

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Basic Financial Statements
For the Years Ended
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Table of Contents

| | <u>Page</u> |
|---|--------------------|
| Independent Auditors' Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Statements of Net Position..... | 17 |
| Statements of Revenue, Expenses, and Changes in Net Position..... | 19 |
| Statements of Cash Flows..... | 20 |
| Statements of Fiduciary Net Position..... | 22 |
| Statements of Changes in Fiduciary Net Position..... | 22 |
| Notes to Basic Financial Statements..... | 23 |
| Required Supplementary Information | |
| Schedule of Changes in Net Pension Liability and Related Ratios..... | 74 |
| Schedule of Contributions..... | 76 |
| Schedule of Pension Plan Investment Returns..... | 77 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 78 |

Independent Auditor's Report

To the Board of Directors
University of Colorado Hospital Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund information of the University of Colorado Hospital Authority (UCHA), a component unit of University of Colorado Health, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise University of Colorado Hospital 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund information of the University of Colorado Hospital Authority as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Notes 15 and 16 to the basic financial statements, University of Colorado Hospital Authority has received general and targeted distributions of the CARES Act Provider Relief Fund as of June 30, 2020. The published terms and conditions related to the use of these distributions is open for interpretation and subject to change upon the issuance of future guidance by the Department of Health and Human Services. Our opinion is not modified with respect to this matter.

To the Board of Directors
University of Colorado Hospital Authority

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of the University of Colorado Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Colorado Hospital Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 30, 2020

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

This discussion and analysis of the financial performance of the University of Colorado Hospital Authority (“UCHA”) provides an overall review of UCHA’s financial activities as of and for the years ended June 30, 2020, 2019 and 2018.

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

Joint Operating Agreement and Integration and Affiliation Agreement

- Effective July 1, 2012, University of Colorado Health (“UCHealth” or the “Health System”) was created through a joint operating agreement with Poudre Valley Health Care Inc. (“PVHS”) and UCHA. Together, UCHA and PVHS are member organizations in the Health System. UCHealth received its 501(c)(3) designation from the IRS on June 29, 2013. The joint venture enhances the capacity of the members to protect, sustain, and expand their respective missions.
- The initial term of the joint operating agreement is 50 years with renewals or extensions anticipated. The agreement includes significant hurdles for termination other than by mutual agreement. Under the joint operating agreement, the members of the joint venture become members of the obligated group under each other’s master trust indenture and, thereby, pledge their gross revenues to secure each member’s obligations. In July 2018, the PVHS amended and restated Master Trust Indenture was terminated.
- UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board of Directors approves the operating and capital budgets of each entity throughout the Health System. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission, and oversight of other day-to-day operating activities.
- Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs was executed with the purpose of leasing Memorial Health System (“MHS”). UCHealth created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS. The original lease is for a 40-year term with renewals or extensions anticipated.
- The initial acquisition cost of MHS to UCHealth was \$400,000 with \$290,000 paid in cash at closing and \$110,000 in lease payments to be paid over 30 years. Effective October 1, 2012, a sublease agreement was executed with Children’s Hospital Colorado to operate the pediatric units located at MHS and was valued at 15% of the organization. Children’s Hospital Colorado paid the corresponding amount of the upfront payment and is responsible for its percentage of the ongoing lease payments to the City of Colorado Springs. The net acquisition cost to UCHealth after sublease to Children’s Hospital Colorado was \$340,000. On June 4, 2015, MHS became the licensed operator of the pediatric services, certain terms of the sublease were temporarily suspended, and MHS and Children’s Hospital Colorado entered into a pediatric Management Services Agreement and Employee Lease arrangement, which was subsequently amended and extended. Applicable terms of the sublease were reinstated upon execution of the new Ground Sublease for property at Memorial North Hospital on May 1, 2017. Such rental payments began in 2019 when the new Children's Hospital facility opened in Colorado Springs.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

