

Denver Health and Hospital Authority

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016

Denver Health and Hospital Authority

December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

Report on Financial Statements

We have audited the accompanying financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Denver Health and Hospital Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Denver Health and Hospital Authority and its aggregate discretely presented component units as of December 31, 2017 and 2016 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, pension and other postemployment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Directors
Denver Health and Hospital Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2018, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
March 23, 2018

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Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2017 and 2016

This discussion and analysis of the financial performance of Denver Health and Hospital Authority (the Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2017 and 2016.

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

2017 Highlights

The Authority completed several construction projects related to the facilities master plan in 2017. These included, among others, the "green gateway" project resulting in improved campus landscaping and a private drive connecting the east and west portions of the campus (from Bannock to Delaware). Additionally, a new administrative services building was completed at 601 Broadway in July, 2017. A third significant event related to facilities master planning was the voter approval of the City and County of Denver's General Obligation Bond initiative in November, 2017, which will provide \$75.0 million of funding for the new Outpatient Medical Center (OMC). The Authority invested in planning and design for the OMC in 2017. It will be located on the current 660 Bannock Street site.

Net patient service revenue was \$39.7 million, or 7.9% higher than 2016 and \$22.2 million, or 3.9% lower than budget. The increase in net patient service revenue was driven by a 7.9% increase in gross patient revenue, primarily in the area of outpatient services and outpatient pharmacy services. Inpatient admissions decreased by 1.5% compared to 2016, while outpatient operating room (OR) hours increased by 10.6% and outpatient clinic encounters increased by 11.7%.

The Authority's Medicaid managed care contract with the State of Colorado Health Care Policy and Financing (HCPF), Denver Health Medicaid Choice (DH Medicaid Choice), continued to grow with a 14.1% increase in membership to 86,641. Capitation revenue from this program increased approximately \$17.1 million, or 8.5% over 2016 due to the membership increase. The Authority is responsible for claims incurred related to services not provided by the Authority under this contract. This is reflected in the managed care outside provider claims cost line item in the financial statements. This expense increased by \$15.4 million, or 30.9% as a result of the membership increase. Capitation earned net of reinsurance expense exceeded budget by \$14.5 million, or 7.1%, due to the increase in membership.

The Authority recorded an increase in Medicaid disproportionate share (DSH) and other safety net reimbursement compared to 2016 of \$526,000, or 0.5%. The revenue was approximately \$7.4 million, or 6.1% below budget.

DSH revenue, and another supplemental payment source, Upper Payment Limit (UPL) are paid to the Authority through the State of Colorado Hospital Provider Fee program (HPF). The HPF is a State of Colorado fee approved by the Colorado General Assembly in 2009. Hospitals pay the fee to the state, and the fee revenue is matched with federal funding related to the DSH and UPL sources. Calculations of fees and payments in the HPF program are based on prior year data.

In 2017, the Colorado General Assembly enacted legislation that moved HPF to a state enterprise fund, the Colorado Hospital Accountability and Sustainability Enterprise (CHASE) due to Colorado Taxpayer Bill of Rights (TABOR) issues with the previous accounting for the funds. CHASE is exempt from TABOR limits.

The Authority had an increase in HPF revenue of \$12.9 million compared to 2016. In 2016, the Authority reserved \$20.3 million related to the Hospital Specific DSH Cap (HSDC) calculations under which the

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DSH payment cannot exceed the cost of uninsured care plus Medicaid shortfall or surplus. In 2017, the Authority continued to perform calculations to compare DSH to the estimated HSDC and noted no additional reserve for recoupment was necessary.

The increase in HPF/CHASE revenue was offset by a decrease in Physician UPL of \$12.1 million. The decrease is related to a non-recurring additional increase in 2016 of \$6.0 million for the estimated 2015 calculation, and a HCPF recoupment for the 2015 amounts based on an interim calculation (this also reduced the 2016 and 2017 estimates by \$2.7 million). Additionally, the Authority recorded a \$1.4 million liability related to a self-disclosed compliance issue. Additional changes in the Medicaid DSH and other safety net reimbursement line included an increase in outstationing revenue of \$422,000, and decreases in Ambulance UPL and Colorado State Primary care funds of \$695,000 and \$536,000, respectively.

City of Denver purchased services revenue is related to contractual obligations for the Authority pursuant to the Operating Agreement with the City and County of Denver (the City). This revenue was \$662,000, or 2.6% below budget but approximately \$1.7 million, or 7.2% above the prior year. Revenue for this line item is primarily based on reimbursement of direct cost. The areas of increase in cost/reimbursement included, primarily, medical services provided at the City's correctional facilities and Denver CARES, the outpatient detoxification service operated by the Authority on behalf of the City.

Salaries and benefits, which is the most significant component of the Authority's expenses, increased approximately \$32.5 million, or 5.5%, but this line item was below budget by \$3.4 million, or less than 1.0%. Full-time equivalent (FTE) personnel increased 2.7% over the prior year. Additionally, increases in provider compensation, normal wage increases for merit and market adjustments, and a non-recurring expense related to an incentivized retirement plan that was offered in mid-2017 contributed to the increase in personnel cost. Benefit expense increased approximately \$8.5 million, or 7.2% and was primarily in the area of health insurance for employees and dependents.

Contracted services and nonmedical supplies decreased approximately \$13.9 million, or 6.7% compared to 2016, but was \$6.2 million, or 3.3% above budget. The majority of the decrease in cost is related to non-recurring EPIC and ICD 10 conversion expenditures that occurred in 2016, reduced usage of professional services in eHealth Services (Information Technology), and savings from other initiatives resulting from cost reduction plans implemented by the Authority, such as in-sourcing of environmental services and pharmacy administration. The negative budget variance of \$6.2 million is due to increased HPF expense and increased contract personnel cost utilized to cover staffing vacancies.

Medical supplies and pharmaceuticals increased approximately \$17.2 million, or 16.0% year over year. This increase is related to Hepatitis C pharmaceutical volume.

Depreciation and amortization expense increased from 2016 by approximately \$2.7 million or 6.5%. This expense was under budget by \$2.2 million, or 4.7%.

The Authority recorded an \$8.1 million gain on forgiveness of notes payable related to the dissolution of Pavilion M, Inc. In 2010 the Authority created this entity for the sole purpose of entering into a New Market Tax Credit (NMTC) financing structure to build a new building on the Authority's main campus. Pavilion M Inc. was a discretely presented component unit until dissolution during 2017. In June, 2017 the Authority forgave its receivable to the investment entity and Pavilion M received forgiveness for its notes payable. When Pavilion M, Inc. dissolved, the building and equipment were transferred to the Denver Health Medical Center "zone".

Denver Health and Hospital Authority

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The investment market improved in 2017 compared to 2016, resulting in a net increase in fair value of investments of \$9.3 million compared to \$4.5 million in 2016. The Authority's investment policy provides that investments are generally held to maturity. Due to increased cash balances, the realized interest income increased approximately \$857,000 over the prior year. Cash and cash equivalents, including restricted, decreased approximately \$10.1 million, or 17.6%, and long-term and board-designated investments increased approximately \$63.1 million, or 26.3% over the prior year. A significant factor in the increase in long-term investments was a \$40.0 million program support payment received by the Authority in May, 2017. Additionally, patient cash receipts increased \$27.7 million, or 5.4% over the prior year. After accounting for operating expenses, cash from operations increased approximately \$25.0 million, or 70.5%.

Contributions restricted for capital assets in 2017 totaled \$1.5 million, including \$300,000 from the City to support the construction of Federico F. Pena Southwest Family Health Center. Additionally, the Denver Health Foundation contributed \$150,000 for capital projects related to patient care. The remainder of the capital contributions include the City's contribution to debt service for the Park Hill clinic of \$153,000 and \$876,000 for the relocation of the Office of the Medical Examiner (OME) currently located in the administrative building at 660 Bannock, to an offsite location. The Authority is managing this project on behalf of the City, but the City is financially responsible for the cost. This funding will continue as the construction progresses to completion.

Overview of the Basic Financial Statements

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

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

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

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

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Management's Discussion and Analysis (Unaudited)
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Financial Analysis and Results of Operations

Changes to net position over time may serve as a useful indicator of the Authority's financial position. At December 31, 2017, the Authority's total net position increased by approximately \$14.2 million from 2016, or 4.0%. The following table summarizes total assets, deferred outflows of resources, total liabilities, deferred inflows of resources and net position at December 31:

	Net Position		
	2017	2016	2015
Current and noncurrent assets	\$ 541,596,504	\$ 540,638,905	\$ 572,293,883
Capital assets	<u>501,284,551</u>	<u>472,662,450</u>	<u>409,462,182</u>
Total assets	1,042,881,055	1,013,301,355	981,756,065
Deferred outflows of resources	<u>42,544,110</u>	<u>51,585,290</u>	<u>30,908,808</u>
Total assets and deferred outflows of resources	<u>\$ 1,085,425,165</u>	<u>\$ 1,064,886,645</u>	<u>\$ 1,012,664,873</u>
Current liabilities	\$ 175,185,004	\$ 160,901,368	\$ 165,265,402
Other long-term liabilities	209,586,602	184,450,637	142,669,643
Long-term debt outstanding	<u>322,820,992</u>	<u>354,242,014</u>	<u>334,346,878</u>
Total liabilities	<u>707,592,598</u>	<u>699,594,019</u>	<u>642,281,923</u>
Deferred inflows of resources	<u>5,849,237</u>	<u>7,428,789</u>	<u>5,807,134</u>
Net investment in capital assets	160,517,460	111,590,723	77,825,006
Unrestricted	<u>211,465,870</u>	<u>246,273,114</u>	<u>286,750,810</u>
Total net position	<u>371,983,330</u>	<u>357,863,837</u>	<u>364,575,816</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,085,425,165</u>	<u>\$ 1,064,886,645</u>	<u>\$ 1,012,664,873</u>

Cash and cash equivalents decreased approximately \$10.1 million, or 17.6%, and long-term and board-designated investments increased approximately \$63.1 million, or 26.3%, over the prior year. The driver of the increase in cash balances was related to a \$40 million program support payment the Authority received in May 2017. Additionally, patient cash receipts increased \$27.7 million, or 5.4% over prior year. After accounting for operating expenses, cash from operations increased approximately \$25.0 million, or 70.5%.

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Patient Accounts Receivable

Patient accounts receivable (AR), net of contractual allowances decreased by approximately \$9.1 million in 2017, or 12.5%. Cash collections from net patient service revenue increased by approximately \$27.7 million, or 5.4%, over the prior year. This increase in collections is primarily due to the timely filing extensions with payors in existence for 2016 accounts allowing the Authority an extended timeframe to collect on accounts from the EPIC conversion.

Due from Governmental Entities

Due from governmental agencies increased by \$0.5 million, or 2.0%, compared to the prior year balance. Primarily due to the HSDC redistribution receivable for the 2012-2013 state year of \$1.3 million.

Due from the City and County of Denver

Net due from the City and County of Denver increased approximately \$5.4 million, or 220%. \$3.3 million is due to the timing of payments from the City. The remaining is the change in liability related to the annual reconciliation between the budgeted calculated payment and the actual amount incurred during the year based on cost. This liability was \$0 and \$2.1 million as of December 31, 2017 and 2016, respectively.

Other Receivables

Other receivables increased approximately \$5.2 million, or 33.3%, from the prior year balance. The drivers of this increase are the accrual for Medicaid Choice delivery payments of \$3.0 million and \$2.0 million for 2017 federal electronic health record (EHR) "Meaningful Use" accrued revenue.

Due from Discretely Presented Component Units

Due from discretely presented component units increased approximately \$2.0 million, or 110.9% primarily due to a capitation adjustment recorded related to an adjustment in the risk-score payment for the Affordable Care Act (ACA) Exchange population.

Inventories

Inventories decreased approximately \$1.6 million, or 13.0%, primarily due to improved pharmaceutical inventory management.

Notes Receivable

Notes receivable decreased \$29.0 million, or 65.2% due to the forgiveness of loans related to the dissolution of Pavilion M Inc. The net assets at Pavilion M Inc. have been transferred to the Denver Health Medical Center as part of the forgiveness of the notes receivable.

Estimated Third-party Payor Settlement Receivables

Estimated third-party payor receivables are comprised of receivables for Medicare and Medicaid cost report settlements and receivables for outstationing revenue. These receivables increased approximately \$1.3 million, or 30.6%, compared to 2016, primarily due to an increase in outstationing receivable of \$1.8 million.

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Restricted Investments

Restricted investments decreased approximately \$26.5 million, or 55.0%, during 2017 due to construction draws on 2014 bond investments, offset by interest earnings.

Capital Assets

Capital assets, net of depreciation, increased approximately \$28.6 million over the prior year. Land increased approximately \$1.7 million primarily due to the purchase of land at North Tower Road. Additions totaled approximately \$72.9 million, compared to approximately \$104.6 million in 2016. The largest capital additions was the construction on 601 Broadway totaling approximately \$19.8 million in 2017. The building was opened in June of 2017. Additionally, \$8.1 million in costs related to Pavilion A remodel were capitalized, and capital expenditures on projects funded by the 2014 bonds totaled approximately \$23.3 million. Significant 2014 bond projects include renovation of campus historic buildings for approximately \$11.7 million, \$5.1 million on the Gateway Greenbelt project and \$4.4 million on upgrades for the main hospital boiler plant. Non-bond funded construction in progress additions totaled approximately \$16.8 million and included \$5.9 million related to the (OME) relocation and design and demolition work for the new OMC of \$3.3 million. Equipment purchases totaled approximately \$16.4 million. This increase is offset by disposals of \$12.6 million due to the biennial equipment inventory. Depreciation expense for the year was approximately \$44.5 million. Listed below is a summary of capital assets, net of accumulated depreciation at December 31, 2017 and 2016:

	December 31,	
	2017	2016
Land	\$ 24,361,955	\$ 22,647,091
Buildings and improvements	366,690,605	288,145,921
Equipment and software	76,502,916	80,486,644
Construction in process	33,729,075	81,382,794
Total	\$ 501,284,551	\$ 472,662,450

Long-term and Board-designated Investments

Long-term and board-designated investments in aggregate increased approximately \$63.1 million, or 26.2% over the prior year. The \$40 million program support payment and the increase in cash provided by operating activities during 2017 resulted in more cash available for investment.

Other Liabilities

Accounts payable and accrued expenses increased approximately \$4.2 million, or 9.1%, due to normal activity.

Accrued compensated absences increased approximately \$3.7 million, or 14.6%, primarily driven by more paid time off (PTO) hours accrued or unused in 2017 compared to 2016.

Unearned revenue represents the payments received in advance for the supplemental payments received under the HPF program. Unearned revenue decreased \$1.2 million because the monthly payments received in advance were less in 2017 compared to 2016.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

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Accrued claims liability represents the Incurred But Not Reported claims liability (IBNR) for DH Medicaid Choice. Due to increase in membership, external claims costs incurred increased. The liability is approximately \$1.7 million, or 18.1%, higher than the prior year.

The long-term portion of liability for estimated third-party settlements decreased approximately \$5.1 million. Approximately \$1.5 million of the decrease is related to a reduction in the accrual for potential recoupment of DSH revenue based on an audit of the HSDC as discussed in a previous section. Additionally there was a settlement payment of \$3.2 million related to self-disclosure of a compliance issue. Lastly, there was a payment of \$1.0 million for a previously recorded liability for outstationing based on a settlement with the Colorado Department of Healthcare Policy and Financing (HCPF), the state Medicaid agency, of \$1.0 million.

Net pension liability represents the actuarially estimated cost of the Authority's pension plan, the Denver Employees Retirement Plan (DERP). The net liability is the amount owed for the pension benefit above the currently invested assets. This liability increased approximately \$121,000, or .1%, mainly driven by the change in proportionate share of the multi-payor plan. The deferred outflows of resources related to pension benefits and deferred inflows of resources decreased \$7.7 and \$1.6 million, respectively. The net impact to the income statement was an increase in expense of \$6.1 million. The increase is driven by changes in actuarial assumptions and lower actual versus expected return on investments during the plan's measurement period.

Postemployment benefit liability represents the actuarially estimated cost of the Authority's provision of postretirement health benefits for certain employees hired in 2001 or after. The cost and liability increases each year as more employees become eligible for the benefit. The liability is funded at the time of an employee's retirement by paying a third-party administrator. This liability increased approximately \$1.0 million, or 15.5%, based on the actuarial valuation.

