ 870,599	\$ 36,691	\$ -	\$ (2,817)	\$ 904,473	\$ (17,606)	\$ -	\$ (44)	\$ 886,823

(9) Contractual Arrangements and Concentrations of Credit Risk

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

	June 30,	
	2016	2015
Medicare	25%	30%
Medicaid, including Colorado Access	19%	16%
Managed care	37%	37%
Commercial	2%	1%
Self-pay and medically indigent	7%	7%
Other	10%	9%

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

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Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(10) Long-Term Debt and Leases

Long-term debt consists of the following:

	June 30,	
	2016	2015
Capital leases, long-term, due in installments through 2018	\$ 906	\$ 1,577
Revenue Bonds, Series 2015A, due in installments through fiscal year 2047	151,330	151,330
Revenue Bonds, Series 2015B, due in installments through fiscal year 2040	57,405	57,405
Revenue Bonds, Series 2015C, due in installments through fiscal year 2025	56,850	56,850
Revenue Bonds, Series 2015D, due in installments through fiscal year 2042	199,100	-
Revenue Bonds, Series 2013A, due in installments through fiscal year 2034	90,695	92,695
Revenue Bonds, Series 2013B, due in installments through fiscal year 2025	11,135	12,140
Revenue Bonds, Series 2013C, due in installments through fiscal year 2032	65,305	66,780
Revenue Bonds, Series 2012A, due in installments through fiscal year 2043 (inclusive of unamortized premium of \$18,429 and \$19,383 and net of unamortized discounts of \$763 and \$803 at June 30, 2016 and 2015)	269,871	277,750
Revenue Bonds, Series 2012B, due in installments through fiscal year 2047	50,000	50,000
Revenue Bonds, Series 2012C, due in installments through fiscal year 2046	87,510	87,510
Revenue Bonds, Series 2011A, refunded in 2016	-	200,180
Revenue Bonds, Series 2011B, due in installments through fiscal year 2030	99,500	100,485
Revenue Bonds, Series 2011C, due in installments through fiscal year 2023	50,915	56,820
Revenue Bonds, Series 2009A, due in increasing annual installments through fiscal year 2030 net of unamortized bond discount of \$125 at June 30, 2016 and \$141 at June 30, 2015	42,135	43,119
Total long-term debt	1,232,657	1,254,641
Less long-term debt subject to short-term remarketing arrangements	(265,585)	(265,585)
Less current portion	(22,205)	(21,034)
	\$ 944,867	\$ 968,022

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Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$ in thousands)

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

Changes in long-term debt for the years ended June 30, 2016 and 2015 are as follows:

2016	Date of Issuance	Beginning Balance	Issuances/ Refundings of Debt	Discount and Deferred Refunding Amortization	Principal Payments	Ending Balance	Due Within One Year
Capital lease	04/01/06	\$ 1,577	\$ -	\$ -	\$ (671)	\$ 906	\$ 655
Series 2009A	08/06/09	43,119	-	16	(1,000)	42,135	2,540
Series 2011A	05/01/11	200,180	(200,180)	-	-	-	-
Series 2011B	11/09/11	100,485	-	-	(985)	99,500	985
Series 2011C	11/16/11	56,820	-	-	(5,905)	50,915	6,210
Series 2012A	10/01/12	277,750	-	(914)	(6,965)	269,871	7,365
Series 2012B	10/01/12	50,000	-	-	-	50,000	-
Series 2012C	10/01/12	87,510	-	-	-	87,510	-
Series 2013A	11/18/13	92,695	-	-	(2,000)	90,695	1,975
Series 2013B	11/18/13	12,140	-	-	(1,005)	11,135	995
Series 2013C	11/18/13	66,780	-	-	(1,475)	65,305	1,480
Series 2015A	02/03/15	151,330	-	-	-	151,330	-
Series 2015B	02/03/15	57,405	-	-	-	57,405	-
Series 2015C	02/03/15	56,850	-	-	-	56,850	-
Series 2015D	09/01/15	-	200,180	-	(1,080)	199,100	-
Total		<u>\$ 1,254,641</u>	<u>\$ -</u>	<u>\$ (898)</u>	<u>\$ (21,086)</u>	<u>\$ 1,232,657</u>	<u>\$ 22,205</u>