UCHA Financial Highlights

Year Ended June 30, 2020 Compared with Year Ended June 30, 2019

- UCHA experienced disruption in operations beginning in March 2020 through the fourth quarter associated with the impact of the COVID-19 pandemic. Hospital statistics and financial performance are recovering as Colorado COVID-19 cases have trended lower at the end of the fourth quarter. The impact of the COVID-19 pandemic was considered as we forecast our outlook for fiscal year ended June 30, 2021.
- Inpatient volumes, measured in admissions and patient days, decreased from 2019. Volumes include all volumes except those associated with the Center for Dependency, Addiction, and Rehabilitation (“CeDAR”) and normal newborns. Admissions decreased 1.8% in 2020 compared to 2019. Patient days increased 0.7% in 2020. Medical/surgical admissions decreased 2.2% in 2020.
- Outpatient volumes, measured by clinic visits, decreased 7.6% in 2020. The decline in OP clinic visits is due to challenges experienced due to the COVID-19 pandemic in the last quarter of the year.
- Net patient service revenue was \$2,075,782 and \$2,133,120 in 2020 and 2019, respectively. Year over year decreases are due to challenges experience due to the COVID-19 pandemic in the last quarter of the year. Total operating revenue consists of net patient revenue and other operating revenue.
- Operating income was \$238,135 and \$380,829 in 2020 and 2019, respectively. The increase is due to continued patient demand for UCHA services coupled with capacity growth from recent expansions.
- According to Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, interest expense is defined as a non-operating expense and is classified as such in UCHA’s basic financial statements. Operating income would be \$193,261 in 2020 and \$331,455 in 2019 if interest expense was included as an operating expense.
- Non-operating revenue and expenses were \$146,990 and \$77,196 in 2020 and 2019, respectively. Included in non-operating revenue is \$79,252 of grant revenue received in 2020 as part of general and targeted distributions of the CARES Act Provider Relief Fund. The remaining amount of non-operating revenue is primarily generated from investment income and an unrealized loss on derivative instruments. The income is offset by interest expense of \$44,874 and \$49,374 for the years ended June 30, 2020 and 2019, respectively. The year-over-year changes were driven by existing market conditions.
- Income before contributions was \$385,125 and \$458,025 in 2020 and 2019, respectively.
- Contribution revenue of \$6,989 was a \$2,482 increase over 2019 contribution revenue of \$4,507. Beginning in 2018, UCHA entered into an agreement with the University of Colorado School of Medicine to partner in the fundraising process with a portion of monies raised provided to UCHA.
- UCHealth continued building the Inpatient Tower III expansion at UCHA. This project will add approximately 100 inpatient rooms upon opening with the ability to grow to a net increase of 211 additional beds in the future. An additional 9 inpatient operating suites will be added in fiscal year 2023 with the ability to grow to 12 operating suites in the future. The project will add 658,585 square feet of expanded hospital space at an approved budget of \$388,533 with a projected completion date in fiscal year 2023.
- In September 2019, UCHealth completed an annual ratings update with Moody’s, Standard & Poor’s and Fitch Ratings to rate the member organizations. Moody’s maintained UCHA at Aa3 Stable. Standard & Poor’s upgraded its rating to AA Stable from AA- Stable. Fitch Ratings maintained its UCHA rating at AA Stable.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

UCHA Financial Highlights (continued)

Year Ended June 30, 2020 Compared with Year Ended June 30, 2019 (continued)

- In October 2019, UCHA issued Series 2019A Revenue Bonds (“Series 2019A”) in the amount of \$100,000 to finance the construction of Highlands Ranch Hospital. Series 2019A were issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2020, the principal amount of such bonds has been classified as a current liability in the accompanying statements of net position. To address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. UCHealth previously entered a forward-starting floating-to-fixed interest rate swap to coincide with the October 2019 issuance of Series 2019A. The swap agreement has an initial notional amount of \$100,000 and a fixed payor rate of 1.104%. UCHealth will receive 70% of one-month LIBOR for the entire swap term, which expires November 2049. Settlements are to be made monthly starting in October.
- In October 2019, UCHA issued Series 2019B Revenue Bonds (“Series 2019B”) in the amount of \$50,000 to finance the construction of the Greeley Hospital. Series 2019B were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a fixed interest rate of 1.67%. The direct purchase bonds were issued with a ten-year term that will expire October 2029.
- In October 2019, UCHA issued Series 2019C Revenue Bonds (“Series 2019C”) in the amount of \$122,785 to fully refinance the Series 2017C-1 Bonds. Series 2019C were issued as 5 year put bonds at a premium. Series 2019C, while subject to a long-term amortization period, are puttable in 2024. Interest is paid semi-annually and principal paid according to a mandatory sinking fund redemption schedules.
- In October 2019, UCHA issued Series 2019D Revenue Bonds (“Series 2019D”) in the amount of \$50,000 to finance the construction of the Greeley Hospital. Series 2019D were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a fixed interest rate of 1.67%. The direct purchase bonds were issued with a ten-year term that will expire October 2029.

Year Ended June 30, 2019 Compared with Year Ended June 30, 2018

- Inpatient volumes, measured in admissions and patient days, increased over 2018. Volumes include all volumes except those associated with the Center for Dependency, Addiction, and Rehabilitation (“CeDAR”) and normal newborns. Admissions increased 1.5% in 2019 compared to 2018. Patient days increased 4.1% in 2019. Medical/surgical admissions increased 1.3% in 2019. Inpatient volume growth was specific to increased medical and surgical services.
- Outpatient volumes, measured by clinic visits, increased 7.0% in 2019. Continued growth in OP clinic visits is due to programmatic growth in service lines as a result of increased capacity and initiatives to improve patient access through centralized scheduling services.
- Net patient service revenue was \$2,133,120 and \$1,873,879 in 2019 and 2018, respectively. Year over year increases are due to continued growth in patient volume as a result of service line initiatives and efficiencies developed in the patient and procedure scheduling processes. Total operating revenue consists of net patient revenue and other operating revenue.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$ in thousands)

UCHA Financial Highlights (continued)

Year Ended June 30, 2019 Compared with Year Ended June 30, 2018 (continued)