Debt

Bonds and notes payable, program support payable and capital leases payable (current and long-term), excluding the deferred loss on refunding, increased by approximately \$5.7 million due to the start of a program support agreement where the Authority received \$40.0 million in 2017. A portion of the program earnings before interest and depreciation (EBIDA) will be applied against this liability. The program support balance is \$36.3 million as of December 31, 2017. The other increase was additions to the 601 notes payable of \$19.8 million. This is offset by the forgiveness of the Pavilion M notes payable as part of its dissolution for \$37.2 million and principal payments of bonds and notes payable during 2017 of \$10.0 million.

Total Assets, Liabilities and Net Position

Overall, current and noncurrent assets, not including capital assets, increased approximately \$958,000 from December 31, 2016 to December 31, 2017, primarily due to the increase in investments. This is offset by a decrease in notes receivable, and restricted investments.

Total liabilities and deferred inflows of resources as of December 31, 2017 increased approximately \$6.4 million compared to December 31, 2016. Primary drivers of this increase were the increase in program support liability (current and long-term) of \$36.3 million, offset by a decrease in notes payable of \$25.0 million, and the decrease in third-party settlements as noted above due to payments made.

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At December 31, 2017, the Authority's total net position increased by approximately \$14.1 million from 2016, or 3.9%, which was comprised of an operating gain of \$410,000, nonoperating net revenues of \$12.2 million, and contributed capital of \$1.5 million.

The following table compares 2017, 2016 and 2015 revenues and expenses and shows the resulting changes in net position:

	Changes in Net Position		
	2017	2016	2015
Operating revenues			
Net patient service revenue	\$ 545,380,959	\$ 505,649,332	\$ 508,943,529
Capitation earned net of reinsurance expense	218,010,773	200,897,158	167,041,601
Medicaid disproportionate share and other safety net reimbursement	114,752,531	114,226,738	129,493,366
City and County of Denver payment for patient care services	30,777,300	30,777,300	30,777,300
Federal, state and other grants	66,049,764	61,762,927	63,105,757
City and County of Denver purchased services	24,776,739	23,111,964	20,118,276
Poison and drug center contracts	22,852,467	22,109,647	22,228,585
Other operating revenue	34,286,943	31,145,980	27,324,436
Total operating revenues	<u>1,056,887,476</u>	<u>989,681,046</u>	<u>969,032,850</u>
Operating expenses			
Salaries and benefits	628,026,525	595,508,941	525,936,197
Contracted services and nonmedical supplies	193,422,000	207,393,321	189,930,203
Medical supplies and pharmaceuticals	125,253,288	107,970,210	101,839,420
Managed care outside provider claims	65,258,014	49,865,526	55,666,631
Depreciation and amortization	44,517,680	41,773,814	39,817,690
Total operating expenses	<u>1,056,477,507</u>	<u>1,002,511,812</u>	<u>913,190,141</u>
Operating income (loss)	<u>409,969</u>	<u>(12,830,766)</u>	<u>55,842,709</u>
Nonoperating revenues (expenses)			
Increase in equity in joint venture	124,000	13,000	116,000
Bond issuance costs	(682,046)	-	-
Distribution from discretely presented component unit	-	5,000,000	-
Interest income	9,633,043	8,776,396	9,038,719
Interest expense	(14,355,713)	(15,348,615)	(16,023,707)
Gain on forgiveness of note payable/receivable	8,135,483	-	-
Net increase (decrease) in fair value of investments	9,287,858	4,548,798	(8,840,767)
Gain on disposition of capital assets	50,857	177,446	1,073,790
Total nonoperating revenues (expenses)	<u>12,193,482</u>	<u>3,167,025</u>	<u>(14,635,965)</u>
Income (loss) before capital contributions	12,603,451	(9,663,741)	41,206,744
Contributions restricted for capital assets	1,516,042	2,951,762	1,171,953
Increase (decrease) in net position	14,119,493	(6,711,979)	42,378,697
Net position, at beginning of year	<u>357,863,837</u>	<u>364,575,816</u>	<u>322,197,119</u>
Net position, at end of year	<u>\$ 371,983,330</u>	<u>\$ 357,863,837</u>	<u>\$ 364,575,816</u>

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Revenues and Expenses

Gross Patient Service Revenue

Gross patient service revenue increased approximately \$169.0 million, or 8.0%, for the year ended December 31, 2017, compared with the year ended December 31, 2016, as shown in the following table:

	Gross Patient Revenue		Dollar Change	Percentage Change
	2017	2016		
Inpatient revenue	\$ 831,391,487	\$ 829,412,516	\$ 1,978,971	0.2%
Outpatient revenue	1,100,309,175	964,470,400	135,838,775	14.1%
Physician billing	227,723,636	202,143,861	25,579,775	12.7%
Ambulance	123,450,814	117,851,355	5,599,459	4.8%
Total	2,282,875,112	2,113,878,132	168,996,980	8.0%
Charge forgone for charity care	<u>(165,431,460)</u>	<u>(148,318,654)</u>	<u>(17,112,806)</u>	11.5%
Total gross patient revenue	<u>\$ 2,117,443,652</u>	<u>\$ 1,965,559,478</u>	<u>\$ 151,884,174</u>	

Inpatient charges increased by .2%, or approximately \$2.0 million over 2016, Inpatient equivalent census days were 1.5% above the prior year and inpatient admissions were 1.5% below the prior year. Additionally, inpatient surgical activity decreased by 1.6%.

Outpatient charges increased by approximately \$135.8 million, or 14.1% over 2016. The outpatient gross revenue has increased in the areas of Outpatient Pharmacy, Peña Southwest Clinic, Infusion Center, Radiology, Emergency Department, Cardiology, Laboratory and Perioperative services. Total outpatient clinic encounters increased 11.7% over 2016.

Physician billing revenue increased approximately \$25.6 million, or 12.7% over 2016. The physician billing increased significantly in the areas of General & Trauma Surgeons, Ophthalmologists, Adult Psychiatrists, Hospitalists, and Behavioral Health Providers. Volume increases and improved charge capture through the EHR are the driving factors of physician charge increases.

Ambulance revenue increased approximately \$5.6 million, or 4.8%, primarily due to an increase in transport volume.

Indigent Care, Charity Care and Community Service

The Authority, as part of its mission, provides healthcare services to the City's residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$62,286,000 and \$51,190,000 for the years ended December 31, 2017 and 2016, respectively.

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Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the state CICP program and an internal charity program as required by Denver Health Bureau of Primary Health Care Section 330 Grant for primary care. The level of charity care provided during the years ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Uncompensated care		
Contractual adjustments	\$ 1,274,766,247	\$ 1,161,982,341
Provision for bad debts	79,285,673	97,030,647
Charity care	<u>165,431,460</u>	<u>148,318,654</u>
	<u>\$ 1,519,483,380</u>	<u>\$ 1,407,331,642</u>

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

Net Patient Service Revenue

Net patient service revenue increased from 2017 by approximately \$39.7 million, or 7.9%, driven by the higher volume. The realization rate, which is calculated as net patient service revenue divided by gross patient revenue (before charity care charges forgone) was stable compared to 2016.

For the year ended 2016 net patient service revenue decreased by approximately \$3.3 million, or 0.7%, in line with the increase in billed charges and the change in payor mix.

Capitation Earned Net of Reinsurance

For the year ended December 31, 2017, capitation earned net of reinsurance for DH Medicaid Choice increased by approximately \$17.1 million, or 8.5%, due to an increase in membership of 14.1%. On a per member per month (PMPM) basis, the revenue earned by the Authority decreased by 3.0% due to reserving for enrollment issues with the state and a 2016 medical loss ratio (MLR) reserve issue.

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

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

Medicaid DSH revenue and other safety net reimbursement increased approximately \$526,000, or 0.5%, compared to 2016, as discussed in detail in the 2017 highlights section.

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

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Medicaid DSH, other safety net revenue and expense, and primary care funds for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Colorado Indigent Care Program revenue	\$ 79,440,528	\$ 66,500,080
Supplemental Medicaid base rate revenue	10,143,677	13,313,765
Supplemental Medicaid outpatient hospital revenue	11,615,890	6,982,507
Ambulance upper payment limit revenue	2,842,502	3,537,140
Hospital quality incentive payment	4,511,753	5,511,645
Outstationing revenue	1,799,997	1,377,776
Primary care funds	4,441,695	4,977,865
Physician certification revenue	<u>(43,511)</u>	<u>12,025,960</u>
	114,752,531	114,226,738
Provider fee expense	<u>(28,030,980)</u>	<u>(22,948,074)</u>
Net revenue after provider fee expense	<u>\$ 86,721,551</u>	<u>\$ 91,278,664</u>

City and County of Denver Payment for Patient Care Services

For the years ended December 31, 2017, 2016 and 2015, as part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the City paid approximately \$30.8 million annually to the Authority to cover a portion of the cost of treating the medically indigent.

Grant Revenue

In 2017, federal, state and other grant revenue increased by approximately \$4.3 million, or 6.9%, primarily due to new awards spending of \$1.2 million, an increase in spending on the eGain Implementation state grant of \$1.0 million and an increase of \$1.0 million on the 330 Bureau of Primary Health Care federal grant. The remaining increase is in several smaller federal grants.

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

City and County of Denver Purchased Services

As part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the Authority receives payments from the City to provide services, including, but not limited to: medical care for the city inmates, public health, and operation of Denver C.A.R.E.S., which is a 100-bed nonmedical detoxification center. Revenue for reimbursement of these costs totaled approximately \$24.8 million in 2017, which is approximately \$1.7 million, or 7.2%, higher than 2016 driven by increased acuity and utilization by inmates of the infirmaries in the correctional system, and increased cost at Denver CARES.

In 2016, City revenue for reimbursement of these costs totaled approximately \$23.1 million, which is approximately \$3.0 million, or 14.9%, higher than 2015.

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Poison and Drug Center Contracts

The Rocky Mountain Poison and Drug Center (RMPDC) (“poison and drug center”) is a certified regional poison center, recognized by the American Association of Poison Control Centers and serves as a regional drug information center. The RMPDC includes RADARS® System, which collects, compiles, analyzes and maintains certain de-identified health care and other information in proprietary databases containing data from several signal detection system networks. The program provides expert analysis and interpretation of data and includes a Scientific Advisory Board. Subscribing organizations are provided with timely geographic-specific surveillance and monitoring reports to detect and characterize prescription drug abuse, misuse, and diversion. Typical organizations using such information include the pharmaceutical industry, regulatory agencies, policymakers and medical/public health officials to aid in understanding trends in the abuse, misuse, and diversion of prescription drugs in the United States. Poison and Drug Center contract revenue for 2017 was approximately \$22.9 million, \$743,000 increase over the prior year and \$1.7 million, or 6.8%, below budget. The increase year over year relates to the RADARS line of business. RMPDC is below budget due to less growth than anticipated in the Drug Center. For 2017, RMPDC had an increase in net assets of approximately \$2.0 million.

RMPDC revenue for 2016 was approximately \$22.1 million, which was approximately \$119,000, or .54% lower than 2015, and 8.5% below budget. This is related to lower than budgeted RADARS® System subscribers. For 2016, RMPDC had an increase in net assets of approximately \$386,000.

Other Operating Revenue

For 2017, other operating revenue includes federal “meaningful use” revenue related to requirements for implementation of the electronic health record (EHR), and revenue from sources such as reimbursement for medical staff, reimbursement of guard services for non-Denver County prisoners, DH Nurseline revenue and emergency medical services (EMS) education revenue. Other operating revenue increased by \$3.1 million, or 10.1%, over 2016. Significant increases included meaningful use revenues, \$791,000, contract Pharmacy of \$763,000, and a contract with state HCPF for enrollment services increased by \$730,000 over 2016.

In 2016, other operating revenue increased by approximately \$3.8 million, or 14%, compared to 2015 primarily due to meaningful use revenues, care management payments, and Nurseline revenues.

Operating Expenses

Year ended December 31, 2017 compared with year ended December 31, 2016

Operating expenses increased approximately \$53.9 million, or 5.4%, for the year ended December 31, 2017, compared with the prior year.

- Salaries and benefits has increased \$32.5 million or 5.5% and were below budget for the year by \$3.4 million or less than 1%. The increases over 2016 are driven by market and merit increases, physician compensation increases, growth due to volume, service expansions, non-recurring incentivized retirement expense, and increase in benefit expenses. As of December 31, 2017, the Authority has no accrued management incentive payout liability.
- Contracted services and nonmedical supplies decreased approximately \$13.9 million, or 6.7%, over 2016 and is \$6.2 million, or 3.3% above budget. The majority of the decrease is due to the one-time EPIC implementation expense, ICD-10 conversion in 2016, reduced usage of professional services in eHS and in-sourcing of environmental services and pharmacy

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administration. The \$6.2 million increase over budget is due to increased provider fee expense and agency labor costs due to increased usage driven by staff turnover.

- Medical supplies and pharmaceuticals increased approximately \$17.2 million, or 16.0% year over year. The increase is driven by increases in Hepatitis C drug volume.
- Managed Care outside provider claims represents the costs incurred for medical care and pharmaceuticals obtained by DH Medicaid Choice members outside of the Authority's system of care. This line item increased by approximately \$15.4 million, or 30.9%, over the prior year driven by increased membership of 14.1%.
- Depreciation and amortization expense increased over the prior year by approximately \$2.7 million, or 6.5%. This expense was under budget by \$2.2 million, or 4.7%.

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

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

- Salaries and benefits increased approximately \$69.6 million, or 13.2%, and were above budget for the year by \$11.5 million, or 2.0%. Employee headcount increased 9.0% over the prior year; increases in provider compensation, EPIC staffing increases, normal wage increases for merit and market, and the opening of Peña Clinic all contributed to the increase. Benefit expense increased approximately \$13.8 million, or 13.4%. As of December 31, 2016, the Authority has no accrued management incentive payout liability.
- Contracted services and nonmedical supplies increased approximately \$17.5 million, or 9.2%, over 2015 and is approximately \$11.2 million, or 5.7%, above budget. The majority of the increase is due to the Epic implementation which increased \$10.8 million, or 28.7%, compared to 2015.
- Medical supplies and pharmaceuticals increased approximately \$6.1 million, or 6.0%, year over year. This was approximately \$732,000, or 0.7%, above budget. This increase was primarily driven by higher utilization of pharmaceuticals and surgical implants. All of these increases are offset by higher patient revenue.
- Managed Care outside provider claims represents the costs incurred for medical care and pharmaceuticals obtained by DH Medicaid Choice members outside of the Authority's system of care. This line item decreased by approximately \$5.8 million, or 10.4%, over the prior year driven by the lower claims rates paid in 2016 due to a correction in the Medicaid rates to be paid in the claims system and some improvement in utilization management of high cost services.
- Depreciation and amortization expense increased over the prior year by approximately \$2.0 million, or 4.9%, and was under budget by \$2.0 million, or 4.5%.

Nonoperating Revenues (Expenses)

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

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Net nonoperating revenue in 2017 was approximately \$12.2 million, compared to a nonoperating income of \$3.2 million in 2016. The largest driver in this category was the gain on forgiveness of notes payables related to the dissolution of Pavilion M of \$8.1 million. Additionally, there was an increase in the unrealized gain on investments from \$4.5 million in 2016, to \$9.3 million due to an improvement in the market in 2017. This increase is offset, in part, by the distribution the Authority received from the Denver Health Medical Plan (the Plan) for \$5.0 million in 2016 but did not receive in 2017.

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

Capital Contributions

Capital contributions in 2017 totaled \$1.5 million, compared to \$3.0 million in 2016, and as discussed in an earlier section, were received primarily from the City and County of Denver and the Denver Health Foundation.

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

Budgetary Highlights

For the year ended December 31, 2017, the Authority's total operating revenue is \$1,056.9 million, which reflects an \$8.7 million negative variance to budget. Total operating expense is \$1,056.5 million, which is \$19.3 million, or 1.9% above budget. As a result, the Authority has generated an operating income of \$410,000 and a net gain, excluding capital contributions, of \$12.6 million, which is a negative variance to budget of \$7.1 million.

The 2017 negative variance to budget was primarily related to shortfalls in net patient service revenue and Medicaid disproportionate share and other safety net reimbursement, including revenue sources related to the Hospital Provider Fee (HPF)/CHASE fee. Net patient service revenue was under budget by \$22.2 million, or 3.9%, driven by lower than budget inpatient volumes and increased DH Medicaid Choice membership. This was offset by DH Medicaid Choice Capitation, which was over budget by \$14.5 million. Provider Fee Revenue and other safety net reimbursement was under budget by \$7.4 million, or 6.1%, with a slight negative variance in HPF revenue, and a significant negative variance in other safety net revenue primarily due to prior year adjustments for physician UPL revenue.