2015	Date of Issuance	Beginning Balance	Issuances/ Refundings of Debt	Discount and Deferred Refunding Amortization	Principal Payments	Ending Balance	Due Within One Year
Capital lease	04/01/06	\$ 1,938	\$ 159	\$ -	\$ (520)	\$ 1,577	\$ 619
Series 2006A	05/30/06	53,029	(53,000)	(29)	-	-	-
Series 2009A	08/06/09	45,417	-	17	(2,315)	43,119	1,000
Series 2011A	05/01/11	200,180	-	-	-	200,180	1,080
Series 2011B	11/09/11	101,380	-	-	(895)	100,485	985
Series 2011C	11/16/11	62,435	-	-	(5,615)	56,820	5,905
Series 2012A	10/01/12	285,092	-	(937)	(6,405)	277,750	6,965
Series 2012B	10/01/12	50,000	-	-	-	50,000	-
Series 2012C	10/01/12	87,510	-	-	-	87,510	-
Series 2013A	11/18/13	94,645	-	-	(1,950)	92,695	2,000
Series 2013B	11/18/13	13,140	-	-	(1,000)	12,140	1,005
Series 2013C	11/18/13	68,185	-	-	(1,405)	66,780	1,475
Series 2015A	02/03/15	-	151,330	-	-	151,330	-
Series 2015B	02/03/15	-	57,405	-	-	57,405	-
Series 2015C	02/03/15	-	56,850	-	-	56,850	-
Total		<u>\$ 1,062,951</u>	<u>\$ 212,744</u>	<u>\$ (949)</u>	<u>\$ (20,105)</u>	<u>\$ 1,254,641</u>	<u>\$ 21,034</u>

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Notes to Basic Financial Statements
June 30, 2016 and 2015
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(10) Long-Term Debt and Leases (continued)

Annual debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 22,205	\$ 26,770	\$ 48,975
2018	23,507	25,940	49,447
2019	24,015	25,383	49,398
2020	24,755	24,804	49,559
2021	26,190	24,181	50,371
2022-2026	156,760	108,659	265,419
2027-2031	142,180	77,416	219,596
2032-2036	157,510	52,398	209,908
2037-2041	215,405	35,545	250,950
2042-2046	347,495	10,194	357,689
2047	<u>75,094</u>	<u>112</u>	<u>75,206</u>
Total long-term debt payments	1,215,116	<u>\$ 411,402</u>	<u>\$ 1,626,518</u>
Unamortized net premium and discount	<u>17,541</u>		
Total carrying amount of long-term debt	<u>\$ 1,232,657</u>		

Monthly lease payments are required for the capital lease agreement, which includes principal and interest. During fiscal year 2016, UCHA did not enter into new capital equipment agreements and paid down \$671 in principal on its medical equipment lease. The medical equipment lease matures in 2018 and is secured by the capital assets under the capital lease agreement.

At June 30, 2016, total capital assets and related accumulated depreciation under capital lease arrangements were \$2,695 and \$1,936, respectively. Depreciation expense under capital lease arrangements is included within depreciation and amortization in the accompanying balance sheets.

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

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

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Notes to Basic Financial Statements

June 30, 2016 and 2015

(\$ in thousands)

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

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

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

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

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

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

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

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Notes to Basic Financial Statements

June 30, 2016 and 2015

(\$s in thousands)

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

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

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

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

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

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

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

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Notes to Basic Financial Statements June 30, 2016 and 2015 (\$s in thousands)

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

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

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

Cash paid for interest in 2016 and 2015 approximated \$30,593 and \$31,937, respectively. Interest received on the unexpended bond funds in 2016 and 2015 was approximately \$967 and \$300, respectively. Interest received on unexpended bond funds in 2016 and 2015 was offset against capitalized interest expense. Total capitalized interest expense to these projects in 2016 and 2015 was \$0 and \$223, respectively.