- Operating income was \$380,829 and \$308,959 in 2019 and 2018, respectively. The increase is due to continued patient demand for UCHA services coupled with capacity growth from recent expansions.
- According to Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, interest expense is defined as a non-operating expense and is classified as such in UCHA’s basic financial statements. Operating income would be \$331,455 in 2019 and \$266,250 in 2018 if interest expense was included as an operating expense.
- Non-operating revenue and expenses were \$77,196 and \$123,782 in 2019 and 2018, respectively. This amount is primarily generated from investment income and an unrealized (loss) gain on derivative instruments. The income is offset by interest expense of \$49,374 and \$42,709 for the years ended June 30, 2019 and 2018, respectively. The year-over-year changes were driven by existing market conditions.
- Income before contributions was \$458,025 and \$432,741 in 2019 and 2018, respectively.
- Contribution revenue of \$4,507 was a \$1,146 increase over 2018 contribution revenue of \$3,361.
- UCHA became certified as a Level 1 Trauma Center as of October 12, 2018.
- In July 2018, UCHHealth completed an annual ratings update with Moody’s, Standard & Poor’s and Fitch Ratings to rate the member organizations. Moody’s maintained UCHA at Aa3 Stable. Standard & Poor’s maintained its rating at AA- Stable. Fitch Ratings upgraded UCHA to AA Stable from AA-.
- In July 2018, UCHA issued Series 2018A Revenue Bonds (“Series 2018A”) in the amount of \$45,915 to fully refund PVHS Series 2005A bonds. Series 2018A were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.
- In July 2018, UCHA issued Series 2018B Revenue Bonds (“Series 2018B”) and Series 2018C Revenue Bonds (“Series 2018C”) in the amount of \$76,170 and \$75,265, respectively, to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018B and 2018C are variable rate bonds that bear interest as determined by the Remarketing Agent each week, and principal is paid according to a mandatory sinking fund redemption schedule. UCHA has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B and 2018C. The Standby Bond Purchase Agreement will expire on July 26, 2023 unless extended by the bank. UCHHealth previously entered a forward-starting floating-to-fixed interest rate swap to coincide with the July 2018 refunding of the Series 2005 bonds. The forward swap hedges the 2018 Series variable rate bonds issued in July 2018 to refund the fixed rate Series 2005 bonds ranging from 5.20% to 5.25%, creating synthetic fixed rate debt. The swap agreement has an initial notional amount of \$198,805 and a fixed payor rate of 1.81%, and UCHHealth will receive 67% of one-month LIBOR for the entire swap term, which expires in March 2040. Settlements are made monthly starting in September 2018.
- In June 2019, UCHA executed an escrow agreement to effectively defease Series 2009A bonds. \$33,447 was paid into the escrow.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Overview of the Basic Financial Statements

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

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

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
 Years Ended June 30, 2020, 2019 and 2018
 (\$s in thousands)

Financial Analysis and Results of Operations

Table 1
University of Colorado Hospital Authority
Statements of Net Position

| | June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 |
| Current assets | \$ 1,779,770 | \$ 1,364,995 | \$ 931,625 |
| Capital assets, net of accumulated depreciation | 856,919 | 836,173 | 845,466 |
| Non-current assets and other assets | 3,321,638 | 2,908,822 | 2,714,012 |
| Total assets | <u>5,958,327</u> | <u>5,109,990</u> | <u>4,491,103</u> |
| Deferred amortization on refundings | 17,556 | 18,775 | 5,822 |
| Deferred amortization related to pension plan | 19,913 | 19,212 | 14,182 |
| Total deferred outflows of resources | <u>37,469</u> | <u>37,987</u> | <u>20,004</u> |
| Total assets and deferred outflows of resources | <u>\$ 5,995,796</u> | <u>\$ 5,147,977</u> | <u>\$ 4,511,107</u> |
| Current liabilities | \$ 934,561 | \$ 607,505 | \$ 411,995 |
| Long-term liabilities | 1,576,050 | 1,448,282 | 1,465,251 |
| Total liabilities | 2,510,611 | 2,055,787 | 1,877,246 |
| Deferred amortization related to pension plan | 2,942 | 2,061 | 5,792 |
| Total liabilities and deferred inflows of resources | <u>2,513,553</u> | <u>2,057,848</u> | <u>1,883,038</u> |
| Net position | | | |
| Invested in capital assets, net of related debt | 207,884 | 177,885 | 136,646 |
| Restricted | | | |
| Expendable | | | |
| Held by trustee for debt service | 129 | 811 | 766 |
| Restricted by donors | 11,220 | 10,308 | 10,819 |
| Non-expendable | | | |
| Permanent endowments | 21,459 | 21,451 | 21,445 |
| Unrestricted | 3,241,551 | 2,879,674 | 2,458,393 |
| Total net position | <u>3,482,243</u> | <u>3,090,129</u> | <u>2,628,069</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 5,995,796</u> | <u>\$ 5,147,977</u> | <u>\$ 4,511,107</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

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

At June 30, 2020, UCHA's total net position was \$3,482,243, which is an increase in total net position of \$392,114 or 12.7% from the prior year end. Net position invested in capital assets, net of related debt, increased during the fiscal year due to debt principal payments and additional capital expenditures. The unrestricted net position increase was driven primarily by improved operating performance due to continued strong volumes, revenue enhancements, and continued cost controls.

At June 30, 2020, UCHA's cash and investment position was \$2,928,313 and increased \$615,061 compared to June 30, 2019. Days cash on hand were 598.8 days and net days in accounts receivable were 43.7 as of June 30, 2020.

At June 30, 2019, UCHA's total net position was \$3,090,129, which is an increase in total net position of \$462,060, or 17.6% from the prior year-end. UCHA classifies net position as invested in capital assets, net of related debt, restricted, and unrestricted. Net position invested in capital assets, net of related debt, increased during the fiscal year due to debt principal payments and additional capital expenditures. The unrestricted net position increase was driven primarily by improved operating performance due to continued strong volumes, revenue enhancements, and continued cost controls.