Operating expenses were above budget by \$19.4 million, or 1.9%. This was driven by increased pharmaceutical cost driving a negative variance of \$10.5 million due to increased Hepatitis C drug volumes. Managed Care outside provider claims were above budget \$8.3 million due to increased membership of 14.4%. Salaries and benefits, contracted services and nonmedical supplies in total were unfavorable to budget \$2.8 million driven by increased provider fee expense. Depreciation was favorable to budget \$2.2 million driven by timing of completed projects.

Denver Health and Hospital Authority
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Capital Assets and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased approximately \$28.6 million over the prior year. Additions totaled approximately \$72.9 million, compared to approximately \$104.6 million in 2016. Depreciation expense for the year was approximately \$44.5 million.

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

Long-term Debt

Long-term debt at December 31, 2017, net of current portion and excluding deferred loss on bond refunding, is approximately \$352.9 million compared to \$354.2 million and \$334.3 million for 2016 and 2015, respectively. The decrease of \$1.4 million is comprised of the forgiveness of Pavilion M notes payable of \$36.6 million and principal payments of \$10.0 million, offset by the new program support payable of \$30.0 million and new debt for 601 Broadway construction \$14.2 million. Other notes payable includes of a Housing and Urban Development (HUD) loan of approximately \$2.3 million, the proceeds of which were utilized to build the Park Hill Clinic. Also included in other notes payable is a Community Development Block Grant (CDBG) loan of \$1.2 million. Both loans are between the Authority and the City.

Below is a listing of the Authority's outstanding long-term debt, net of current portion at December 31, 2017, 2016 and 2015:

	2017	2016	2015
2007 A and B Revenue Bonds	\$ 61,795,000	\$ 164,102,152	\$ 167,751,486
2009 Revenue Bonds	1,420,000	1,520,000	2,140,000
2010 Healthcare Recovery Zone Facility			
Revenue Bonds	24,623,561	25,189,501	25,730,442
2014 Revenue Bonds	79,921,040	81,437,327	83,728,614
2017 A Revenue Bonds	98,463,343	-	-
Pavilion M notes payable	-	36,608,543	37,607,050
601 Broadway Notes Payable	45,663,338	31,477,163	50,001
Program Support Payable	30,043,380	-	-
Other notes payable	10,506,707	13,115,006	16,131,337
Capital lease obligation	428,004	792,322	1,207,948
	<u>\$ 352,864,373</u>	<u>\$ 354,242,014</u>	<u>\$ 334,346,878</u>

Long-term debt increased by approximately \$19.9 million in 2016 due to new debt for 601 Broadway construction (\$31.4 million) offset by principal payments of \$11.6 million.

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The Authority's 2017A, 2014, 2010, 2009, 2007A and 2007B bond series ratings are BBB by Standard and Poor's and BBB+ by Fitch at December 31, 2017 and 2016, respectively.

Economic Factors and Next Year's Budget

The Authority's budget for 2018 reflects the results of the organization's strategic planning process, which identified, among other cost savings, and efficiency goals, six areas of Operational Excellence including: Revenue Cycle and Costs, Managed Care Operations, Care Management, Emergency Department (ED) Operations, Inpatient Flow/Length of Stay, and Ambulatory Pre-care. These six areas represent the processes that are most influential on the organization's revenue and expense performance, and the Authority recognizes that rigor and focus are needed to improve in each. There are specific budgetary and operational performance goals for each, and the management incentive compensation program for the leadership team focuses on performance in these areas. Additionally, the Authority targeted several services for growth expansions, aiming to increase net revenue from the service or reduce cost to the organization. The Authority's 2018 budget targets a \$54.0 million revenue increase. The major components are increased volumes and improvements to revenue cycle in order to achieve the operating margin target. The result is an increase in net patient service revenue of \$29.3 million and an increase in Medicaid Choice membership of 6.2% projecting additional capitation revenue of \$21.3 million. An increase of 8% in Ambulatory Care Services (ACS) encounters, a 2% increase in inpatient admissions, a 3% increase in deliveries and an overall increase in patient service revenue of 6.6% is projected. In 2018, the new Outpatient Medical Center will begin construction with a completion date of 2020. The Authority believes the Outpatient Medical Center will enhance its ability to meet growth demands for the community and remain attractive for all users of the system including commercially insured patients, in order to continue to generate a net income from the insured population to subsidize the Authority's mission.

Salary and benefit costs are budgeted to increase 3.5% over the 2017 actual personnel cost. This is driven by additional staffing correlated with projected increases in patient service volumes and merit and market increases. Labor productivity targets remain in effect to help control the cost of human capital. Reviews are being conducted to ensure hiring is correlated to productivity targets. There is expense for the Management Incentive Plan (MIP) included in the 2018 budget of \$4.0 million. In 2018, 60.0% of the Authority's cost is personnel-related and drives most of the overall increase in budgeted 2018 expense. The Authority has implemented tight budget controls around labor productivity and hiring, and goals for growth initiatives. The 2018 budget reflects an increase in net position of \$18.7 million.

Requests for Information

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

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Denver Health and Hospital Authority
Statements of Net Position
December 31, 2017 and 2016

Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 47,385,642	\$ 57,248,886
Restricted cash and cash equivalents	1,070	228,080
Patient accounts receivable, net of estimated uncollectibles of approximately \$28,699,000 and \$31,939,000 in 2017 and 2016, respectively	63,703,796	72,783,485
Due from other governmental entities	26,232,566	25,709,966
Due from City and County of Denver	7,810,430	2,438,897
Other receivables	20,930,915	15,698,709
Interest receivable	2,029,061	1,205,056
Due from and investment in discretely presented component units	3,875,448	1,837,697
Inventories	10,483,234	12,052,439
Prepaid expenses and other assets	9,227,846	10,524,144
	<u>191,680,008</u>	<u>199,727,359</u>
Noncurrent Assets		
Notes receivable	15,432,000	44,393,015
Estimated third-party payor settlements receivable	5,561,710	4,258,361
Equity interest in joint venture	1,225,500	1,101,500
Restricted investments	21,668,767	48,189,266
Capital assets, net of accumulated depreciation	501,284,551	472,662,450
Long-term investments	267,378,285	204,241,242
Board-designated investments	36,500,000	36,500,000
Other long-term assets	2,150,234	2,228,162
	<u>851,201,047</u>	<u>813,573,996</u>
Total noncurrent assets	<u>851,201,047</u>	<u>813,573,996</u>
Total assets	<u>1,042,881,055</u>	<u>1,013,301,355</u>
Deferred Outflows of Resources		
Accumulated change in fair value of hedging derivatives	12,394,299	13,499,981
Deferred outflows of resources related to pension benefits	25,708,519	33,370,998
Deferred outflow - acquisitions	329,667	415,667
Loss on refunding of debt	4,111,625	4,298,644
	<u>42,544,110</u>	<u>51,585,290</u>
Total deferred outflows of resources	<u>42,544,110</u>	<u>51,585,290</u>
Total assets and deferred outflows of resources	<u>\$ 1,085,425,165</u>	<u>\$ 1,064,886,645</u>

Denver Health and Hospital Authority
Statements of Net Position (continued)
December 31, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current maturities of bonds payable	\$ 8,769,636	\$ 11,206,429
Current maturities of capital leases	375,576	428,147
Current maturities of notes payable	4,551,429	1,193,507
Current maturities of program support liability	6,288,000	-
Medical malpractice liability	4,580,262	4,483,667
Accounts payable and accrued expenses	50,469,438	46,244,664
Accrued salaries, wages and employee benefits	37,278,563	38,291,813
Accrued compensated absences	28,966,549	25,274,146
Unearned revenue	21,500,368	22,727,784
Derivative interest rate swap liability	1,500,183	1,816,211
Accrued claims	10,905,000	9,235,000
	<u>175,185,004</u>	<u>160,901,368</u>
Long-term Liabilities		
Long-term portion of liability for estimated third-party settlements	40,896,679	46,000,540
Long-term portion of compensated absences	137,992	253,758
Bonds payable, less current maturities	266,222,944	272,248,981
Capital lease obligations, less current maturities	428,003	792,322
Notes payable	56,170,045	81,200,711
Derivative interest rate swap liability	10,898,971	11,722,144
Program support liability	30,043,381	-
Net pension liability	120,035,324	119,914,669
Postemployment benefits	7,574,255	6,559,526
	<u>532,407,594</u>	<u>538,692,651</u>
Total long-term liabilities	<u>532,407,594</u>	<u>538,692,651</u>
Total liabilities	<u>707,592,598</u>	<u>699,594,019</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pension benefits	<u>5,849,237</u>	<u>7,428,789</u>
Total liabilities and deferred inflows of resources	<u>713,441,835</u>	<u>707,022,808</u>
Net Position		
Net investment in capital assets	160,517,460	111,590,723
Unrestricted	<u>211,465,870</u>	<u>246,273,114</u>
Total net position	<u>371,983,330</u>	<u>357,863,837</u>
Total liabilities, deferred inflows of resource and net position	<u>\$ 1,085,425,165</u>	<u>\$ 1,064,886,645</u>

Denver Health Medical Plan, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Balance Sheets
December 31, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 2,461,265	\$ 238,958
Reinsurance recoverable on paid losses	570,992	253,938
Interest receivable	270,003	321,127
Premiums and other receivables	10,222,543	5,132,879
Prepaid expenses	<u>348,277</u>	<u>279,173</u>
Total current assets	<u>13,873,080</u>	<u>6,226,075</u>
Noncurrent Assets		
Restricted investments	603,797	608,051
Unrestricted investments	<u>43,017,902</u>	<u>44,952,590</u>
Total noncurrent assets	<u>43,621,699</u>	<u>45,560,641</u>
Total assets	<u>\$ 57,494,779</u>	<u>\$ 51,786,716</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 2,130,500	\$ 3,012,275
Aggregate health policy reserves	26,880	-
Due to Denver Health and Hospital Authority	2,582,585	1,337,455
Unearned premiums	621,867	249,795
Liability for amounts held under uninsured plans	1,209,030	-
Accrued claims and loss adjustment expenses	<u>19,845,730</u>	<u>15,539,578</u>
Total current liabilities	<u>26,416,592</u>	<u>20,139,103</u>
Total liabilities	<u>26,416,592</u>	<u>20,139,103</u>
Net Assets		
Unrestricted net assets	<u>31,078,187</u>	<u>31,647,613</u>
Total net assets	<u>31,078,187</u>	<u>31,647,613</u>
Total liabilities and net assets	<u>\$ 57,494,779</u>	<u>\$ 51,786,716</u>

DHHA Southwest Clinic, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Balance Sheets
December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Restricted cash	\$ 543,160	\$ 604,287
Noncurrent Assets		
Land	4,809,588	4,809,588
Building	17,761,703	17,761,703
Total property	22,571,291	22,571,291
Accumulated depreciation	(777,254)	(333,032)
Net property and equipment	21,794,037	22,238,259
Total noncurrent assets	21,794,037	22,238,259
Total assets	\$ 22,337,197	\$ 22,842,546

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 2,101	\$ -
Total current liabilities	2,101	-
Notes Payable	21,028,139	20,868,851
Total liabilities	21,030,240	20,868,851
Net Assets		
Unrestricted	1,306,957	1,973,695
Total net assets	1,306,957	1,973,695
Total liabilities and net assets	\$ 22,337,197	\$ 22,842,546

Denver Health and Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue	\$ 545,380,959	\$ 505,649,332
Capitation earned net of reinsurance expense	218,010,773	200,897,158
Medicaid disproportionate share and other safety net reimbursement	114,752,531	114,226,738
City and County of Denver payment for patient care services	30,777,300	30,777,300
Federal, state and other grants	66,049,764	61,762,927
City and County of Denver purchased services	24,776,739	23,111,964
Poison and drug center contracts	22,852,467	22,109,647
Other operating revenue	34,286,943	31,145,980
	<u>1,056,887,476</u>	<u>989,681,046</u>
Total operating revenues		
Operating Expenses		
Salaries and benefits	628,026,525	595,508,941
Contracted services and nonmedical supplies	193,422,000	207,393,321
Medical supplies and pharmaceuticals	125,253,288	107,970,210
Managed care outside provider claims	65,258,014	49,865,526
Depreciation and amortization	44,517,680	41,773,814
	<u>1,056,477,507</u>	<u>1,002,511,812</u>
Total operating expenses		
Operating income (loss)	<u>409,969</u>	<u>(12,830,766)</u>
Nonoperating Revenues (Expenses)		
Increase in equity in joint venture	124,000	13,000
Bond issuance costs	(682,046)	-
Distribution from discretely presented component unit	-	5,000,000
Interest income	9,633,043	8,776,396
Interest expense	(14,355,713)	(15,348,615)
Gain on forgiveness of note payable/receivable	8,135,483	-
Net increase in fair value of investments	9,287,858	4,548,798
Gain on disposition of capital assets	50,857	177,446
	<u>12,193,482</u>	<u>3,167,025</u>
Total nonoperating revenues (expenses)		
Income (loss) before capital contributions	12,603,451	(9,663,741)
Contributions Restricted for Capital Assets	<u>1,516,042</u>	<u>2,951,762</u>
Increase (decrease) in net position	<u>14,119,493</u>	<u>(6,711,979)</u>
Total Net Position, Beginning of Year	<u>357,863,837</u>	<u>364,575,816</u>
Total Net Position, End of Year	<u>\$ 371,983,330</u>	<u>\$ 357,863,837</u>

Denver Health Medical Plan, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Premiums earned, net of reinsurance, including \$70 million and \$62 million received from Denver Health and Hospital Authority in 2017 and 2016, respectively	\$ 156,918,888	\$ 137,622,551
Total operating revenues	156,918,888	137,622,551
Operating Expenses		
Leased employee services from Denver Health and Hospital Authority	6,099,670	6,942,162
Rent and other administrative expenses paid to Denver Health and Hospital Authority	437,320	470,818
Contracted services and nonmedical supplies	6,052,048	6,787,776
Medical claims and capitation paid to Denver Health and Hospital Authority	72,813,621	61,038,138
Medical and pharmacy claims incurred	73,171,895	57,077,276
Total operating expenses	158,574,554	132,316,170
Operating income (loss)	(1,655,666)	5,306,381
Nonoperating Revenues (Expenses)		
Distribution to Denver Health and Hospital Authority	-	(5,000,000)
Investment income	1,017,809	1,085,350
Net increase in fair value of investments	68,431	(781,854)
Total nonoperating revenues (expenses)	1,086,240	(4,696,504)
Increase (decrease) in net assets	(569,426)	609,877
Total Net Assets, Beginning of Year	31,647,613	31,037,736
Total Net Assets, End of Year	\$ 31,078,187	\$ 31,647,613

DHHA Southwest Clinic, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Statements of Operations
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues, Gains and Other Support		
Contributed management services	\$ 67,938	\$ 87,884
Facility rental from Denver Health and Hospital Authority	365,000	268,736
Interest income	685	2,060
	<u>433,623</u>	<u>358,680</u>
Operating Expenses		
Contributed management services	67,938	87,884
Other operating expenses	49,239	71,037
Depreciation expense	444,222	333,032
Interest expense, including amortization of loan costs of \$159,288 for both years	538,962	469,779
	<u>1,100,361</u>	<u>961,732</u>
Operating Loss	(666,738)	(603,052)
Capital Contribution	<u>-</u>	<u>156,320</u>
Change in Net Assets	(666,738)	(446,732)
Net Assets, Beginning of Year	<u>1,973,695</u>	<u>2,420,427</u>
Net Assets, End of Year	<u>\$ 1,306,957</u>	<u>\$ 1,973,695</u>

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Denver Health and Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Collections from patient services	\$ 544,347,531	\$ 516,682,400
Collections from capitation, net of reinsurance	225,264,499	203,772,612
Medicaid disproportionate share reimbursement and upper payment limit reimbursement	114,914,384	103,790,525
City and County of Denver payment for hospital services	30,777,300	30,765,796
Collections from poison and drug center contracts	22,809,211	21,570,581
Collections from federal, state and other grants	66,007,483	59,750,925
City and County of Denver purchased services	20,318,654	20,409,735
Other operating receipts	31,796,595	30,157,427
Payments for salaries and benefits	(618,236,060)	(589,150,714)
Payments to suppliers	(313,846,020)	(310,581,763)
Payments for managed care outside provider claims	(63,516,774)	(51,612,333)
	<u>60,636,803</u>	<u>35,555,191</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(77,682,915)	(106,308,406)
Receipt of capital contributions	602,594	2,271,738
Repayments of bonds payable and other long-term debt	(117,350,377)	(11,564,364)
Proceeds from the issuance of bonds and Certificates of Participation	158,815,467	31,427,162
Distribution from discretely presented component unit	-	5,000,000
Payment of notes receivable fee	(510,552)	-
Payment of bond issuance costs	(682,046)	-
Proceeds from the sale of capital assets	281,308	185,500
Cash paid for interest	(15,680,888)	(14,658,080)
	<u>(52,207,409)</u>	<u>(93,646,450)</u>
Net cash used in capital and related financing activities		
Cash Flows from Investing Activities		
Proceeds from sale and maturities of investments	148,181,187	252,977,107
Purchases of investments	(176,523,499)	(200,075,098)
Interest income	9,822,664	8,378,367
	<u>(18,519,648)</u>	<u>61,280,376</u>
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents	(10,090,254)	3,189,117
Cash and Cash Equivalents, Beginning of Year	<u>57,476,966</u>	<u>54,287,849</u>
Cash and Cash Equivalents, End of Year	<u>\$ 47,386,712</u>	<u>\$ 57,476,966</u>