The fair value of UCHA's long-term debt is based on the most recent trading price as of June 30, 2015. The fair value of the Revenue Bonds at June 30, 2016 and 2015 was approximately \$1,258,709 and \$1,262,922, respectively.

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

<u>Year Ending June 30,</u>	
2017	\$ 5,051
2018	4,251
2019	2,952
2020	2,645
2021	2,372
2022-2024	<u>5,300</u>
Total minimum obligations	<u>\$ 22,571</u>

Rental expense approximated \$7,363 and \$6,777 in 2016 and 2015, respectively.

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Notes to Basic Financial Statements
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(11) Self-Insurance Trust

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

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

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

(12) Retirement Plans

UCHA offers five retirement plans: the University of Colorado Hospital Authority Retirement Plan (the "Basic Pension Plan"), the University of Colorado Hospital Authority Fixed Contribution Investment Plan (the "Investment Account"), the University of Colorado Hospital Authority Matching Tax Deferred Annuity Plan (the "Matching Account"), and the University of Colorado Hospital Deferred Compensation Savings Plan (the "457b Plan"). The UCHA Board is the fiduciary of the Basic Pension Plan and has the ability to amend this plan at its sole discretion.

The Investment Account, Matching Account, and 457b Plan are administered by independent companies that have entered into trust agreements with UCHA. The UCHA Board has the authority to establish and amend the benefit provisions of these plans.

(a) Pension Plans

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

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Notes to Basic Financial Statements
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(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

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

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

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

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Notes to Basic Financial Statements
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(12) Retirement Plans (continued)

(a) Pension Plans (continued)

UCHA made contributions, net of reimbursements from the Health System, of approximately \$25,523 and \$26,136 to the Basic Pension Plan in 2016 and 2015, respectively. UCHA's portion of the actuarially computed net periodic pension cost for the Basic Pension Plan for 2016 and 2015 was approximately \$29,577 and \$25,955, respectively. Investment (losses) gains for 2016 and 2015, including interest, dividends, and realized and unrealized gains (losses), were approximately \$(476) and \$12,212, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2015 and 2014 (dates of the latest actuarial valuations):

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

As a governmental entity, UCHA has considerable flexibility in determining the amount to contribute to the Basic Pension Plan each year. The actuarially determined contribution calculated as part of this report is intended to provide a systematic method for prefunding the liabilities for retirement benefits payable under the Basic Pension Plan. It is calculated in a manner intended to remain relatively stable, as a percentage of valuation compensation, over time. This stability is intended to facilitate the annual budgeting process and to keep the cost of the Basic Pension Plan manageable. All employees that work at UCHealth facilities are employees of UCHA; however, UCHA allocates the cost related to the pension to other entities within UCHealth. The full contributions made for all UCHA employees were \$68,000 and \$66,184 for the years ended June 30, 2016 and 2015, respectively. UCHA's contributions, net of reimbursements from the Health System, to the Basic Pension Plan were \$25,523 and \$26,136 in 2016 and 2015, respectively. The contribution made in 2016 was in excess of the actuarially determined contribution. The amount contributed in 2015 equaled the actuarially determined contribution. UCHA's average contribution rates were 7.23% and 7.38% of annual payroll for the years ended June 30, 2016 and 2015, respectively.

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

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Notes to Basic Financial Statements
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(12) Retirement Plans (continued)

(a) Pension Plans (continued)

Additional information as of the latest actuarial valuation date follows:

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

* Includes inflation at 2.5%.

** Cost of living adjustments apply only to those participants who fall under the Rule of 75.

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

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

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

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

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Notes to Basic Financial Statements
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(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

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

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

UCHA's portion of the net pension liability as of June 30, 2016 and 2015, totaled \$105,858 and \$92,917, respectively.