At June 30, 2019, UCHA's unrestricted cash and investment position increased \$136,445 compared to June 30, 2018. Days cash on hand were 501.1 days and net days in accounts receivable were 44.1 as of June 30, 2019.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
 Years Ended June 30, 2020, 2019 and 2018
 (\$s in thousands)

Revenue and Expenses

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

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

| | Fiscal Years Ended June 30, | | |
|--|-----------------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 |
| Operating revenue | | | |
| Net patient service revenue | \$ 2,075,782 | \$ 2,133,120 | \$ 1,873,879 |
| Other operating revenue | <u>25,728</u> | <u>10,693</u> | <u>12,905</u> |
| Total operating revenue | <u>2,101,510</u> | <u>2,143,813</u> | <u>1,886,784</u> |
| Operating expenses | | | |
| Wages, contract labor, and benefits | 705,061 | 661,193 | 605,850 |
| Supplies | 557,986 | 537,305 | 464,795 |
| Purchased services and other expenses | 522,025 | 486,645 | 429,152 |
| Depreciation and amortization | <u>78,303</u> | <u>77,841</u> | <u>78,028</u> |
| Total operating expenses | <u>1,863,375</u> | <u>1,762,984</u> | <u>1,577,825</u> |
| Operating income | <u>238,135</u> | <u>380,829</u> | <u>308,959</u> |
| Non-operating revenues and expenses | | | |
| Interest expense | (44,874) | (49,374) | (42,709) |
| Investment income | 153,994 | 171,076 | 174,106 |
| Unrealized (loss) gain on derivative instruments | (31,914) | (18,212) | 7,663 |
| Gain (loss) on disposal of capital assets | 12 | (210) | 41 |
| Grant revenue | 79,252 | - | - |
| Other, net | <u>(9,480)</u> | <u>(26,084)</u> | <u>(15,319)</u> |
| Total non-operating revenue and expenses | <u>146,990</u> | <u>77,196</u> | <u>123,782</u> |
| Income before contributions | 385,125 | 458,025 | 432,741 |
| Contributions to affiliates | - | (472) | (890) |
| Contributions restricted, other | <u>6,989</u> | <u>4,507</u> | <u>3,361</u> |
| Change in net position | 392,114 | 462,060 | 435,212 |
| Net position, beginning of year | <u>3,090,129</u> | <u>2,628,069</u> | <u>2,192,857</u> |
| Net position, end of year | <u>\$ 3,482,243</u> | <u>\$ 3,090,129</u> | <u>\$ 2,628,069</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

Year ended June 30, 2020 Compared with Year Ended June 30, 2019

Net patient service revenue was \$2,075,782 in 2020 compared to \$2,133,120 in 2019. The detail of net patient service revenue can be found in Note 3 to the basic financial statements.

UCHA provides care to patients who meet certain criteria under its charity care policies and to uninsured patients without charge or at amounts less than established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. Based on analysis of direct and indirect costs specific to the procedures performed, the cost of these services was \$36,215 in 2020, an increase of \$4,781 or 15.2% over 2019.

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. The self-pay discounts and packages for 2020 were \$138,013, an increase of \$12,008, or 9.5% over 2019.

In 2010, the state of Colorado modified the CICIP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act") authorizing the Department of Health Care Policy and Financing to collect a fee from hospital providers to increase Medicaid payments to hospitals and expand coverage under public healthcare programs. For the year ended June 30, 2020, UCHA was charged \$82,192 in hospital provider fees, an increase of \$8,192, or 11.1% over 2019, and received \$95,277 in disproportionate share revenue as compensation for indigent and uninsured care services, an increase of \$3,991, or 4.4% over 2019.

UCHA benefits the community by providing programs, including those listed above, for uninsured and underinsured patients. The total benefit to UCHA's communities for these programs was \$168,687 in 2020, which is an increase of \$24,790, or 17.2% over 2019, and is determined by applying an adjusted cost-to-charge ratio to the charges under these programs and reducing the benefit amount by any actual reimbursement received for these programs.

Operating expenses were \$1,863,375 in 2020. This was an increase of \$100,391, or 5.7%, compared to 2019.

Wages, contract labor and benefits expense of \$705,060 was a \$43,867, or 6.6% increase over the 2019 expense. This includes an 4.6% increase in salaries, a 36.0% decrease in contract labor and a 18.9% increase in benefits.

Medical and non-medical supplies expense of \$557,986 increased by \$20,681, or 3.8%, in 2020. Purchased services and other expenses of \$522,025 increased over 2019 by \$35,380, or 7.3%

In accordance with GASB statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2020 was \$44,874, a decrease of \$4,500, or 9.1% compared to 2019.

Non-operating gain from UCHA's investment portfolio was \$117,994 in 2020, a decrease of \$18,482 from 2019. Interest and dividend income on the portfolio was \$50,140, and realized and unrealized gains on the portfolio were \$71,791. Investment expense was \$3,937 for the year. Interest income derived from receivables from affiliates for debt was \$36,000 in 2020, an increase of \$1,401 from 2019.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

Year ended June 30, 2020 Compared with Year Ended June 30, 2019 (continued)

UCHA utilizes interest rate swaps to manage interest rate risk exposure on certain bond series. Interest rate swaps necessarily involve counterparty credit risk, and UCHA seeks to control this risk by entering into transactions with high quality counterparties and through exposure monitoring. UCHA is party to two floating-to-fixed payer swap agreements tied to the Series 2013A and 2013C Revenue Bonds. UCHealth is party to a forward-starting floating-to-fixed rate swap agreement to coincide with a planned refunding of Series 2005 bonds in September 2018 and is also party to a total return fixed-to-floating swap agreement tied to the Series 2017A Revenue Bonds. These agreements are used to create synthetic fixed rate bonds by converting the variable rates on those series to a fixed rate, reducing interest rate risk, or reducing the overall cost of capital. Therefore, cash flows on these agreements are recorded as interest expense. These agreements are discussed in greater detail in Note 6 to the basic financial statements.