Denver Health and Hospital Authority
Statements of Cash Flows (continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 47,385,642	\$ 57,248,886
Restricted cash and cash equivalents	1,070	228,080
Total cash and cash equivalents	\$ 47,386,712	\$ 57,476,966
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 409,969	\$ (12,830,766)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	44,517,680	41,773,814
Provision for bad debts	79,285,673	97,030,647
Changes in assets and liabilities		
Patient accounts receivable, net	(70,205,984)	(104,963,717)
Due from other governmental entities	(2,060,824)	(4,189,283)
Due from discretely presented component unit	(2,037,751)	210,524
Due from City and County of Denver	(4,458,085)	(2,701,735)
Other receivables	(5,232,206)	4,078,790
Inventories	1,569,205	(659,492)
Prepaid expenses and other assets	2,176,301	1,302,978
Accounts payable and accrued expenses	11,212,167	(163,282)
Accrued salaries, wages and employee benefits	6,213,828	4,817,261
Accrued compensated absences	3,576,637	1,540,966
Estimated third-party payor settlements	(6,407,210)	18,755,614
Medical malpractice liability	96,595	1,423,041
Unearned revenue	310,808	(8,148,169)
Accrued claims	1,670,000	(1,722,000)
Total adjustments	60,226,834	48,385,957
Net cash provided by operating activities	60,636,803	35,555,191
During 2017 and 2016, the Authority Recorded the Following Noncash Transactions		
Capital asset acquisitions included in accounts payable	\$ 4,711,978	\$ 11,653,984

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Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

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

Organization

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

Definition of Reporting Entity

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

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

The Authority

The Authority is a fully integrated healthcare delivery system, which employs a single physician group and operates four divisions: the Denver Health Medical Center, the City Fund, the Rocky Mountain Poison and Drug Center (RMPDC), and what is referred to by the Authority as the Restricted Fund.

The Denver Health Medical Center is an acute care hospital licensed for 555 total beds, including 93 intensive care beds, that provides inpatient medical and mental health services, an ambulatory care center, emergency medical services including Level 1 Trauma, nine federally qualified community health centers in Denver that provide outpatient services, as well as a federally qualified Women's Mobile Clinic. The Authority also operates 17 school-based clinics in Denver that provide outpatient services to students.

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

Denver Health and Hospital Authority

Notes to Financial Statements

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County Jail and the Denver C.A.R.E.S. shelter, which is a 100-bed nonmedical detoxification center, including limited services for residential treatment.

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

The Restricted Fund consists primarily of grants the Authority has been awarded that are used as directed by the grantor. The grants are awarded from multiple sources including federal, state, and industry agencies. Annually, the Authority also conducts a single audit under Uniform Guidance to comply with federally awarded grant requirements.

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

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

DHHA Pavilion M, Inc.

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

In June 2010, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$10.6 million and the total was invested in three Community Development Entities (CDEs). Pavilion M was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to construct the facility. The land occupied by the building was leased to Pavilion M by the Authority. The Pavilion M Board of Directors consisted of three Authority employees. Pavilion M is presented as a blended component unit because it provides services entirely to the Authority and exclusion of Pavilion M's financial statements would cause the Authority's financial statements to be misleading.

Denver Health and Hospital Authority

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December 31, 2017 and 2016

As of June 30, 2017, the Authority became the sole owner of the equity investment entity and the notes payable to Pavilion M were forgiven. Additionally, the Authority forgave its' notes receivable. Pavilion M was officially dissolved on December 31, 2017. The equipment and building assets were transferred to Denver Health Medical Center.

All significant balances and transactions between Pavilion M and the Authority have been eliminated in the basic financial statements. Separate financial statements of Pavilion M can be obtained from the Authority at 303.602.7044, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 601 Broadway, Denver, Colorado 80203.

601 Broadway, Inc.

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

The construction project is an administrative services building for Authority employees. The expected cost of the facility is approximately \$60,000,000. The Authority determined that it could reduce the cost of financing the construction of the facility by creating 601 Broadway and contributing \$14,500,000 to the entity. 601 Broadway then obtained a loan from a local bank in the amount \$50,000,000. The Authority contributed approximately \$0 and \$5.8 million to 601 Broadway during 2017 and 2016, respectively. As of December 31, 2017 and 2016, 601 Broadway had drawn approximately \$47.3 million and \$31.5 million, respectively, on the construction loan. In June of 2017, 601 Broadway was opened and the Authority began paying rent. In 2017, the Authority paid \$2,692,000 in lease payments which funds the debt service on the loan. The land occupied by the building is leased to 601 Broadway by the Authority. The Authority is the sole member of 601 Broadway. The 601 Broadway Board of Directors consists of three Authority employees. 601 Broadway is presented as a blended component unit because it provides services entirely to the Authority and exclusion of 601 Broadway's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between 601 Broadway and the Authority have been eliminated in the basic financial statements.

Denver Health Medical Plan, Inc.

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

Denver Health and Hospital Authority

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December 31, 2017 and 2016

is able to impose its will on the Plan and is financially accountable for the Plan. Accordingly, the Plan is presented as a discretely presented component unit.

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

DHHA Southwest Clinic, Inc.

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

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

In May 2014, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$7.3 million and the total was invested in three CDEs. Southwest Clinic was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to purchase land and was used to construct the facility. The Authority leased the building from Southwest Clinic starting in April 2016 for 20 years. Lease payments were made of \$365,000 and \$268,736 during 2017 and 2016, respectively. The Authority made capital contributions of \$0 and \$156,320 in 2017 and 2016, respectively, to Southwest Clinic to fund interest costs and project overages.

Denver Health and Hospitals Foundation

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

Denver Health and Hospital Authority

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December 31, 2017 and 2016

The Authority does provide certain accounting and administrative functions for the Foundation at no cost. During 2017 and 2016, the Foundation paid the Authority approximately \$1.6 million and \$2.7 million, respectively, in pass through grants and donations. The Foundation made capital contributions of \$150,000 and \$700,000 to the Authority for projects related to patient care in 2017 and 2016, respectively.

HSS, Inc.

The Authority is an equity owner of HSS, Inc. (HSS). HSS services customers in the healthcare industry, as well as other organizations and governmental agencies. Services provided by HSS include security services and courier services, which are utilized by the Authority. In 2009, the Authority was granted 9.5% of the outstanding shares of stock in HSS at no cost. The Authority has recorded this as an investment in equity of a joint venture. The change in the value of the Authority's share of net equity has been recorded as nonoperating income. The Authority paid HSS approximately \$4.4 million and \$4.0 million in 2017 and 2016 respectively, for services rendered for security and transportation.

Relationship with the City and County of Denver

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

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

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

For each of the years ended December 31, 2017 and 2016, the Authority recognized revenue from the City for Authority services of approximately \$30,777,000 as compensation for costs incurred for treatment of medically indigent Denver residents.

The City purchased services revenue includes amounts relating to support services and expenses incurred by the Authority for other City agencies. These costs are reimbursed by the City and amounted to approximately \$24,777,000 and \$23,112,000 in 2017 and 2016, respectively. Revenue is recognized as services are provided. As of December 31, 2017, the City has an outstanding commitment to provide funding to the Authority not to exceed \$18,100,000 for debt financed clinic construction within the city limits of Denver, Colorado.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

Basis of Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of operational depository and checking accounts.

Investments, Restricted and Board-designated Investments

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

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

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

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

Patient Accounts Receivable

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

Inventories

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

Capital Assets

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

Deferred Outflows of Resources

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

Accrued Compensated Absences

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

Unearned Revenue

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

Accrued Claims

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

Deferred Loss on Refunding

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

Cost-sharing Defined Benefit Pension Plan

The Authority participates in a cost-sharing multiple-employer defined benefit pension plan, Denver Employees Retirement Plan (DERP). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of DERP and additions to/deductions from DERP's fiduciary net position have been determined on the same basis as they are reported by DERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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

Net Position

The Authority's net position is classified as follows:

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

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

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

Revenues and Expenses

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Capitation Earned

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

Federal, State and Other Grants

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

Poison and Drug Center Contracts

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

Managed Care – Outside Provider Claims

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

Income Taxes

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

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Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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

Regarding meaningful use for eligible hospitals, in 2017, the Authority attested that it met all applicable program year 2016 Stage 2 Year 2 objectives for the Medicare EHR Incentive Programs during the 90-day period October through December 2016. The Authority anticipates attesting that it will meet the program year 2017 Stage 2 Year 3 objectives for the Medicare EHR Incentive Programs during a 90-day period ending no later than December 31, 2017. The Authority recorded approximately \$300,000 and \$603,000 of meaningful use revenue for the Denver Health Medical Center in 2017 and 2016, respectively.

Regarding meaningful use for eligible providers, the Authority attested on behalf of 162 eligible providers that they met all applicable program year 2016 objectives for the Medicaid EHR Incentive Program. In the future, the Authority will continue to attest for additional eligible providers based upon implementation of a certified system that meets the applicable meaningful use objectives for the outpatient setting. In 2017, the Authority recorded approximately \$2.0 million of meaningful use revenue for eligible providers, compared to \$1.0 million in 2016.

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospital outpatient services are reimbursed on a prospective payment system. Outpatient services and procedures that are clinically comparable and use similar resources are grouped into Ambulatory Payment Classifications. Federally Qualified Healthcare (FQHC) services rendered to Medicare program beneficiaries are paid under a prospective

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payment system (PPS). Medicare payment, including patient coinsurance, is paid based on the lesser of the Authorities' actual charge or the applicable PPS rate. The Authority is also reimbursed for certain capital and medical education costs and allowable bad debts at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor. The Authority's classification of patients under the Medicare program and the appropriateness of the admissions are subject to an independent audit by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare Administrative Contractor through December 31, 2013.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services were primarily reimbursed by the Medicaid program based on the costs incurred until October 30, 2016. The Authority was reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid Administrative Contractor. The Authority's Medicaid cost reports have been audited by the Colorado Department of Health Care Policy and Financing through the year ended December 31, 2013. Effective October 31, 2016, these services are now paid under the Enhanced Ambulatory Patient Grouping (EAPG) System. Medicaid outpatient services are now paid at prospectively determined rates, which vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority also provides services under a Medicaid prepaid health plan referred to as the Denver Health Medicaid Choice (DH Medicaid Choice) program for which it receives capitation for services.

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

Indigent Care, Charity Care and Community Service. The Authority, as part of its mission, provides healthcare services to City residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local, and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$62,286,000 and \$51,190,000 for the years ended December 31, 2017 and 2016, respectively.

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

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Gross patient service revenue and the level of uncompensated care provided, based on the Authority's established rates, during the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Gross charges, including charges forgone for charity	\$ 2,282,875,112	\$ 2,113,878,132
Charges forgone for charity care	<u>(165,431,460)</u>	<u>(148,318,654)</u>
Gross patient service revenue	2,117,443,652	1,965,559,478
Capitation earned under prepaid health plans	(218,010,773)	(200,897,158)
Contractual adjustments	(1,274,766,247)	(1,161,982,341)
Provision for bad debts	<u>(79,285,673)</u>	<u>(97,030,647)</u>
Net patient service revenue	<u>\$ 545,380,959</u>	<u>\$ 505,649,332</u>
Uncompensated care		
Contractual adjustments	\$ 1,274,766,247	\$ 1,161,982,341
Provision for bad debts	79,285,673	97,030,647
Charity care	<u>165,431,460</u>	<u>148,318,654</u>
	<u>\$ 1,519,483,380</u>	<u>\$ 1,407,331,642</u>

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

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

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

Under the DSH Program, the state utilizes a provider fee as the local match for federal funding. The state pays the Authority two months in advance at the end of the year. This results in unearned revenue included in the statements of net position. The state has paid the Authority \$16,156,000 and \$17,695,000 in advance for the years ended December 31, 2017 and 2016, respectively. The payments received through the DSH Program are based on the cost of uncompensated charity care.

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

The provider fee serves as the state match for federal DSH and UPL funds which are drawn by the state and paid to the Authority using the provider fee methodology developed as part of the

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Colorado Healthcare Affordability Act. The Authority recognizes revenue to align with the current state fiscal year that the award relates to. The revenue is based off of the initial award amount communicated and adjusted when it's approved by the State of Colorado. The Authority recognizes revenue in the year in which notification of the award amount has been received and ratably over the state fiscal year. The Authority recorded safety net reimbursements (net of provider fee expense paid) totaling approximately \$86,722,000 and \$91,279,000 for the years ended December 31, 2017 and 2016, respectively. The Authority records as expense the corresponding provider fee assessment due the state and the Colorado Hospital Association.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the state from federal sources. Implementation of this act occurred during April of 2010. The resulting safety net revenue and expense for 2017 and 2016 had the following effect on the financial statements:

	<u>2017</u>	<u>2016</u>
Colorado Indigent Care Program revenue	\$ 79,440,528	\$ 66,500,080
Supplemental Medicaid base rate revenue	10,143,677	13,313,765
Supplemental Medicaid outpatient hospital revenue	11,615,890	6,982,507
Hospital quality incentive payment	4,511,753	5,511,645
Ambulance Upper Payment Limit revenue	2,842,502	3,537,140
Outstationing revenue	1,799,997	1,377,776
Primary care funds	4,441,695	4,977,865
Physician certification revenue (expense)	<u>(43,511)</u>	<u>12,025,960</u>
	114,752,531	114,226,738
Provider fee expense (included in contracted services and non-medical supplies)	<u>(28,030,980)</u>	<u>(22,948,074)</u>
	<u>\$ 86,721,551</u>	<u>\$ 91,278,664</u>

At December 31, 2017 and 2016, the Authority had a prepaid for provider fee expense which is recorded on the statements of net position in the amounts of approximately \$4,435,000 and \$3,814,000, respectively.