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Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

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

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

For the years ended June 30, 2016 and 2015, UCHA recognized pension expense of \$29,577 and \$25,955, respectively. At June 30, 2016 and 2015, the deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
June 30, 2016		
Differences between expected and actual experience	\$ 4,175	\$ 3,451
Changes in assumptions	15,684	-
Net difference between projected and actual earnings on pension plan investments	<u>10,348</u>	<u>-</u>
Total	<u>\$ 30,207</u>	<u>\$ 3,451</u>
June 30, 2015		
Differences between expected and actual experience	\$ 16,537	\$ 3,958
Changes in assumptions	8,139	-
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>2,853</u>
Total	<u>\$ 24,676</u>	<u>\$ 6,811</u>

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Notes to Basic Financial Statements
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(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

<u>Year Ending June 30,</u>	
2017	\$ 5,441
2018	6,252
2019	8,582
2020	5,946
2021	<u>535</u>
	<u>\$ 26,756</u>

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

At June 30, 2016 and 2015, UCHA had nine state employees. State employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was approximately \$81 and \$87 for 2016 and 2015, respectively. Required contributions during fiscal years 2016 and 2015 were \$81 and \$87, respectively. UCHA contributed 100% of each year's required contribution. As UCHA's proportionate share of PERA's net pension liability is insignificant, detailed disclosures regarding this plan are not included in this report. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained online at www.copera.org; by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203; or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

(b) Investment Account

The Investment Account is a qualified, single-employer defined contribution retirement plan under the provisions of Code Section 401(a). Employees are required to contribute 6.2% of their gross compensation (limited to the OASDI wage base), which is equivalent to what their OASDI contributions would be under FICA participation. Employees are always fully vested in this component of the plan. Total compensation subject to the plans for the years ended June 30, 2016 and 2015 was approximately \$345,661 and \$353,392, respectively. Total employee contributions made under the provisions of this plan were approximately \$20,860 and \$19,013 for the years ended June 30, 2016 and 2015, respectively. This represents approximately 6.0% of the current year's payroll. In accordance with Code regulations, UCHA is required to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Make-up contributions made by UCHA were approximately \$257 and \$223 in 2016 and 2015, respectively.

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Notes to Basic Financial Statements
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(12) Retirement Plans (continued)

(c) *Matching Account*

The Matching Account is a single-employer, tax-deferred annuity plan under the provisions of Code Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. In addition, UCHA will match employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, UCHA's matching contributions are subject to a five-year, graduated vesting schedule. Certain part-time employees are not eligible for UCHA matching contributions. UCHA's matching contributions for 2016 and 2015 were approximately \$7,202 and \$6,754, respectively. Employees may elect from two investment companies, Fidelity Investments and TIAA-CREF, who provide a broad array of mutual funds with which to invest all contributions under the Investment Account and Matching Account. Employee contributions to the Matching Account for 2016 and 2015 approximated \$15,714 and \$14,483, respectively.

(d) *457b Plan*

The 457b Plan is a single-employer, tax-deferred plan under the provisions of Code Section 457. The TIAA-CREF 457b plan became effective in February 2005, and the Fidelity 457b plan became effective in January 2011, whereby employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. Employees are always vested 100% in their contributions, and UCHA does not contribute to this plan. Employees may elect from a broad array of mutual funds with their respective investment companies. Employee contributions to the TIAA-CREF 457b plan for 2016 and 2015 approximated \$188 and \$266, respectively. Employee contributions to the Fidelity 457b plan in 2016 and 2015 approximated \$973 and \$693, respectively.

The Investment Account, Matching Account, and 457b Plan are administered by independent companies that have entered into trust agreements with UCHA. The investment companies hold all funds contributed under these plans.