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

Enacted on March 27, 2020, the CARES Act was established, which authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenues from canceled procedures, and to provide support for related healthcare expenses, such as constructing temporary structures or emergency operation centers, retrofitting facilities, purchasing medical supplies and equipment including personal protective equipment and testing supplies, and increasing workforce. UCHA has recognized \$79,252 in grant revenue from the CARES Act funds in 2020.

Other net non-operating expenses were \$9,480 in 2020 due to donations made to the University of Colorado School of Medicine.

Year ended June 30, 2019 Compared with Year Ended June 30, 2018

Net patient service revenue was \$2,133,120 in 2019 compared to \$1,873,879 in 2018. The detail of net patient service revenue can be found in Note 3 to the basic financial statements.

UCHA provides care to patients who meet certain criteria under its charity care policies and to uninsured patients without charge or at amounts less than established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. Based on analysis of direct and indirect costs specific to the procedures performed, the cost of these services was \$31,434 in 2019, an increase of \$4,317 or 15.9% over 2018.

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. The self-pay discounts and packages for 2019 were \$126,005, an increase of \$19,099, or 17.9% over 2018.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

Year ended June 30, 2019 Compared with Year Ended June 30, 2018 (continued)

In 2010, the state of Colorado modified the CICIP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act") authorizing the Department of Health Care Policy and Financing to collect a fee from hospital providers to increase Medicaid payments to hospitals and expand coverage under public healthcare programs. For the year ended June 30, 2019, UCHA was charged \$74,000 in hospital provider fees, an increase of \$5,128, or 7.4% over 2018, and received \$91,286 in disproportionate share revenue as compensation for indigent and uninsured care services, an increase of \$4,007, or 4.6% over 2018. The 2010 DSH guidance including Frequently Asked Questions ("FAQs") 33 and 34 required that the Medicare and private insurance payments received on behalf of Medicaid-eligible patients to be subtracted from the costs of care for the Inpatient and Outpatient services to Medicaid-eligible patients, which reduced the hospital-specific DSH payment limit for many hospitals. If the cost of care for those patients, including indigent and uninsured patients, less reimbursement received for those patients exceeded the amount of DSH payment made to the hospital, then a portion of the DSH payment would be recouped. The System carried reserves for estimates of such recoupments as a result of those FAQs. As of December 31, 2018, and in light of recent appellate court decisions, CMS revoked these FAQs for services furnished prior to June 2, 2017. As a result, the reserves carried for 2015 and 2016 are no longer required. Therefore, the Hospital released \$47,477 in such reserves, which is included in net patient revenue in the accompanying statement of revenue, expenses, and changes in net position.

UCHA benefits the community by providing programs, including those listed above, for uninsured and underinsured patients. The total benefit to UCHA's communities for these programs was \$143,897 in 2019, which is an increase of \$7,899, or 5.8% over 2018, and is determined by applying an adjusted cost-to-charge ratio to the charges under these programs and reducing the benefit amount by any actual reimbursement received for these programs.

Operating expenses were \$1,762,984 in 2019. This was an increase of \$185,159, or 11.7%, compared to 2018.

Wages, contract labor and benefits expense of \$661,193 was a \$55,343, or 9.1% increase over the 2018 expense. This includes an 11.0% increase in salaries, a 32.1% decrease in contract labor and a 7.3% increase in benefits.

Medical and non-medical supplies expense of \$537,305 increased by \$72,510, or 15.6%, in 2019. Purchased services and other expenses of \$486,645 increased over 2018 by \$57,493, or 13.4%

In accordance with GASB statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2019 was \$49,374, a decrease of \$6,665, or 15.6% compared to 2018.

Non-operating gain from UCHA's investment portfolio was \$136,476 in 2019, a decrease of \$11,535 from 2018. Interest and dividend income on the portfolio was \$41,179, and realized and unrealized gains on the portfolio were \$99,191. Investment expense was \$3,894 for the year. Interest income derived from receivables from affiliates for debt was \$34,600 in 2019, an increase of \$8,505 from 2018.

Other net non-operating expenses were \$26,084 in 2019 due to donations made to the University of Colorado School of Medicine. In addition, during 2019, UCHA made a decision to close down and not repurpose a location for which there was a long-term non-cancellable lease, and recognized \$9,246 in loss on discontinued operations for the estimated future lease payments, reduced by estimated sublease rental income.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment, at June 30, 2020, 2019 and 2018 are summarized in Table 3 and discussed below.

Table 3
University of Colorado Hospital Authority

| | 2020 | 2019 | 2018 |
|----------------------------|-------------------|-------------------|-------------------|
| Land | \$ 2,026 | \$ 48 | \$ 48 |
| Buildings and Improvements | 659,121 | 688,733 | 715,904 |
| Equipment | 91,571 | 87,656 | 110,861 |
| Construction in progress | 104,201 | 59,736 | 18,653 |
| Total | <u>\$ 856,919</u> | <u>\$ 836,173</u> | <u>\$ 845,466</u> |

Capital Assets, Net of Depreciation and Impairment

Net capital assets have increased 2.5% from the prior year.