Note 4: Investments and Restricted Investments

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

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

Cash, cash equivalents and investments at December 31, 2017 and 2016 are as follows:

	2017	2016
Cash and cash equivalents	\$ 47,385,642	\$ 57,248,886
Restricted cash and cash equivalents	1,070	228,080
Total cash and cash equivalents	47,386,712	57,476,966
Long-term and board-designated investments		
Mortgage-backed securities	15,700,048	4,291,505
U.S. government agency notes	3,848,470	1,001,844
Corporate bonds	157,304,323	49,561,146
Corporate asset-backed bonds	7,983,036	72,349
Municipal bonds	22,229,674	17,926,651
Certificates of deposit	1,000,000	-
U.S. government treasury bills	7,407,975	-
Mutual funds		
Global equity fund	9,145,487	4,900,972
Commodity and commodity futures fund	7,402,782	6,786,958
Debt fund	30,516,251	119,115,389
Domestic equity fund	18,825,629	19,462,008
International equity fund	4,972,580	3,776,769
Emerging markets fund	5,089,696	2,254,466
Alternative funds	12,452,334	11,591,185
Total long-term and board-designated investments	303,878,285	240,741,242
Total cash, cash equivalents and investments, excluding restricted investments	\$ 351,264,997	\$ 298,218,208

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Restricted investments at December 31, 2017 and 2016 are as follows:

	2017	2016
Bond proceeds restricted as provided in bond agreements		
Cash equivalents	\$ 1,187,039	\$ 483,656
Long-term investments	-	33,002,755
Guaranteed investment contract	20,481,728	14,702,855
	<u>\$ 21,668,767</u>	<u>\$ 48,189,266</u>

Credit Risk

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

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

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

Asset-backed securities – A-

Money market mutual funds – AAA

Local government investment pools – AAAM-G or AAAM

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

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

The following is a summary of the Authority’s investments at December 31, 2017 and 2016 with average credit ratings based on S&P ratings or equivalent:

	2017		2016	
	Investments	S & P Rating	Investments	S & P Rating
Cash and cash equivalents				
Cash and cash equivalents	\$ -	N/A	\$ 1,387,976	N/A
Restricted cash and cash equivalents	1,070	N/A	227,276	N/A
Class I or government money market fund	<u>47,385,642</u>	AAA	<u>55,861,714</u>	AAA
Total cash and cash equivalents	<u>47,386,712</u>		<u>57,476,966</u>	

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	2017		2016	
	Investments	S & P Rating	Investments	S & P Rating
Long-term and board-designated investments				
Mortgage-backed securities	2,272,139	AAA	-	N/A
Mortgage-backed securities	7,673,729	AA+	4,291,505	AA+
Mortgage-backed securities	56,633	D	-	N/A
Mortgage-backed securities	5,697,547	N/A	-	N/A
U.S. government agency notes	3,848,470	AA+	1,001,844	AA+
Corporate bonds	969,510	AAA	-	N/A
Corporate bonds	1,024,370	AA+	-	N/A
Corporate bonds	2,207,034	AA	-	N/A
Corporate bonds	4,324,287	AA-	2,712,425	AA-
Corporate bonds	6,541,022	A+	-	N/A
Corporate bonds	24,593,179	A	3,714,109	A
Corporate bonds	26,804,720	A-	9,212,839	A-
Corporate bonds	54,108,250	BBB+	25,986,268	BBB+
Corporate bonds	27,794,421	BBB	7,795,330	BBB
Corporate bonds	6,822,070	BBB-	-	N/A
Corporate bonds	1,974,760	BB-	-	N/A
Corporate bonds	140,700	N/A	140,175	N/A
Corporate asset backed bonds	2,692,711	AAA	-	N/A
Corporate asset backed bonds	1,999,240	A	-	N/A
Corporate asset backed bonds	-	N/A	72,349	D
Corporate asset backed bonds	3,291,085	N/A	-	N/A
Municipal bonds	3,414,414	AA+	1,925,694	AA+
Municipal bonds	3,818,827	AA	5,622,507	AA
Municipal bonds	9,745,093	AA-	4,854,218	AA-
Municipal bonds	528,055	A+	543,635	A+
Municipal bonds	869,949	A	-	N/A
Municipal bonds	1,961,468	BBB+	1,880,909	BBB+
Municipal bonds	1,732,419	N/A	2,939,618	N/A
Municipal bonds	159,449	N/R	160,070	N/R
Certificates of deposit	1,000,000	A-2	-	N/A
U.S. government treasury bills	7,407,975	AA+	-	N/A
Open end mutual funds	88,404,759	N/A	167,887,747	N/A
Total long-term and board-designated investments	303,878,285		240,741,242	
Total cash, cash equivalents and investments, excluding restricted investments	\$ 351,264,997		\$ 298,218,208	

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The following is a summary of the Authority's restricted investments at December 31, 2017 and 2016 with average credit ratings based on S&P ratings or equivalent:

	2017		2016	
	Investments	S & P Rating	Investments	S & P Rating
Bond proceeds restricted as provided in bond agreements				
Cash equivalents	\$ 1,187,039	N/A	\$ 483,656	N/A
Long-term investments	-	N/A	7,636,190	AA+
Long-term investments	-	N/A	25,366,565	N/R
Guaranteed investment contracts	-	N/A	14,702,855	AA+
Guaranteed investment contracts	14,970,687	AA-	-	
Guaranteed investment contracts	5,511,041	A	-	
	\$ 21,668,767		\$ 48,189,266	

Interest Rate Risk

The Authority's investment policy manages exposure to market value losses arising from rising interest rates in several ways. The duration of total assets must be less than six years. As of December 31, 2017, approximately \$23,683,000, or 7.79% of total long-term investments were in corporate asset-backed bonds and government mortgage-backed securities. As of December 31, 2016, approximately \$4,364,000, or 1.81%, of total long-term investments were in these types of securities. The following is a summary of the duration, average weighted maturity of the portfolio, and average weighted effective maturity as of December 31, 2017:

Portfolio Component	Par Value	Duration	Average Weighted Maturity (Years)	Average Weighted Effective Maturity (Years)
Working capital account	\$ 137,898,723	2.12	2.45	1.95
Commerce intermediate	83,385,186	5.96	12.45	8.05
Investment account	31,269,461	1.78	2.46	2.38
Other reserve account	372,144	2.36	2.43	2.43
Medical malpractice reserve account	4,920,191	3.28	4.23	3.80
Total components	\$ 257,845,705	3.49	5.76	4.04

Concentration of Credit Risk

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

Diversification: The investments shall be diversified by:

- i) Limiting investments to avoid over concentration in securities from a specific issuer or business.

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- ii) Limiting investments in securities that have higher credit risks.
- iii) Investing in securities with varying maturities.
- iv) Continuously investing a portion of the portfolio in readily available funds, such as money market accounts, repurchase agreements, local government investment pools, and bank account sweep programs, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- v) No single financial institution will hold more than 5% of the Authority’s portfolio value, excluding U.S. government or U.S. government agency securities. As of December 31, 2017, the Authority owned \$9.4 million (3.57% of the portfolio) of Bank of America bonds, \$7.6 million (2.89% of the portfolio) of Morgan Stanley bonds, \$6.5 million (2.48% of the portfolio) of Citigroup bonds, \$6.5 million (2.46% of the portfolio) of Barclays Bank bonds and \$5.6 million (2.14% of the portfolio) of Capital One Bank bonds.
- vi) The following maximum limits, by investment type, are established for the Authority’s total investments portfolio, including cash and cash equivalents. It is the intent of the Authority to invest in the following investment categories. The percentage stated is a “not to exceed” limitation. Investments are not required in every investment type. For example, it is permitted to own 80% in agency securities and 20% in repurchase agreements, and own no other securities.

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

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

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In the event that an allocation percentage is exceeded, such event is disclosed to the Finance Committee of the Board of Directors and corrected as soon as possible. The portfolio was in compliance with the allocation percentages as of December 31, 2017 and 2016.

Note 5: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Long-term investments				
Mortgage-backed securities	\$ 15,700,048	\$ -	\$ 15,700,048	\$ -
U.S. government agency notes	3,848,470	-	3,848,470	-
Corporate bonds	157,304,323	-	157,304,323	-
Corporate asset-backed bonds	7,983,036	-	7,983,036	-
Municipal bonds	22,229,674	-	22,229,674	-
Certificates of deposit	1,000,000	-	1,000,000	-
U.S. government treasury bills	7,407,975	7,407,975	-	-
Mutual funds				
Global equity fund	9,145,487	9,145,487	-	-
Commodity and commodity futures fund	7,402,782	7,402,782	-	-
Debt fund	30,516,251	30,516,251	-	-
Domestic equity fund	18,825,629	18,825,629	-	-
International equity fund	4,972,580	4,972,580	-	-
Emerging markets fund	5,089,696	5,089,696	-	-
Alternative funds	12,452,334	12,452,334	-	-
Total investments measured at fair value	<u>\$ 303,878,285</u>	<u>\$ 95,812,734</u>	<u>\$ 208,065,551</u>	<u>\$ -</u>
Investment Derivative Instruments				
Interest rate swap	<u>\$ 13,538,355</u>	<u>\$ -</u>	<u>\$ 13,538,355</u>	<u>\$ -</u>
Total investment derivative instruments	<u>\$ 13,538,355</u>	<u>\$ -</u>	<u>\$ 13,538,355</u>	<u>\$ -</u>

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2016				
Long-term investments				
Mortgage-backed securities	\$ 4,291,505	\$ -	\$ 4,291,505	\$ -
U.S. government agency notes	1,001,844	-	1,001,844	-
Corporate bonds	49,561,146	-	49,561,146	-
Corporate asset-backed bonds	72,349	-	72,349	-
Municipal bonds	17,926,651	-	17,926,651	-
Mutual funds				
Global equity fund	4,900,972	4,900,972	-	-
Commodity and commodity futures fund	6,786,958	6,786,958	-	-
Debt fund	119,115,389	119,115,389	-	-
Domestic equity fund	19,462,008	19,462,008	-	-
International equity fund	3,776,769	3,776,769	-	-
Emerging markets fund	2,254,466	2,254,466	-	-
Alternative funds	11,591,185	11,591,185	-	-
	<u>\$ 240,741,242</u>	<u>\$ 167,887,747</u>	<u>\$ 72,853,495</u>	<u>\$ -</u>

Investments

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

Interest Rate Swap Agreement

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

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Note 6: Capital Assets

Capital assets, by major category, at December 31, 2017 and 2016 are as follows:

December 31, 2017	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 22,647,091	\$ 1,714,864	\$ -	\$ 24,361,955
Construction in progress	<u>81,382,794</u>	<u>63,310,805</u>	<u>(110,964,524)</u>	<u>33,729,075</u>
Total capital assets, not being depreciated	<u>104,029,885</u>	<u>65,025,669</u>	<u>(110,964,524)</u>	<u>58,091,030</u>
Capital assets, being depreciated				
Buildings and improvements	538,230,555	102,471,002	(703,283)	639,998,274
Equipment and software	<u>319,396,727</u>	<u>16,387,306</u>	<u>(12,755,808)</u>	<u>323,028,225</u>
Total capital assets, being depreciated	<u>857,627,282</u>	<u>118,858,308</u>	<u>(13,459,091)</u>	<u>963,026,499</u>
Less accumulated depreciation				
Buildings and improvements	250,084,634	23,926,318	(703,283)	273,307,669
Equipment and software	<u>238,910,083</u>	<u>20,140,582</u>	<u>(12,525,356)</u>	<u>246,525,309</u>
Total accumulated depreciation	<u>488,994,717</u>	<u>44,066,900</u>	<u>(13,228,639)</u>	<u>519,832,978</u>
Total capital assets, being depreciated, net	<u>368,632,565</u>	<u>74,791,408</u>	<u>(230,452)</u>	<u>443,193,521</u>
Capital assets, net	<u>\$ 472,662,450</u>	<u>\$ 139,817,077</u>	<u>\$ (111,194,976)</u>	<u>\$ 501,284,551</u>

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

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

The Authority grants credit without collateral to its patients, most of whom are residents of the City and, except for the patient self-pay category, are generally insured under third-party payor agreements. Expected credit losses are provided for in the allowance for estimated uncollectibles. Net patient accounts receivable by payor category at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 14,100,877	\$ 19,557,181
Medicaid	16,966,806	20,383,943
Commercial insurance carriers	29,158,941	31,042,819
Patient self-pay	<u>3,477,172</u>	<u>1,799,542</u>
Total	<u>\$ 63,703,796</u>	<u>\$ 72,783,485</u>

Receivables from the Medicare and Medicaid programs represent a concentrated credit risk for the Authority. Management does not believe that there is a significant risk of loss associated with

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these programs. Management believes various other payors, subject to differing economic conditions, do not represent significant concentrated credit risks to the Authority.

Note 8: Acquisitions

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

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

2007, 2009 and 2017 Revenue Bonds

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

Also in May 2007, the Authority issued \$79,385,000 of Healthcare Revenue Bonds, Series 2007B. The bond agreement provides for mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount and accrued interest to the redemption date. Sinking fund payments ranging from \$1,095,000 to \$9,220,000 began in 2008 and continue until 2033. Interest is payable each quarter and will equal 67% of the three-month LIBOR, plus a spread equal to 1.10% (1.98% at December 31, 2017).

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

In connection with the Series 2007B Bonds, the Authority entered into an interest rate swap agreement with a counterparty (the Swap) in a notional amount equal to the principal amount of the

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Series 2007B Bonds. The Swap provides that the Authority pay the counterparty a fixed rate of 4.688% on the notional amount and the counterparty pay the Authority a floating rate based on 67% of the three-month LIBOR, plus a specified fixed spread. Due to fluctuations in the interest rate market there is a negative fair value of approximately \$(12,399,000) and \$(13,538,000) at December 31, 2017 and 2016, respectively. The fair value is disclosed as current and long-term liabilities on the statements of net position at December 31, 2017 and 2016. The Authority does not currently have a policy of requiring the counterparty to post collateral in the event the Authority becomes exposed to credit risk. The Authority does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place. Together, these agreements negate any interest rate risk and in effect resulted in a fixed rate transaction. The Swap is subject to additional termination event risk whereby early termination could occur if the counterparty's (a) long-term senior unsecured debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) the long-term senior unsecured debt rating from Fitch is withdrawn, suspended, or falls below BBB- or if the Authority's (a) debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) debt rating from Fitch is withdrawn, suspended, or falls below BBB-. If the Swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the Swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the Swap's then fair value.

During 2013, the Authority made early discounted principal payments on the 2007B Bonds on original principal totaling \$4,395,000, for a net payment of \$3,348,000. These principal payments were normally due between December 2013 and December 2018. The associated Swap was not amended for this early extinguishment of principal. As a result, the Authority recorded a gain on early extinguishment of debt of approximately \$1,047,000. A loss on Swap ineffectiveness of \$290,000, which was included in interest expense, was also incurred resulting in a net gain of \$758,000. The difference between the Swap liability and the loss from the portion of the Swap that is ineffective is approximately \$12,394,000 and \$13,500,000 at December 31, 2017 and 2016, respectively, and is a deferred outflows of resources on the Authority's statements of net position. Total payments during 2017 and 2016 for principal on the 2007A and 2007B Bonds were \$2,741,000 and \$3,475,000, respectively. Interest paid, including Swap interest, was approximately \$7,194,000 and \$8,273,000 for the years ended December 31, 2017 and 2016, respectively.

In December 2009, the Authority issued \$6,240,000 of Healthcare Revenue Bonds Series 2009A bearing interest at 6.25%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$7,725,000 of the Authority's Healthcare Revenue Bonds, Series 2007B, to pay the costs of issuance, and to fund an interest rate exchange agreement termination payment. The bond agreement provides for the payment of principal that began in 2010 and continues through 2033 in amounts ranging from \$85,000 to \$640,000. Interest is payable semiannually at a fixed rate of 6.25%. Payments during 2017 and 2016 for principal on the bonds were \$620,000 and \$640,000, respectively. Interest payments were approximately \$133,500 and \$174,000 for the years ended December 31, 2017 and 2016, respectively.

The 2009 defeasance resulted in a difference between the reacquisition price and the carrying value (\$7,725,000) of the defeased debt of \$1.5 million, which was recorded as a deferred gain. The difference between the present value of the old debt service on the debt refunded in 2009 and the new debt service resulted in an economic gain of approximately \$746,000.

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

In August 2017, the Authority issued \$93,435,000 of Healthcare Revenue Bonds Series 2017A bearing interest from 4.0 to 5.0%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$104,700,000 of the Authority's Healthcare Revenue Bonds, Series 2007A, and to pay the costs of issuance. This purchase and cancel included \$2,741,000 of principal payments related to the 2007A bonds. Principal payments on the 2017A bonds begin in 2018 and continue through 2038 in amounts ranging from \$3,550,000 to \$12,305,000. Interest is payable semiannually and payments were approximately \$1,120,000 for the year ended December 31, 2017.

The 2017 defeasance resulted in a difference between the reacquisition price and the carrying value (\$101,959,000) of the defeased debt of \$167,000, which was expensed. The difference between the present value of the old debt service on the debt refunded in 2017 and the new debt service resulted in an economic gain of approximately \$10.3 million.

At December 31, 2017, the unamortized net deferred loss, which includes the 2009 deferred gain noted above, was approximately \$4.1 million and \$4.3 million, respectively.

2010 and 2014 Revenue Bonds

In June 2010, the Authority issued \$29,000,000 of Healthcare Recovery Zone Facility Revenue Bonds Series 2010, bearing interest rates from 4.000% to 5.625%. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$10.6 million, in order to facilitate the financing of the construction of Pavilion M. Principal payments began in 2011 and continue through 2040 in amounts ranging from \$440,000 to \$1,890,000. For the years ended 2017 and 2016, principal payments were made of \$555,000 and \$535,000, respectively. Interest payments were approximately \$1,441,000 and \$1,463,000 for the years ended December 31, 2017 and 2016, respectively.

In June 2010, Pavilion M received the proceeds of six note payables to three separate CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to build a 74,500 square foot four-story building on the Authority campus to house outpatient and inpatient adolescent psychiatry, a dialysis center and outpatient surgery. The notes payable have interest only payments through June 2017. During 2017, Pavilion M was dissolved as an entity and its six notes payable were forgiven. Pavilion M made interest payments of \$274,932 and \$455,454 during 2017 and 2016, respectively.

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In May 2014, the Authority issued \$67,870,000 of Healthcare Revenue Bonds Series 2014A. These bonds had a net premium of \$1,146,069 which will be amortized over the life of the debt. The net proceeds of the bonds will be used to renovate the Authority's inpatient care areas and improve and construct facilities at the main healthcare campus in accordance with master facilities planning. The 2014A Bonds bear interest rates from 4.00% to 5.25%, with principal payments beginning in 2027 through 2045 ranging from \$2,000,000 to \$5,470,000. During 2017 and 2016, the Authority made interest payments of approximately \$3,334,000.