(e) *Other Post-Employment Benefit Plan*

In addition to the retirement plans mentioned above, UCHA provides a post-retirement medical premium subsidy to employees retiring from UCHA who are covered under the PERA benefit guarantee provision of the State of Colorado legislation creating the Authority. This plan provides a medical premium subsidy of up to \$112 per month for medical plan coverage (pro-rated for less than 20 years of service) and an employer-funded life insurance benefit of \$3,000. An employer-funded life insurance benefit is provided to all employees who retire from UCHA. The accumulated post-retirement benefit obligation for the medical and life premiums approximated \$3,767 and \$4,600 at June 30 2016 and 2015, respectively. Total benefit costs related to this plan were \$(2,229) and \$309 for the years ended June 30, 2016 and 2015, respectively. In the calculation of the liability, a 7.0% discount rate was used and an assumption that 65% of eligible active employees would elect to be covered by the medical premium subsidy plan.

(13) Related-Party/Affiliate Transactions

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

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Notes to Basic Financial Statements
June 30, 2016 and 2015
(\$s in thousands)

(13) Related-Party/Affiliate Transactions (continued)

(a) *University of Colorado Health*

Effective July 1, 2012, UCHealth was created through a joint operating agreement with PVHS and UCHA. Together, UCHA and PVHS are member organizations in the Health System. UCHealth received its 501(c)(3) designation from the IRS on June 29, 2013. The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions.

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

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

UCHA balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows include transactions among UCHealth's members and affiliates.

Total current assets at June 30, 2016 and 2015 include a receivable from affiliates that is comprised of amounts due from UCH-MHS for the Series 2012A proceeds related to the acquisition of MHS of approximately \$7,365 and \$6,965 respectively. At June 30, 2016 and 2015, current assets also included \$91,558 and \$9,684, respectively, related to transactions between UCHA and its affiliates.

Total non-current assets at June 30, 2016 and 2015 include receivables from affiliates that comprise amounts due for the Series 2015A, Series 2015C, Series 2012A, and Series 2012C bond issuances related to ongoing capital expenditures, the acquisition of MHS, and the refinancing of PVHS Revenue Bonds. At June 30, 2016 and 2015, the total receivable was approximately \$518,850 and \$527,129, respectively. These amounts are included in UCHA's current and long-term assets on UCHA's balance sheet.

UCHA and affiliates effectively pool their investments within the Health System's investment account structure. UCHA's share of pooled cash at June 30, 2016 and 2015 was \$43,458 and \$123,157. UCHA's share of pooled investments at June 30, 2016 and 2015 was \$1,571,886 and \$1,302,589, respectively.

(b) *UCD*

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

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Notes to Basic Financial Statements
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(13) Related-Party/Affiliate Transactions (continued)

(b) UCD (continued)

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

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

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

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of approximately \$2,031 and \$1,718 were billed to CRC for the cost of these services during 2016 and 2015, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were approximately \$439 and \$408 at June 30, 2016 and 2015, respectively, and are included in related-party receivables on the balance sheets. UCHA recorded amounts due to UCD of \$1,147 and \$2,594 at June 30, 2016 and 2015, respectively, for contract labor costs and School of Pharmacy support expenses.

Effective July 1, 2014, UCHealth entered into a five-year academic support agreement with the University of Colorado School of Medicine. The agreement provides that UCHealth make annual academic support donations to enhance the ability of the School of Medicine to fulfill its academic missions of educating students in health-related disciplines and professions and furthering basic and applied biomedical research. UCHA's portion of the academic support donation for the years ended June 30, 2016 and 2015 was \$12,078 and \$14,950, respectively.

(c) TriWest

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

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Notes to Basic Financial Statements
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(13) Related-Party/Affiliate Transactions (continued)

(c) *TriWest (continued)*

UCHA originally purchased a minority interest in TriWest for approximately \$3,300. In October 2007, UCHA sold 1,656.55 shares for approximately \$18,053 to TriWest. After the sale, UPI had a 60% share of UCHA's minority interest in TriWest. In March 2014, TriWest restructured its ownership, resulting in UCHA and UPI selling their stock back to TriWest and receiving new stock valued at \$9,250. This transaction included a note payable to UCHA totaling \$5,802 that settled during the year ended June 30, 2015. Based on this restructuring, UPI has a 35% share of UCHA's minority interest in TriWest, valued at \$3,250.