In 2020 there were two capital additions in excess of \$5,000, which were the Anschutz Inpatient Pavilion Tower III with spend of \$36,329 and surgical equipment and instrumentation with a spend of \$5,672. In 2019 there was one capital addition in excess of \$5,000, which was the Anschutz Inpatient Pavilion Tower III with spend of \$11,750. In 2018 there was one capital addition in excess of \$5,000, which was the Inpatient Operating Room Expansion with spend of \$12,815.

Ongoing capital requirements are funded from a combination of operating cash and contributions. UCHA's annual capital budget, exclusive of the larger strategic projects, was \$27,994 in 2020 and \$25,236 in 2019. The 2020 and 2019 capital budgets are exclusive of the UCHHealth capital allocation. Cash flows related to capital expenditures totaled \$83,333 in 2020 compared to \$58,096 in 2019. Total depreciation expense on capital assets was \$78,303 and \$77,841 in 2020 and 2019, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
 Years Ended June 30, 2020, 2019 and 2018
 (\$s in thousands)

Capital Assets and Debt Administration (continued)

Long-Term Debt

Long-term debt is summarized in Table 4 and discussed below:

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

| | 2020 | 2019 | 2018 |
|--|---------------------|---------------------|---------------------|
| Capital leases | \$ 4 | \$ 7 | \$ - |
| 2009A Revenue Bonds | - | - | 37,704 |
| 2011B Revenue Bonds | 95,220 | 96,330 | 97,430 |
| 2011C Revenue Bonds | 24,065 | 31,300 | 38,170 |
| 2012A Revenue Bonds | 252,306 | 255,171 | 258,276 |
| 2012B Revenue Bonds | 50,000 | 50,000 | 50,000 |
| 2012C Revenue Bonds | 87,510 | 87,510 | 87,510 |
| 2013A Revenue Bonds | 82,275 | 84,490 | 86,630 |
| 2013B Revenue Bonds | 6,800 | 7,970 | 9,080 |
| 2013C Revenue Bonds | 58,895 | 60,605 | 62,245 |
| 2015D Revenue Bonds | 197,815 | 198,210 | 198,640 |
| 2017A Revenue Bonds | 152,075 | 152,075 | 152,075 |
| 2017B1 Revenue Bonds | 57,685 | 57,685 | 57,685 |
| 2017B2 Revenue Bonds | 37,955 | 44,630 | 51,025 |
| 2017C1C2 Revenue Bonds | 139,961 | 286,736 | 292,908 |
| 2018A Revenue Bonds | 45,915 | 45,915 | - |
| 2018B Revenue Bonds | 76,170 | 76,170 | - |
| 2018C Revenue Bonds | 75,265 | 75,265 | - |
| 2019A Revenue Bonds | 100,000 | - | - |
| 2019B Revenue Bonds | 50,000 | - | - |
| 2019C Revenue Bonds | 139,936 | - | - |
| 2019D Revenue Bonds | 50,000 | - | - |
| Less current portion | (166,594) | (22,519) | (24,045) |
| Less long-term debt subject to short-term remarketing arrangements | (234,595) | (283,195) | (102,315) |
| | <u>\$ 1,378,663</u> | <u>\$ 1,304,355</u> | <u>\$ 1,353,018</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2020, 2019 and 2018
(\$s in thousands)

Economic Factors and Next Year's Activities and Rates

Demand for inpatient beds at the Anschutz Medical Campus is expected to continue in fiscal year 2021, though somewhat lower than levels seen before the COVID-19 pandemic. Denver county and other surrounding counties including Adams and Arapahoe are expected to continue their growth in the future. The challenge and opportunity for UCHA will be to most effectively manage the utilization of available beds to the best advantage of UCHA, University of Colorado School of Medicine, and the community in the coming year.

UCHA expects to maintain a stable payor mix. Continued growth in high-deductible benefit plans is anticipated, creating higher out-of-pocket costs for patients and a greater burden on UCHA in managing receivables. UCHA expects to remain in-network with all major payors in the Denver area in 2021.

Management believes that UCHA's current balance sheet and liquidity remain strong under current circumstances. While management believes UCHA has the financial wherewithal to weather the current challenges presented by the COVID-19 pandemic, leadership is taking the following actions to seek to improve financial performance:

- Pursuing available Federal and State programs, including FEMA, CARES and other COVID-19 programs
- Deferring certain non-essential and non-COVID-19 related capital expenditures
- Evaluating expenses, including staffing levels, and identifying and implementing steps to seek to reduce expenses to align costs and current volume levels.

Management will continue to explore and pursue options and plans to help UCHA through the current COVID-19 crisis and return to a position of strength after COVID-19 is no longer a threat to the communities served by UCHA.

Requests for Information

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Net Position

June 30, 2020 and 2019

(\$s in thousands)

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 544,420 | \$ 113,986 |
| Patient accounts receivable, less allowances for uncollectible accounts of \$195,652 and \$172,976, respectively | 230,660 | 257,521 |
| Receivables from related parties | 656,137 | 609,608 |
| Receivables from affiliates for debt | 9,320 | 8,680 |
| Other receivables | 20,015 | 20,608 |
| Inventories | 53,085 | 44,200 |
| Prepaid expenses | 31,538 | 27,197 |
| Investments designated for liquidity support | 234,595 | 283,195 |
| Total current assets | <u>1,779,770</u> | <u>1,364,995</u> |
| Non-current assets | | |
| Restricted investments, bonds | 129 | 811 |
| Restricted investments, other | 1 | - |
| Restricted investments and pledges, donors | 34,432 | 37,178 |
| Capital assets, net of accumulated depreciation | 856,919 | 836,173 |
| Long-term investments | 2,149,298 | 1,916,071 |
| Other investments | 7,402 | 7,329 |
| Receivable from affiliates for debt | 1,128,939 | 945,703 |
| Other assets | 1,437 | 1,730 |
| Total non-current assets | <u>4,178,557</u> | <u>3,744,995</u> |
| Total assets | <u>5,958,327</u> | <u>5,109,990</u> |
| Deferred Outflows of Resources | | |
| Deferred amortization on refundings | 17,556 | 18,775 |
| Deferred amortization related to pension plan | 19,913 | 19,212 |
| Total deferred outflows of resources | <u>37,469</u> | <u>37,987</u> |
| Total assets and deferred outflows of resources | <u>\$ 5,995,796</u> | <u>\$ 5,147,977</u> |