In May 2014, the Authority issued \$16,945,000 of Healthcare Revenue Bonds Taxable Services 2014B Bonds. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$7.3 million, in order to facilitate the financing of the construction of an outpatient and urgent care clinic in Southwest Denver. The 2014B Bonds bear interest from 1.70% to 5.15%, with principal payments beginning in 2016 and continuing through 2026 in amounts ranging from \$845,000 to \$2,255,000. For the years ended 2017 and 2016, principal payments were made of \$2,255,000 and \$2,175,000, respectively. During 2017 and 2016, the Authority made interest payments of approximately \$585,000 and \$622,000, respectively.

Debt Covenants

Per the Master Trust Indentures, the Authority's long-term debt service coverage ratio, calculated at the end of each fiscal year, cannot be less than 1.15% for the 2007, 2009, 2010, 2014 and 2017 Bonds. The Authority believes it is in compliance with these requirements.

Other Long-term Debt

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

On February 8, 2008, the Authority signed a promissory note with the City's Office of Economic Development, as the borrower of \$4,300,000, advanced by the City, pursuant to a Loan Agreement between the Authority and the City dated December 18, 2007, in which the City received funds from the Housing and Urban Development (HUD) in connection with the Northeast Park Hill Urban Redevelopment Plan. Interest is paid quarterly at a variable interest rate on the unpaid principal balance on the first day of January, April, July and October. Beginning July 1, 2009, and on each July 1 thereafter, the Authority will make, in addition to quarterly payments of interest, payments of principal sufficient to repay amounts due under the Section 108 note. The entire unpaid balance of the principal and accrued interest will be due and payable on or before July 1, 2025. As of December 31, 2017 and 2016, the Authority has received \$4,070,181 from the City under this loan. During 2017 and 2016, the Authority paid \$245,000 and \$230,000, respectively, in principal payments to HUD. Interest and HUD fees paid on this loan for 2017 and 2016 totaled \$31,387 and \$16,460, respectively. During 2017 and 2016, \$152,593 and \$80,380, respectively, was reimbursed as a capital contribution by the City.

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In 2013, the Authority elected to transition to a new information systems vendor. As part of the restructuring agreement with the prior vendor, the Authority has executed a note payable in the amount of \$18,500,000, payable from 2014 through 2020 for restructuring of the existing long-term agreement. The note carries no interest; however, the Authority has discounted the principal to the net present value based on market borrowing rates. During 2017 and 2016, the Authority accreted interest expense of approximately \$1,063,000 and \$1,300,000, respectively, and made principal and interest payments of approximately \$4,071,000 for both years, bringing the liability to approximately \$10,678,000 at December 31, 2017.

In July 2015, the Authority created a Colorado nonprofit corporation 601 Broadway in order to obtain financing for an administrative service building adjacent to the Authority's main campus. 601 Broadway will incur debt of approximately \$50,000,000. The Authority has funded approximately \$14,500,000 of construction costs. As of December 31, 2017, 601 Broadway had drawn debt of \$47,348,000. Further debt draws will be made in 2018 as part of the construction close out process. The first principal payment was paid in 2017 for approximately \$818,000. Interest payments began on December 31, 2015. The debt bears interest at 3.9% until the date the debt is fully drawn. Thereafter the debt bears interest at a fixed rate equal to 65% of the sum of (i) the seven year U.S. Treasury Rate on December 1, 2030 plus (ii) 225 basis points. Interest on the certificates shall be computed on the basis of the actual number of days elapsed in a 360-day year consisting of twelve 30-day months. Interest costs have been capitalized as a component of construction in progress, based on interest costs of borrowing specifically used for construction of the building. In 2017 and 2016, approximately \$1,604,000 and \$392,000 of interest expense was capitalized, respectively.

In 2017, the Authority joined the Upper Midwest Consolidate Services Center by buying four shares of class A-1 stock for \$300,000. The agreement limits the Authority's ability to redeem the stock for current book value, thus the stock is not considered an investment. Additionally, the agreement specifies a participation agreement of \$1.1 million. The payments are due in equal installments annually for five years. The Authority's first installment is due in 2018. This liability bears no interest.

In 2017, the Authority received \$40 million as part of a program support agreement. The monthly repayment schedule is determined based on the program's earnings before interest, depreciation, and amortization (EBIDA). In 2017, the Authority paid approximately \$3,668,000 bringing the approximate liability to \$36,331,000. This liability bears no interest. Included in the program support agreement, the Authority can be reimbursed up to \$6.4 million for relocation and expansion costs related to the program payable upon the first patient being seen at the program's new location. During 2017, the Authority incurred relocation and expansion expenses, but had not seen a patient; therefore the contingency was not met to record the receivable and revenue. Subsequent to year-end to the program saw its first patient at the expanded location and will be requesting reimbursement.

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Year-end Debt Balances

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

	Balance December 31,	
	2017	2016
Revenue Bonds, Series 2007A and B and Series 2009, due in increasing annual installments beginning 2007 through 2034	\$ 64,690,000	\$ 169,897,152
Revenue Bonds, Series 2010, due in increasing annual installments beginning 2011 through 2040 (net of unamortized bond discount of \$321,438 and \$335,498 as of December 31, 2017 and 2016, respectively)	25,203,561	25,744,501
Revenue Bonds, Series 2014, due in increasing annual installments beginning 2016 through 2045 (net of unamortized bond premium of \$1,016,040 and \$1,052,332 as of December 31, 2017 and 2016, respectively)	81,401,040	83,692,327
Revenue Bonds Series 2017A, due in increasing annual installments beginning 2018 through 2036 (net of unamortized bond premium of \$8,578,343 as of December 31, 2017)	102,013,343	-
Pavilion M notes payable to CDEs	-	37,607,050
601 Broadway notes payable	47,347,974	31,477,163
Program support liability	36,331,380	-
Other long-term debt	15,058,136	17,431,435
Capital lease obligations	803,580	1,220,469
	<u>372,849,014</u>	<u>367,070,097</u>
Total current and long-term debt		
Less current portion	<u>(19,984,641)</u>	<u>(12,828,083)</u>
Total long-term debt	<u>\$ 352,864,373</u>	<u>\$ 354,242,014</u>

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

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

December 31, 2017	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments or Reductions	Ending Balance	Due Within One Year
Series 2007A and B, net of discount	May 2007	\$ 167,757,152	\$ 4,249	\$ (104,591,401)	\$ 63,170,000	\$ 1,375,000
Series 2009	December 2009	2,140,000	-	(620,000)	1,520,000	100,000
Series 2010, net of discount	June 2010	25,744,501	14,060	(555,000)	25,203,561	580,000
Series 2014A and B, net of premium	May, 2014	83,692,327	(36,287)	(2,255,000)	81,401,040	1,480,000
Series 2017A, net of premium	August 2017	-	102,013,343	-	102,013,343	3,550,000
Pavilion M notes payable	June 2010	37,607,050	-	(37,607,050)	-	-
601 Broadway notes payable	July 2015	31,477,163	16,689,251	(818,440)	47,347,974	1,684,636
Program support liability	5/1/2017	-	40,000,000	(3,668,620)	36,331,380	6,288,000
Other long-term debt	Various	17,431,434	1,943,128	(4,316,426)	15,058,136	4,551,429
Capital leases	Various	1,220,469	-	(416,889)	803,580	375,576
Compensated absences liability		25,527,904	3,576,637	-	29,104,541	28,966,549
Postemployment benefits		6,559,526	1,489,929	(475,200)	7,574,255	-
Total		<u>\$ 399,157,526</u>	<u>\$ 165,694,310</u>	<u>\$ (155,324,026)</u>	<u>\$ 409,527,810</u>	<u>\$ 48,951,190</u>

December 31, 2016	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments or Reductions	Ending Balance	Due Within One Year
Series 2007A and B, net of discount	May 2007	\$ 171,226,486	\$ 5,666	\$ (3,475,000)	\$ 167,757,152	\$ 3,655,000
Series 2009	December 2009	2,780,000	-	(640,000)	2,140,000	620,000
Series 2010, net of discount	June 2010	26,265,441	14,060	(535,000)	25,744,501	555,000
Series 2014A and B, net of premium	May 2014	85,903,614	(36,287)	(2,175,000)	83,692,327	2,255,000
Pavilion M notes payable	June 2010	37,607,050	-	-	37,607,050	998,507
601 Broadway notes payable	July 2015	50,001	31,427,162	-	31,477,163	-
Other long-term debt	Various	20,432,766	1,300,097	(4,301,429)	17,431,434	4,316,429
Capital leases	Various	1,658,405	-	(437,936)	1,220,469	428,147
Compensated absences liability		23,986,938	1,540,966	-	25,527,904	25,274,146
Postemployment benefits		5,694,069	1,261,457	(396,000)	6,559,526	-
Total		<u>\$ 375,604,770</u>	<u>\$ 35,513,121</u>	<u>\$ (11,960,365)</u>	<u>\$ 399,157,526</u>	<u>\$ 38,102,229</u>

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Debt Service Requirements

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

Year Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total
2018	\$ 19,178,702	\$ 13,528,716	\$ 1,500,183	\$ 34,207,601
2019	19,810,738	11,113,861	1,260,993	32,185,592
2020	20,101,684	10,530,469	1,172,667	31,804,820
2021	16,682,730	10,020,462	1,095,596	27,798,788
2022	16,934,393	9,701,059	1,032,954	27,668,406
2023-2027	65,944,061	43,042,581	4,047,443	113,034,085
2028-2032	76,107,932	32,276,060	2,176,351	110,560,343
2033-2037	83,850,830	18,709,319	112,967	102,673,116
2038-2042	29,360,000	8,426,369	-	37,786,369
2043-2045	<u>15,605,000</u>	<u>1,666,350</u>	<u>-</u>	<u>17,271,350</u>
Total long-term debt payments	363,576,070	<u>\$ 159,015,246</u>	<u>\$ 12,399,154</u>	<u>\$ 534,990,470</u>
Unamortized discount on 2007A and 2010B Bonds	(321,438)			
Unamortized premium on 2014A Bonds and 2017A Bonds	<u>9,594,382</u>			
Total carrying amount of long-term debt	<u>\$ 372,849,014</u>			

The net swap payments were calculated using rates as of December 31, 2017 and making assumptions regarding interest rate changes between 2017 and 2033. As rates vary, variable rate bond interest payments and net swap payments will vary.

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Note 10: Managed Care Initiatives

Denver Health Medicaid Choice

Effective May 1, 2004, the Authority entered into a prepaid provider contract with State of Colorado Health Care Policy and Financing (HCPF), to provide healthcare to Medicaid members enrolled in the State's Primary Care Provider (PCP) program, and formerly capitated with the Authority through Rocky Mountain Health Maintenance Organization (HMO). This program is known as DH Medicaid Choice. As of December 31, 2017 and 2016, there were 86,641 and 75,920, respectively, eligible enrollees of DH Medicaid Choice.

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

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

The cost of healthcare services is accrued in the period in which treatment is provided to a member, based in part on estimates, including an accrual for claims Incurred But Not Reported (IBNR). The Authority maintains reinsurance coverage for inpatient claims above \$225,000 in 2017 and 2016, subject to certain per diem limitations. For services rendered by the Authority, the gross charges are included in patient service revenue prior to contractual adjustments, and are also included in deductions from revenue as contractual adjustments.

For the years ended December 31, 2017 and 2016, net capitation revenue after reinsurance, before administrative fees for this initiative totaled approximately \$218,000,000 and \$200,897,000, respectively.

Pharmacy claims, and costs for non-Authority care, including IBNR accruals for the same periods totaled approximately \$64,896,000 and \$49,866,000, respectively. These amounts are included in managed care outside provider claims.

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The Authority establishes liabilities for both reported and unreported medical and hospital expenses related to DH Medicaid Choice, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Unpaid claims and claim adjustment expenses, beginning of year	\$ 9,235,000	\$ 10,957,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	67,872,453	51,152,695
Decrease in provision for insured events of prior years	(2,617,324)	(1,287,169)
Total incurred claims and claim adjustment expenses	65,255,129	49,865,526
Payments		
Claims and claim adjustment expenses attributable to insured events of the current year	58,057,727	44,999,397
Claims and claim adjustment expenses attributable to insured events of prior year	5,527,402	6,588,129
Total payments	63,585,129	51,587,526
Unpaid claims and claim adjustment expenses, end of year	\$ 10,905,000	\$ 9,235,000

Incurred claims and claim payments directly above do not include billed charges of approximately \$324 million and \$283 million for 2017 and 2016, respectively, for the cost of care provided at the Denver Health Medical Center for DH Medicaid Choice members.

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

Denver Health Medical Plan, Inc. (the Plan) is a Colorado HMO whose enrollment includes employees of the Authority, the City, retirees enrolled with the Denver Employees Retirement Plan (DERP), and Child Health Plan Plus participants. In 2006, the Plan became licensed as a Special Needs Medicare Advantage Prescription Drug Plan provided to residents of Denver County, Colorado. At December 31, 2017 and 2016, there were 29,002 and 26,098 members enrolled in the Plan, respectively. Approximately 40% and 44% of Plan enrollment originated through Authority employee enrollment during 2017 and 2016, respectively. The Plan is presented as a discretely presented component unit. There have been no eliminations of 2017 or 2016 financial transactions between the Plan and the Authority on either the Authority's statements of net position or the Authority's statements of revenues, expenses and changes in net position.

The Plan recognizes premiums from subscribing groups as revenue in the period to which healthcare coverage relates. Premiums earned include premiums from the Authority for the years ended December 31, 2017 and 2016 of approximately \$70,061,000 and \$62,384,000, respectively. Such premiums are included in the accompanying statements of revenues, expenses and changes in net position as premiums earned. Excess risk insurance is maintained by the Plan for inpatient claims in excess of \$250,000 per patient per year for 2017 and 2016, subject to certain per diem limits.

A significant portion of healthcare services are provided by the Authority, for which the Authority is reimbursed on a capitated or fee-for-service basis, depending on the healthcare network chosen by the member. For the years ended December 31, 2017 and 2016, respectively, the Plan incurred capitation expense to the Authority totaling approximately \$27,306,000 and \$21,908,000, and fee-for-service claims of approximately \$45,508,000 and \$39,130,000.

At December 31, 2017 and 2016, the Plan has a capital contribution from the Authority of \$500,000, which is restricted and invested in a long-term investment held jointly by the Plan and the Colorado Division of Insurance. This contribution is included in the Authority's receivable from the Plan, which when combined with other amounts due, totals approximately \$3.9 million and \$1.8 million as of December 31, 2017 and 2016, respectively. The Plan has no employees, and is managed by employees leased from the Authority. In addition, the Plan pays the Authority certain other administrative expenses. The amounts paid by the Plan to the Authority for management services and other expenses totaled approximately \$6,510,000 for 2017 and \$7,413,000 for 2016.

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The Plan establishes liabilities for both reported and unreported medical and Authority expenses, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Unpaid claims and claim adjustment expenses, net of reinsurance beginning of year	\$ 15,539,578	\$ 13,848,000
Incurred claims and claim adjustment expenses, net of reinsurance recoveries		
Provision for insured events of the current year	147,724,726	121,800,203
Decrease in provision for insured events of prior years	(1,739,210)	(3,392,789)
Total incurred claims and claim adjustment expenses, net of reinsurance recoveries	145,985,516	118,407,414
Payments, net of reinsurance recoveries		
Claims and claim adjustment expenses attributable to insured events of the current year	155,661,404	127,552,827
Claims and claim adjustment expenses attributable to insured events of prior year	(13,982,040)	(10,836,991)
Total payments, net of reinsurance recoveries	141,679,364	116,715,836
Unpaid claims and claim adjustment expenses, net of reinsurance end of year	\$ 19,845,730	\$ 15,539,578

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Note 11: Operating Lease Commitments

The Authority leases certain property and equipment under noncancelable operating leases; expire in various years through 2028. Future minimum lease payments under noncancelable operating leases as of December 31, 2017 are as follows:

<u>Year Ending December 31,</u>	<u>Minimum Operating Lease Payments</u>
2018	\$ 3,412,223
2019	1,758,530
2020	1,481,250
2021	942,583
2022	838,747
Thereafter	<u>5,406,921</u>
	<u><u>\$ 13,840,254</u></u>

Rental expense under noncancelable operating leases totaled approximately \$5,052,000 and \$4,486,000 for the years ended December 31, 2017 and 2016, respectively.