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

(d) *UPI*

During the years ended June 30, 2016 and 2015, UCHA recognized approximately \$39,772 and \$39,541, respectively, in contract expense to UPI for contractual reimbursement of faculty administrative services and recruitment support. UCHA also recognized expenses of approximately \$42,640 and \$37,040 during the years ended June 30, 2016 and 2015, respectively, that represent reimbursements channeled through UCHA by external entities for services provided by UPI on behalf of those external entities (e.g., Ryan White program) and for reimbursements for hospital-based programs for services provided by UPI on behalf of UCHA (e.g., on-call services, joint networking, administrative, and other miscellaneous programs). Additionally, during the year ended June 30, 2015, UCHA remitted State of Colorado pass-through reimbursements of \$689 to cover a portion of the costs to provide care for the state's medically indigent program (Note 3). No amounts were passed through to UPI during the year ended June 30, 2016.

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

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

(e) *The Children's Hospital*

In July 2010, UCHA began a joint maternal fetal program in conjunction with Children's Hospital Colorado ("CHCO") to establish a center for advanced maternal fetal medicine offering state-of-the-art care for high-risk pregnant women and their babies.

The program is defined in an operating agreement that details the cost and revenue sharing between the two hospitals. UCHA has recorded a related-party payable to CHCO at June 30, 2016 and 2015, of \$11,566 and \$10,157, respectively.

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Notes to Basic Financial Statements
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(\$s in thousands)

(13) Related-Party/Affiliate Transactions (continued)

(f) *VEBA Trust*

On July 1, 2010, UCHA entered into an agreement with UPI and the Regents to begin a self-insurance trust known as the Colorado Health and Welfare Trust (the "VEBA Trust") for the benefit of eligible employees of the University, UPI, and UCHA and their eligible dependents. The VEBA Trust is managed by a third-party administrator and provides healthcare coverage for eligible employees of the three organizations. The VEBA Trust functions as a retrospectively rated contract in which the initial premium is adjusted based on actual experience. For the years ended June 30, 2016 and 2015, UCHA expensed initial premiums of approximately \$52,334 and \$46,913, respectively, into the healthcare flexible spending plans.

(g) *Other Related Parties*

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

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

(14) Commitments and Contingencies

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

UCHA has entered into contracts for the completion of expansion projects it is currently undertaking. As of June 30, 2016, UCHA has entered into contracts totaling \$23,786 for its current large expansion projects including Boulder, AOP Expansion and AOP Operating Room expansions. The total budget for Boulder is \$11,100, the AOP Expansion budget is \$15,700 and the AOP Operating Room expansion budget is \$13,500. UCHA has incurred \$17,226 in related costs during the year ended June 30, 2016 on these projects.

UCHA is a joint obligor for PVHS and the Health System under the joint operating agreement. In addition to the debt included on the accompanying balance sheets, UCHA is contingently liable for outstanding PVHS debt with a carrying amount of \$214,185 and \$214,146 at June 30, 2016 and 2015, respectively.

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Notes to Basic Financial Statements

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(\$s in thousands)

(15) Subsequent Events

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

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

Schedule of Changes in Net Pension Liability and Related Ratios

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

Notes to Schedule:

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

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

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Required Supplemental Information
June 30, 2016 and 2015
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**Schedule of Contributions
(Last 10 Fiscal Years)**

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

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method Entry Age Normal, Level Percent of Pay

Amortization method Straight Line

Asset valuation method Fair Value

Investment rate of return 7.0%, includes inflation at 2.5%

Projected salary increases 3.6% to 6.5%

Cost of living adjustments 2.5%

Mortality In the 2016 and 2015 actuarial valuation, mortality rates were based on the RP-2014 mortality table. In prior years, those assumptions were based on the RP-2000 mortality table.

Other information:

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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

Schedule of Pension Plan Investment Returns

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