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Net Position

June 30, 2020 and 2019

(\$s in thousands)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | <u> </u> | <u> </u> |
| Liabilities | | |
| Current liabilities | | |
| Current portion of long-term debt | \$ 166,594 | \$ 22,519 |
| Accounts payable and accrued expenses | 183,243 | 186,207 |
| Accounts payable - construction | 7,443 | 2,601 |
| Accrued compensated absences | 31,230 | 27,566 |
| Accrued interest payable | 6,701 | 6,621 |
| Payables to affiliates | 11,441 | 11,775 |
| Fair value of derivative instruments | 7,743 | 4,832 |
| Estimated third-party settlements | 285,571 | 62,189 |
| Long-term debt subject to short-term remarketing arrangements | <u>234,595</u> | <u>283,195</u> |
| Total current liabilities | 934,561 | 607,505 |
| Long-term liabilities | | |
| Long-term debt, less current portion | 1,378,663 | 1,304,355 |
| Fair value of derivative instruments, less current portion | 88,789 | 42,314 |
| Net pension liability | 105,728 | 99,039 |
| Other long-term liabilities | <u>2,870</u> | <u>2,574</u> |
| Total liabilities | <u>2,510,611</u> | <u>2,055,787</u> |
| Deferred Inflows of Resources | | |
| Deferred amortization related to pension plan | <u>2,942</u> | <u>2,061</u> |
| Total deferred inflows of resources | <u>2,942</u> | <u>2,061</u> |
| Total liabilities and deferred inflows of resources | <u>2,513,553</u> | <u>2,057,848</u> |
| Net Position | | |
| Invested in capital assets, net of related debt | 207,884 | 177,885 |
| Restricted expendable | | |
| Held by trustee for debt service | 129 | 811 |
| Restricted by donors | 11,220 | 10,308 |
| Restricted non-expendable | | |
| Permanent endowments | 21,459 | 21,451 |
| Unrestricted | <u>3,241,551</u> | <u>2,879,674</u> |
| Total net position | <u>3,482,243</u> | <u>3,090,129</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 5,995,796</u> | <u>\$ 5,147,977</u> |

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2020 and 2019

(\$s in thousands)

| | 2020 | 2019 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Operating revenue | | |
| Net patient service revenue, net of provision for bad debts of \$93,217 and \$86,276, respectively | \$ 2,075,782 | \$ 2,133,120 |
| Other operating revenue | 25,728 | 10,693 |
| Total operating revenue | <u>2,101,510</u> | <u>2,143,813</u> |
| Operating expenses | | |
| Wages, contract labor, and benefits | 705,061 | 661,193 |
| Supplies | 557,986 | 537,305 |
| Purchased services and other expenses | 522,025 | 486,645 |
| Depreciation and amortization | 78,303 | 77,841 |
| Total operating expenses | <u>1,863,375</u> | <u>1,762,984</u> |
| Operating income | <u>238,135</u> | <u>380,829</u> |
| Non-operating revenue and expenses | | |
| Interest expense | (44,874) | (49,374) |
| Investment income | 153,994 | 171,076 |
| Unrealized loss on derivative instruments | (31,914) | (18,212) |
| Gain (loss) on disposal of capital assets | 12 | (210) |
| Grant revenue | 79,252 | - |
| Loss on discontinued operations | - | (9,246) |
| Other, net | (9,480) | (16,838) |
| Total non-operating revenue and expenses | <u>146,990</u> | <u>77,196</u> |
| Income before contributions | 385,125 | 458,025 |
| Contributions to affiliates | - | (472) |
| Contributions restricted, other | 6,989 | 4,507 |
| Change in net position | 392,114 | 462,060 |
| Net position, beginning of year | <u>3,090,129</u> | <u>2,628,069</u> |
| Net position, end of year | <u>\$ 3,482,243</u> | <u>\$ 3,090,129</u> |