Note 12: Pension and OPEB Plans

Plan Description

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

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Benefits Provided

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

Contributions

During 2017, combined employer and employees' contributions to DERP were 19.5% (11.5% employer and 8.0% employees) of applicable salaries, of which 18.34% was for pension benefits and 1.16% was for health benefits. During 2016, combined employer and employees' contributions to the Plan were 19.5% (11.5% employer and 8.0% employees) of applicable salaries, of which 18.30% was for pension benefits and 1.20% was for health benefits.

The health benefits' account was established by City Ordinance in 1991 to provide, beginning January 1, 1992, postemployment healthcare benefits in the form of a premium supplement to retired members, their spouses and dependents, spouses and dependents of deceased active and retired members, and members of the Plan awaiting approval of retirement applications. During 2017 and 2016, the monthly health insurance premium supplement was \$12.50 per year of service for retired participants under the age of 65, and \$6.25 per year of service for retirees aged 65 and older. The health insurance premium supplement can be applied to the payment of medical, dental, and/or vision insurance premiums. The benefit recipient pays any remaining portion of the premiums.

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

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

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Employer-made Contributions Based on the Legally Required Rates

Total annual employee and employer contributions to DERP by the Authority in 2017 and 2016 were approximately \$9,503,000 and \$10,199,000, respectively. This represents 1.9% in 2017 and 2.1% in 2016 of the Authority's total payroll of all employees. Authority contributions (employer only) to DERP for the years ended December 31, 2017 and 2016 were \$6,482,903 and \$6,778,008, respectively. The Authority's total payroll for all employees was approximately \$509,226,000 and \$483,376,000 for 2017 and 2016, respectively.

Total annual contributions to DERP by the Authority for postemployment healthcare benefits were approximately \$441,000 and \$499,000 for 2017 and 2016, respectively. This represents 0.09% and 0.11% of the Authority's total payroll for 2017 and 2016, respectively.

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

At December 31, 2017 and 2016, the Authority reported a liability of \$120,035,324 and \$119,914,669, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 and 2015 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2015 and 2014, respectively, rolled forward to December 31, 2016 and 2015, respectively. The Authority's proportion of the net pension liability was based on actual contributions of the Authority to the pension plan relative to the actual contributions of all participating employers for the measurement period. At December 31, 2016, the Authority's proportion was 9.84%, which was a decrease of .33% from its proportion measured as of December 31, 2015. At December 31, 2015, the Authority's proportion was 10.17%, which was a decrease of .62% from its proportion measured as of December 31, 2014.

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For the years ended December 31, 2017 and 2016, the Authority recognized pension expense of approximately \$12,686,000 and \$11,876,000, respectively. At December 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year Ended December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between project and actual earning on pension plan investments	\$ 13,584,030	\$ 42,116
Assumption changes	3,174,010	-
Changes between expected and actual experience	2,467,576	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	-	5,807,121
Authority's contributions subsequent to the measurement date	6,482,903	-
Total	<u>\$ 25,708,519</u>	<u>\$ 5,849,237</u>

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

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At December 31, 2017, the Authority reported \$6,482,903, as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	
2018	\$ 4,568,176
2019	5,272,550
2020	3,546,182
2021	(10,529)
	\$ 13,376,379

Actuarial Assumptions

The total pension liability in the December 31, 2015 and 2014, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2015		
Inflation	2.75%	
Salary increases	3.25%	Average, including inflation
Ad Hoc cost of living	0.00%	Average
Investment rate of return	7.75%	Net of pension plan investment expense, including inflation
2014		
Inflation	2.75%	
Salary increases	3.25%	Average, including inflation
Ad Hoc cost of living	0.00%	Average
Investment rate of return	7.75%	Net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 and 2014 valuations were based on the results of an actuarial experience study as of January 1, 2008 through December 31, 2012.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S Equities	22.50%	5.70%
Non-U.S. Developed Markets	15.50%	6.70%
Emerging Markets	8.00%	11.60%
Core Fixed Income	11.50%	1.00%
Debt	2.50%	5.50%
Private Debt	6.50%	7.50%
Real Estate	8.00%	6.00%
Absolute Return	5.00%	3.10%
Energy MLPs	7.00%	9.00%
Private Equity/Other	13.50%	8.90%
Cash	0.00%	0.30%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the years ended December 31, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The Authority's proportionate share of the net pension liability at December 31, 2017 has been calculated using a discount rate of 7.75%. The following presents the Authority's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Authorities proportionate share of the net pension liability	\$ 153,104,645	\$ 120,035,324	\$ 91,931,614

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Pension Plan Fiduciary Net Position

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

Note 13: Deferred Compensation Plan

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

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

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

Note 14: Defined Contribution Plan and Enhanced Defined Contribution Plan

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

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

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

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

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

Total annual contributions to the Defined Contribution Plan and the Enhanced Defined Contribution Plan by the Authority in 2017, 2016 and 2015 were approximately \$39,796,000, \$37,814,000 and \$29,586,000, respectively. Employee contributions in 2017, 2016 and 2015 were approximately \$30,009,000, \$28,727,000 and \$25,857,000, respectively.

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

Note 15: Healthcare Premium Supplement Plan

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

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

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

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

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

Members are not required to contribute to the Supplement Plan. For the years ended December 31, 2017 and 2016, the Authority funded approximately \$475,000 and \$396,000, respectively, to a third-party beneficiary for retirees qualified for the benefit and retiring after 2010. Otherwise, the Supplement Plan is unfunded as of December 31, 2017. However, any eligible retirees retiring in

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

The annual OPEB cost for 2017 and 2016 was approximately \$1,490,000 and \$1,261,000, respectively. The net OPEB obligation at December 31, 2017 and 2016 is \$7,574,255 and \$6,559,526, respectively.

Relevant actuarial methods and significant assumptions are as follows:

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

Note 16: Supplemental Executive Retirement Plan

In 2014, the Authority created a Supplemental Executive Retirement Plan (SERP Plan) for the purpose of providing deferred compensation for a select group of executive managers. The SERP Plan is an unfunded, non-qualified deferred compensation arrangement under Section 457(f) of the Internal Revenue Code. The effective date of the SERP Plan was January 1, 2014. In January 2015 and February 2016, the Authority contributed to a Rabbi Trust retirement account an amount equal to 5% of the executive base pay, and 10% of the base pay of the Chief Executive Officer of the Authority. Participants become vested to the contribution three calendar years after the contribution, or the year in which they turn 65 years of age, whichever is sooner. Distributions are made annually in February of each year to vested participants. As of December 31, 2017 and 2016 in the amounts of approximately \$28,000 and \$73,800, respectively, for participants meeting vesting requirements but has not been paid as of year-end. Executive managers participating in DERP are not eligible to be included in the SERP Plan.

Note 17: Risk Management

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

The Authority is covered under the limits of the Colorado Governmental Immunity Act. For 2017, in tort litigation covered by the Colorado Governmental Immunity Act, injury to one person in any single occurrence is limited to the amount of \$350,000, and for injury to two or more persons in a single occurrence, the limitation is \$990,000 with the stated limitation that no person may recover in excess of \$350,000. With respect to malpractice liability, the Authority carries excess healthcare professional and general liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a self-insured retention amount of \$250,000. In addition, the Authority carries an umbrella policy with limits of \$5,000,000 per occurrence and \$5,000,000 in

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the aggregate. The Authority carries a separate professional liability policy to cover physicians who provide services under contract with the Authority. This policy provides coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

The amount of medical malpractice and other liability was \$4,580,262 and \$4,483,667 for the years ended December 31, 2017 and 2016, respectively. The Authority relied upon an actuarial estimate of the medical malpractice to record IBNR losses and loss adjustment expenses. A discount rate of 2.5% was applied to the actuarially determined liability as of December 31, 2017. Changes in the reported liability for the years ended December 31, 2017 and 2016 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2016	\$ 3,060,626	\$ 2,456,312	\$ (1,033,271)	\$ 4,483,667
2017	4,483,667	834,516	(737,921)	4,580,262

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

For other types of risk, the Authority generally carries commercial policies with deductibles ranging from \$50,000 to \$600,000 and limits of \$1,000,000 to \$10,000,000.

On January 1, 2002, the Authority was issued a "self-insurance permit" by the Colorado Department of Labor and Employment, Division of Workers' Compensation, which allows the Authority to be its own insurance carrier for workers' compensation risk. The Authority carries an excess workers' compensation insurance policy with a self-insured retention limit of \$600,000. At December 31, 2017 and 2016, the amount of workers' compensation liability was \$3,322,207 and \$3,659,641, respectively. This liability is based on actuarial estimates of the workers' compensation to record IBNR losses and loss adjustment expenses. Changes in the reported liability for the years ended December 31, 2017 and 2016 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2016	\$ 3,247,165	\$ 1,674,886	\$ (1,262,410)	\$ 3,659,641
2017	3,659,641	1,771,595	(2,109,029)	3,322,207

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

Note 18: Contingencies

Cost Report

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

Taxpayer Bill of Rights

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

Litigation

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

Healthcare Policy and Financing Division

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

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Academic Medical Center Connection

The Authority has been a member of University HealthSystem Consortium, (UHC) a nonprofit corporation. In 2015, UHC became VHA-UHC Alliance NewCO, Inc., and subsequently changed its name to Academic Medical Center Connection (AMCC). As a member of AMCC, the Authority had rights to patronage returns, but no actual interest in the company. In April of 2015, AMCC sold substantially all of its assets and operations to Vizient, Inc. (Vizient). AMCC received cash and shares of common stock in Vizient as a result. As a result of these transactions, Vizient stock was distributed to AMCC participating patrons, which included the Authority. To receive stock shares, the Authority signed a Stockholders Agreement. The agreement limits the Authority's ability to redeem the stock for current book value based on time restrictions. In 2016, the Authority received the stock certificates but the value of the stock is at zero due to the restrictions in the agreement. The stock can only be sold back to Vizient. As such, the Authority has not recorded any financial transactions related to this.

Note 19: Commitments

The Authority entered into multiple construction contracts to remodel existing buildings and to construct new buildings during 2017 and prior. Under these contracts, the Authority has committed to pay contractors approximately \$19,743,000 in future periods.

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Note 20: Condensed Combining Financial Information

The following tables include condensed combining balance sheet information for the Authority and its blended component units as of December 31, 2017 and 2016.

	December 31, 2017				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
Condensed Statement of Net Position					
Current assets	\$ 191,680,517	\$ -	\$ 85,385	\$ (85,894)	\$ 191,680,008
Noncurrent Assets					
Capital assets, net of accumulated depreciation	438,129,164	-	63,155,387	-	501,284,551
Other long-term assets	349,356,613	-	559,883	-	349,916,496
Total noncurrent assets	787,485,777	-	63,715,270	-	851,201,047
Total assets	979,166,294	-	63,800,655	(85,894)	1,042,881,055
Deferred Outflows of Resources	42,544,110	-	-	-	42,544,110
Total assets and deferred outflows of resources	<u>\$ 1,021,710,404</u>	<u>\$ -</u>	<u>\$ 63,800,655</u>	<u>\$ (85,894)</u>	<u>\$ 1,085,425,165</u>
Liabilities and Deferred Inflows of Resources					
Current liabilities	\$ 173,217,476	\$ -	\$ 1,934,015	\$ 33,513	\$ 175,185,004
Long-term liabilities	486,744,256	-	45,663,338	-	532,407,594
Deferred inflows of resources	5,849,237	-	-	-	5,849,237
Total liabilities and deferred inflows of resources	665,810,969	-	47,597,353	33,513	713,441,835
Net Position					
Net investment in capital assets	160,517,460	-	-	-	160,517,460
Unrestricted	195,381,975	-	16,203,302	(119,407)	211,465,870
Total net position	355,899,435	-	16,203,302	(119,407)	371,983,330
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,021,710,404</u>	<u>\$ -</u>	<u>\$ 63,800,655</u>	<u>\$ (85,894)</u>	<u>\$ 1,085,425,165</u>

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Authority and its blended component units for the years ended December 31, 2017 and 2016.

	Year Ended December 31, 2017				
	Total	DHHA	601		Total
	Authority	Pavilion M Inc.	Broadway Inc.	CCPPS	
Operating Revenues					
Net patient service revenue	\$ 545,380,959	\$ -	\$ -	\$ -	\$ 545,380,959
Capitation earned net of reinsurance expense	218,010,773	-	-	-	218,010,773
Medicaid disproportionate share and other safety net reimbursement	114,752,531	-	-	-	114,752,531
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300
Federal, state and other grants	66,049,764	-	-	-	66,049,764
City and County of Denver purchased services	24,776,739	-	-	-	24,776,739
Poison and drug center contracts	22,852,467	-	-	-	22,852,467
Other operating revenue	33,029,004	841,137	-	416,802	34,286,943
	<u>1,055,629,537</u>	<u>841,137</u>	<u>-</u>	<u>416,802</u>	<u>1,056,887,476</u>
Total operating revenues					
Operating Expenses					
Salaries and benefits	628,026,525	-	-	-	628,026,525
Contracted services and nonmedical supplies	195,466,828	56,014	(2,692,011)	591,169	193,422,000
Medical supplies and pharmaceuticals	125,253,288	-	-	-	125,253,288
Managed care outside provider claims	65,258,014	-	-	-	65,258,014
Depreciation and amortization	42,504,535	1,065,674	947,471	-	44,517,680
	<u>1,056,509,190</u>	<u>1,121,688</u>	<u>(1,744,540)</u>	<u>591,169</u>	<u>1,056,477,507</u>
Total operating expenses					
Operating income (loss)	<u>(879,653)</u>	<u>(280,551)</u>	<u>1,744,540</u>	<u>(174,367)</u>	<u>409,969</u>
Nonoperating Revenues (Expenses)					
Increase in equity in joint venture	124,000	-	-	-	124,000
Bond issuance costs	(682,046)	-	-	-	(682,046)
Interest income	9,632,689	86	268	-	9,633,043
Interest expense	(14,118,378)	(237,069)	(266)	-	(14,355,713)
Gain (loss) on forgiveness of note payable/receivable	(29,033,152)	37,168,635	-	-	8,135,483
Gain (loss) on dissolution of DHHA Pavilion M Inc.	27,551,503	(27,551,503)	-	-	-
Net increase in fair value of investments	9,287,858	-	-	-	9,287,858
Gain on disposition of capital assets	50,857	-	-	-	50,857
	<u>2,813,331</u>	<u>9,380,149</u>	<u>2</u>	<u>-</u>	<u>12,193,482</u>
Total nonoperating revenues (expenses)					
Income (loss) before capital contributions	1,933,678	9,099,598	1,744,542	(174,367)	12,603,451
Contributions Restricted for Capital Assets	<u>1,516,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,516,042</u>
Increase (decrease) in net position	3,449,720	9,099,598	1,744,542	(174,367)	14,119,493
Total Net Position, Beginning of Year	<u>352,449,715</u>	<u>(9,099,598)</u>	<u>14,458,760</u>	<u>54,960</u>	<u>357,863,837</u>
Total Net Position, End of Year	<u>\$ 355,899,435</u>	<u>\$ -</u>	<u>\$ 16,203,302</u>	<u>\$ (119,407)</u>	<u>\$ 371,983,330</u>

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2017 and 2016

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2017 and 2016

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

	Year Ended December 31, 2017				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
Condensed Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ 60,489,973	\$ (227,276)	\$ -	\$ 374,106	\$ 60,636,803
Net cash used in capital and related financing activities	(52,207,407)	-	(2)	-	(52,207,409)
Net cash provided by (used in) investing activities	<u>(18,519,916)</u>	<u>-</u>	<u>268</u>	<u>-</u>	<u>(18,519,648)</u>
Net increase (decrease) in cash and cash equivalents	(10,237,350)	(227,276)	266	374,106	(10,090,254)
Cash and Cash Equivalents, Beginning of Year	<u>56,948,927</u>	<u>227,276</u>	<u>804</u>	<u>299,959</u>	<u>57,476,966</u>
Cash and Cash Equivalents, End of Year	<u>\$ 46,711,577</u>	<u>\$ -</u>	<u>\$ 1,070</u>	<u>\$ 674,065</u>	<u>\$ 47,386,712</u>

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

Note 21: Subsequent Events

Subsequent events have been evaluated through March 23, 2018, which is the date the financial statements were available to be issued.

Required Supplementary Information

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

	2016	2015	2014
Authority's proportion of the net pension liability	9.84%	10.17%	10.79%
Authority's proportionate share of the net pension liability	\$ 120,035,324	\$ 119,914,669	\$ 94,527,507
Authority's covered-employee payroll	38,910,745	40,906,565	42,015,157
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	308.49%	293.14%	224.98%
Plan fiduciary net position as a percentage of the total pension liability	62.26%	62.26%	70.12%

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

The discount rate used was 7.75% for 2016 and 2015 and 8.00% for 2014.

	2017	2016	2015
Contractually required contribution	\$ 6,482,903	\$ 6,778,008	\$ 6,471,773
Contributions in relation to the contractually required contribution	6,482,903	6,778,008	6,471,773
Contribution deficiency (excess)	-	-	-
Authority's covered-employee payroll	34,303,697	38,910,745	40,906,565
Contributions as a percentage of covered-employee payroll	18.90%	17.42%	15.81%

Denver Health and Hospital Authority

Schedules of Required Supplementary Information

Schedule of the Authority's Contributions

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for only those years for which information is available. Information presented in this schedule has been determined as of the Authority's most recent fiscal year-end (December 31, 2017) in accordance with GASB 68.

Funding Valuation Date	January 1, 2016
Notes	Actuarially determined contribution rates are calculated as of December 31 of each year and are applicable for the follow calendar (fiscal) year
Methods and Assumptions Used to Determine Contribution Rates	
Actuarial Cost Method	Project Unit Credit
Amortization Method	Level Percentage of Payroll, Annually Established 30-Year Close Basis
Remaining Amortization Period	Approximately 27 years
Asset Valuation Method	Smoothed market
Inflation	2.75%
Salary Increase	3.25% to 7.25%
Investment Rate of Return	7.75%
Retirement Age	Experience-based table of rate that are specific to the type of eligibility condition. Last updated for the 2013 valuation pursuant to an experience study of the period 2008-2012
Mortality	RP-2000 Combined Mortality Table Projected Via Scale AA to 2020. With Multiplies Specific to General and Payment Status of Employee
Other Information	
Notes	There were no benefit changes during the year. As of October, 1, 2015, the valuation interest rate was lowered from 8.00% to 7.75%

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

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

Schedule of Funding Progress - Unaudited

Healthcare Premium Supplement Plan

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

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

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Supplementary Information

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Denver Health and Hospital Authority
Consolidating Schedule – Statement of Net Position Information
December 31, 2017

	The Authority								Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	
Assets and Deferred Outflows of Resources									
Current Assets									
Cash and cash equivalents	\$ 46,711,577	\$ -	\$ -	\$ -	\$ 46,711,577	\$ -	\$ -	\$ 674,065	\$ 47,385,642
Restricted cash and cash equivalents	-	-	-	-	-	-	1,070	-	1,070
Patient accounts receivable, net	63,703,796	-	-	-	63,703,796	-	-	-	63,703,796
Due from other governmental entities	13,013,835	229,407	-	12,989,324	26,232,566	-	-	-	26,232,566
Due from City and County of Denver	4,118,017	3,684,338	8,075	-	7,810,430	-	-	-	7,810,430
Other receivables	12,402,023	123,711	4,032,625	4,372,556	20,930,915	-	-	-	20,930,915
Interest receivable	2,029,061	-	-	-	2,029,061	-	-	-	2,029,061
Due from (to) and investment in discretely presented component units	(7,217,506)	(4,765,514)	24,283,657	(7,749,545)	4,551,092	-	84,315	(759,959)	3,875,448
Inventories	10,483,234	-	-	-	10,483,234	-	-	-	10,483,234
Prepaid expenses and other assets	9,021,565	-	175,502	30,779	9,227,846	-	-	-	9,227,846
Total current assets	154,265,602	(728,058)	28,499,859	9,643,114	191,680,517	-	85,385	(85,894)	191,680,008
Noncurrent Assets									
Notes receivable	15,432,000	-	-	-	15,432,000	-	-	-	15,432,000
Estimated third-party payor settlements receivable	5,561,710	-	-	-	5,561,710	-	-	-	5,561,710
Equity interest in joint venture	1,225,500	-	-	-	1,225,500	-	-	-	1,225,500
Restricted investments	21,668,767	-	-	-	21,668,767	-	-	-	21,668,767
Capital assets, net of accumulated depreciation	436,262,400	1,422,997	443,767	-	438,129,164	-	63,155,387	-	501,284,551
Long-term investments	267,378,285	-	-	-	267,378,285	-	-	-	267,378,285
Board-designated investments	36,500,000	-	-	-	36,500,000	-	-	-	36,500,000
Other long-term assets	12,959	1,577,392	-	-	1,590,351	-	559,883	-	2,150,234
Total noncurrent assets	784,041,621	3,000,389	443,767	-	787,485,777	-	63,715,270	-	851,201,047
Total assets	938,307,223	2,272,331	28,943,626	9,643,114	979,166,294	-	63,800,655	(85,894)	1,042,881,055
Deferred Outflows of Resources									
Accumulated change in fair value of hedging derivatives	12,394,299	-	-	-	12,394,299	-	-	-	12,394,299
Deferred outflows of resources related to pension benefits	25,708,519	-	-	-	25,708,519	-	-	-	25,708,519
Deferred outflow - acquisitions	329,667	-	-	-	329,667	-	-	-	329,667
Loss on refunding of debt	4,111,625	-	-	-	4,111,625	-	-	-	4,111,625
Total deferred outflows of resources	42,544,110	-	-	-	42,544,110	-	-	-	42,544,110
Total assets and deferred outflows of resources	\$ 980,851,333	\$ 2,272,331	\$ 28,943,626	\$ 9,643,114	\$ 1,021,710,404	\$ -	\$ 63,800,655	\$ (85,894)	\$ 1,085,425,165

Denver Health and Hospital Authority
Consolidating Schedule – Statement of Net Position Information
December 31, 2017

	The Authority								Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	
Liabilities, Deferred Inflows of Resources and Net Position									
Current Liabilities									
Current maturities of bonds payable	\$ 7,085,000	\$ -	\$ -	\$ -	\$ 7,085,000	\$ -	\$ 1,684,636	\$ -	\$ 8,769,636
Current maturities of capital leases	375,576	-	-	-	375,576	-	-	-	375,576
Current maturities of notes payable	4,551,429	-	-	-	4,551,429	-	-	-	4,551,429
Current maturities of program support liability	6,288,000	-	-	-	6,288,000	-	-	-	6,288,000
Medical malpractice liability	4,580,262	-	-	-	4,580,262	-	-	-	4,580,262
Accounts payable and accrued expenses	48,711,338	-	1,450,581	24,627	50,186,546	-	249,379	33,513	50,469,438
Accrued salaries, wages and employee benefits	37,278,563	-	-	-	37,278,563	-	-	-	37,278,563
Accrued compensated absences	28,966,549	-	-	-	28,966,549	-	-	-	28,966,549
Unearned revenue	16,213,314	-	93,261	5,193,793	21,500,368	-	-	-	21,500,368
Derivative interest rate swap liability	1,500,183	-	-	-	1,500,183	-	-	-	1,500,183
Accrued claims	10,905,000	-	-	-	10,905,000	-	-	-	10,905,000
Total current liabilities	<u>166,455,214</u>	<u>-</u>	<u>1,543,842</u>	<u>5,218,420</u>	<u>173,217,476</u>	<u>-</u>	<u>1,934,015</u>	<u>33,513</u>	<u>175,185,004</u>
Long-term Liabilities									
Long-term portion of liability for estimated third-party settlements	40,896,679	-	-	-	40,896,679	-	-	-	40,896,679
Long-term portion of compensated absences	137,992	-	-	-	137,992	-	-	-	137,992
Bonds payable, less current maturities	266,222,944	-	-	-	266,222,944	-	-	-	266,222,944
Capital lease obligations, less current maturities	428,003	-	-	-	428,003	-	-	-	428,003
Notes payable	10,506,707	-	-	-	10,506,707	-	45,663,338	-	56,170,045
Derivative interest rate swap liability	10,898,971	-	-	-	10,898,971	-	-	-	10,898,971
Program support liability	30,043,381	-	-	-	30,043,381	-	-	-	30,043,381
Net pension liability	120,035,324	-	-	-	120,035,324	-	-	-	120,035,324
Postemployment benefits	7,574,255	-	-	-	7,574,255	-	-	-	7,574,255
Total long-term liabilities	<u>486,744,256</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>486,744,256</u>	<u>-</u>	<u>45,663,338</u>	<u>-</u>	<u>532,407,594</u>
Total liabilities	<u>653,199,470</u>	<u>-</u>	<u>1,543,842</u>	<u>5,218,420</u>	<u>659,961,732</u>	<u>-</u>	<u>47,597,353</u>	<u>33,513</u>	<u>707,592,598</u>
Deferred Inflows of Resources									
Deferred inflows of resources related to pension benefits	5,849,237	-	-	-	5,849,237	-	-	-	5,849,237
Total liabilities and deferred inflows of resources	<u>659,048,707</u>	<u>-</u>	<u>1,543,842</u>	<u>5,218,420</u>	<u>665,810,969</u>	<u>-</u>	<u>47,597,353</u>	<u>33,513</u>	<u>713,441,835</u>
Net Position									
Net investment in capital assets	158,650,696	1,422,997	443,767	-	160,517,460	-	-	-	160,517,460
Unrestricted	163,151,930	849,334	26,956,017	4,424,694	195,381,975	-	16,203,302	(119,407)	211,465,870
Total net position	<u>321,802,626</u>	<u>2,272,331</u>	<u>27,399,784</u>	<u>4,424,694</u>	<u>355,899,435</u>	<u>-</u>	<u>16,203,302</u>	<u>(119,407)</u>	<u>371,983,330</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 980,851,333</u>	<u>\$ 2,272,331</u>	<u>\$ 28,943,626</u>	<u>\$ 9,643,114</u>	<u>\$ 1,021,710,404</u>	<u>\$ -</u>	<u>\$ 63,800,655</u>	<u>\$ (85,894)</u>	<u>\$ 1,085,425,165</u>

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

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

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

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

Denver Health and Hospital Authority
Consolidating Schedule – Revenue and Expenses Information
Years Ended December 31, 2017

	The Authority					DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority				
Operating Revenues									
Net patient service revenue	\$ 540,817,367	\$ 4,557,744	\$ 5,848	\$ -	\$ 545,380,959	\$ -	\$ -	\$ -	\$ 545,380,959
Capitation earned net of reinsurance expense	218,010,773	-	-	-	218,010,773	-	-	-	218,010,773
Medicaid disproportionate share and other safety net reimbursement	114,752,531	-	-	-	114,752,531	-	-	-	114,752,531
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300	-	-	-	30,777,300
Federal, state and other grants	384,398	2,520,557	-	63,144,809	66,049,764	-	-	-	66,049,764
City and County of Denver purchased services	6,353,834	18,326,006	96,899	-	24,776,739	-	-	-	24,776,739
Poison and drug center contracts	-	-	22,852,467	-	22,852,467	-	-	-	22,852,467
Other operating revenue	31,697,070	1,409,675	-	(77,741)	33,029,004	841,137	-	416,802	34,286,943
Total operating revenues	942,793,273	26,813,982	22,955,214	63,067,068	1,055,629,537	841,137	-	416,802	1,056,887,476
Operating Expenses									
Salaries and benefits	546,404,322	23,353,876	12,630,775	45,637,552	628,026,525	-	-	-	628,026,525
Contracted services and nonmedical supplies	168,993,294	2,235,154	8,018,851	16,219,529	195,466,828	56,014	(2,692,011)	591,169	193,422,000
Medical supplies and pharmaceuticals	122,408,157	1,626,721	78	1,218,332	125,253,288	-	-	-	125,253,288
Managed care outside provider claims	65,258,014	-	-	-	65,258,014	-	-	-	65,258,014
Depreciation and amortization	41,754,310	433,030	317,195	-	42,504,535	1,065,674	947,471	-	44,517,680
Total operating expenses	944,818,097	27,648,781	20,966,899	63,075,413	1,056,509,190	1,121,688	(1,744,540)	591,169	1,056,477,507
Operating income (loss)	(2,024,824)	(834,799)	1,988,315	(8,345)	(879,653)	(280,551)	1,744,540	(174,367)	409,969
Nonoperating Revenues (Expenses)									
Increase in equity in joint venture	124,000	-	-	-	124,000	-	-	-	124,000
Interdepartmental transfers	(460,846)	286,866	48,858	125,122	-	-	-	-	-
Bond issuance costs	(682,046)	-	-	-	(682,046)	-	-	-	(682,046)
Interest income	9,632,689	-	-	-	9,632,689	86	268	-	9,633,043
Interest expense	(14,118,378)	-	-	-	(14,118,378)	(237,069)	(266)	-	(14,355,713)
Gain (loss) on forgiveness of note payable/receivable	(29,033,152)	-	-	-	(29,033,152)	37,168,635	-	-	8,135,483
Gain (loss) on dissolution of DHHA Pavilion M Inc.	27,551,503	-	-	-	27,551,503	(27,551,503)	-	-	-
Grant funded capital expenditures	194,467	-	-	(194,467)	-	-	-	-	-
Net increase in fair value of investments	9,287,858	-	-	-	9,287,858	-	-	-	9,287,858
Gain on disposition of capital assets	50,857	-	-	-	50,857	-	-	-	50,857
Total nonoperating revenues (expenses)	2,546,952	286,866	48,858	(69,345)	2,813,331	9,380,149	2	-	12,193,482
Income (loss) before capital contributions	522,128	(547,933)	2,037,173	(77,690)	1,933,678	9,099,598	1,744,542	(174,367)	12,603,451
Contributions Restricted for Capital Assets	1,325,660	190,382	-	-	1,516,042	-	-	-	1,516,042
Increase (decrease) in net position	\$ 1,847,788	\$ (357,551)	\$ 2,037,173	\$ (77,690)	\$ 3,449,720	\$ 9,099,598	\$ 1,744,542	\$ (174,367)	\$ 14,119,493

Denver Health and Hospital Authority
Consolidating Schedule – Revenue and Expenses Information
Years Ended December 31, 2016

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

Denver Health and Hospital Authority
Supplementary Budget to Actual Information
Years Ended December 31, 2017

	Actual	Budget	Variance- Favorable (Unfavorable)
Operating Revenues			
Net patient service revenue	\$ 545,380,959	\$ 567,627,153	\$ (22,246,194)
Capitation earned net of reinsurance expense	218,010,773	203,474,334	14,536,439
Medicaid disproportionate share and other safety net reimbursement	114,752,531	122,168,400	(7,415,869)
City and County of Denver payment for patient care services	30,777,300	30,777,300	-
Federal, state and other grants	66,049,764	58,401,303	7,648,461
City and County of Denver purchased services	24,776,739	25,438,322	(661,583)
Poison and drug center contracts	22,852,467	24,516,632	(1,664,165)
Other operating revenue	34,286,943	33,142,269	1,144,674
	<u>1,056,887,476</u>	<u>1,065,545,713</u>	<u>(8,658,237)</u>
Total operating revenues			
Operating Expenses (Revenues)			
Salaries and benefits	628,026,525	631,423,232	3,396,707
Contracted services and nonmedical supplies	193,422,000	187,217,307	(6,204,693)
Medical supplies and pharmaceuticals	125,253,288	114,776,704	(10,476,584)
Managed care outside provider claims	65,258,014	56,966,797	(8,291,217)
Depreciation and amortization	44,517,680	46,722,598	2,204,918
	<u>1,056,477,507</u>	<u>1,037,106,638</u>	<u>(19,370,869)</u>
Total operating expenses (revenues)			
Operating income (loss)	<u>409,969</u>	<u>28,439,075</u>	<u>(28,029,106)</u>
Nonoperating Revenues (Expenses)			
Interest income	9,633,043	8,368,794	1,264,249
Interest expense	(14,355,713)	(17,139,075)	2,783,362
	<u>(4,722,670)</u>	<u>(8,770,281)</u>	<u>4,047,611</u>
Reconciliation to Income Before Capital Contributions			
Add:			
Net increase in fair value of investments	9,287,858	-	9,287,858
Gain on forgiveness of note payable/receivable	8,135,483	-	8,135,483
Gain on disposition of capital assets	50,857	-	50,857
Increase in equity in joint venture	124,000	-	124,000
Bond issuance cost	(682,046)	-	(682,046)
	<u>16,916,152</u>	<u>-</u>	<u>16,916,152</u>
Total nonoperating revenues (expenses)			
Income (Loss) Before Capital Contributions	<u>\$ 12,603,451</u>	<u>\$ 19,668,794</u>	<u>\$ (7,065,343)</u>

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

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 23, 2018. The financial statements of Denver Health Medical Plan, Inc. and DHHA Southwest Clinic, Inc., are discretely presented component units, and DHHA Pavilion M, Inc., 601 Broadway, Inc., and Canadian Consumer Product and Pharmaceutical Safety, Inc. which are blended component units, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Denver Health and Hospital Authority

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Denver, Colorado
March 23, 2018