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Cash Flows
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Cash received from patients and third-party payors | \$ 2,317,951 | \$ 2,057,132 |
| Cash payments to suppliers for goods and services | (1,116,442) | (1,008,121) |
| Cash payments to employees/UCDHSC/other on behalf of employees | (676,327) | (648,117) |
| Cash received from or on behalf of affiliates | (47,818) | (276,496) |
| Other receipts | 34,714 | 10,365 |
| Net cash provided by operating activities | <u>512,078</u> | <u>134,763</u> |
| Cash flows from capital and related financing activities | | |
| Proceeds from intercompany bonds | (181,358) | (45) |
| Principal repayments under capital lease obligations | (3) | (3) |
| Proceeds from long-term debt | 200,000 | - |
| Principal repayments of long-term debt | (22,515) | (59,725) |
| Payments of interest on long-term debt | (53,792) | (55,352) |
| Capital expenditures | (83,333) | (58,096) |
| Receipt of contributions | 6,989 | 4,507 |
| Proceeds on disposition of capital assets | 12 | 153 |
| Net cash used in capital and related financing activities | <u>(134,000)</u> | <u>(168,561)</u> |
| Cash flows from noncapital financing activities | | |
| Receipt of grant revenue | 79,252 | - |
| Net cash provided by noncapital financing activities | <u>79,252</u> | <u>-</u> |
| Cash flows from investing activities | | |
| Investment income | 153,621 | 128,475 |
| Distributions from joint ventures | 310 | 277 |
| Proceeds from sale and maturities of investments | 2,406,070 | 112,421 |
| Purchases of investments | (2,586,897) | (263,773) |
| Net cash used in investing activities | <u>(26,896)</u> | <u>(22,600)</u> |
| Net decrease in cash and cash equivalents | 430,434 | (56,398) |
| Cash and cash equivalents, beginning of year | 113,986 | 170,384 |
| Cash and cash equivalents, end of year | <u>\$ 544,420</u> | <u>\$ 113,986</u> |
| Reconciliation of operating income to net cash provided by operating activities | | |
| Operating income | \$ 238,135 | \$ 380,829 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation and amortization | 78,303 | 77,841 |
| Provision for bad debts | 93,217 | 86,276 |
| Increase in patient accounts receivable | (66,356) | (106,183) |
| Increase in other receivables and receivables from related parties and affiliates | (39,672) | (276,673) |
| Increase in inventories | (8,655) | (3,468) |
| Increase in prepaid expenses and other assets | (4,431) | (3,152) |
| (Decrease) increase in accounts payable and accrued expenses | (12,674) | 28,078 |
| Increase (decrease) in estimated third-party settlements | 223,382 | (47,647) |
| Change in net pension liability and pension-related deferred inflows and outflows of resources | 6,869 | (2,193) |
| Increase in accrued compensated absences and other long-term liabilities | 3,960 | 1,055 |
| Total adjustments | <u>273,943</u> | <u>(246,066)</u> |
| Net cash provided by operating activities | <u>\$ 512,078</u> | <u>\$ 134,763</u> |

(Continued on the following page)

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Cash Flows
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(Continued from the previous page)

| | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Non-cash transactions | | |
| Donated pharmaceuticals | \$ 8,074 | \$ 8,434 |
| Capital leases executed | \$ - | \$ 10 |
| Non-cash refunding of debt | \$ 141,640 | \$ - |
| Construction in progress accrued | \$ 7,443 | \$ 2,601 |
| Unrealized gain on investments | \$ 1,054 | \$ 24,348 |
| Unrealized loss on derivative instruments | \$ (31,914) | \$ (18,212) |

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Fiduciary Net Position

June 30, 2020 and 2019

(\$s in thousands)

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|---------------------|-------------------|
| Assets | | |
| Investments | \$ <u>1,012,926</u> | \$ <u>907,416</u> |
| Net Position | | |
| Held in trust for pension benefits | \$ <u>1,012,926</u> | \$ <u>907,416</u> |

Statements of Changes in Fiduciary Net Position

Years Ended June 30, 2020 and 2019

(\$s in thousands)

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|-------------------|
| Additions | | |
| Contributions | \$ <u>101,800</u> | \$ <u>91,812</u> |
| Investment income | | |
| (Decrease) increase in fair value of investments | (13,353) | 17,698 |
| Interest | 2,793 | 1,984 |
| Dividends and other | <u>50,024</u> | <u>20,375</u> |
| Investment income | <u>39,464</u> | <u>40,057</u> |
| Total additions | <u>141,264</u> | <u>131,869</u> |
| Deductions | | |
| Benefits | 32,729 | 42,823 |
| Administrative expenses | <u>3,025</u> | <u>4,175</u> |
| Total deductions | <u>35,754</u> | <u>46,998</u> |
| Change in net position | 105,510 | 84,871 |
| Net position, beginning of year | <u>907,416</u> | <u>822,545</u> |
| Net position, end of year | \$ <u>1,012,926</u> | \$ <u>907,416</u> |

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(1) Organization and Mission

The University of Colorado Hospital Authority (“UCHA”) was created pursuant to Section 23-21-503 of the Colorado Revised Statutes and is a political subdivision and body corporate of the State of Colorado. UCHA owns and operates a 673-licensed-bed, non-sectarian, general acute care hospital; the Anschutz Centers for Advanced Medicine, which include the Anschutz Outpatient Pavilion, the Anschutz Inpatient Pavilion 1, the Anschutz Inpatient Pavilion 2, the Anschutz Cancer Pavilion, the Center for Dependency, Addiction, and Rehabilitation (“CeDAR”), and the Rocky Mountain Lions Eye Institute; outlying outpatient primary care clinics; outlying specialty clinics; and the University of Colorado Hospital Foundation (the “Foundation”), collectively known as UCHA. UCHA is the primary teaching hospital for the University of Colorado Denver (“UCD”), which is comprised of the Schools of Medicine, Nursing, Pharmacy, and Dentistry; the Graduate School, and the School of Public Health. UCHA’s mission is to advance healthcare for its patients and their families through healing, discovery, and education.

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

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

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

(b) Use of Estimates in Preparation of Financial Statements

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

(c) Net Position

UCHA's net position is classified as follows:

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(c) Net Position (continued)

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

(d) Cash and Cash Equivalents

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

(e) Investments and Restricted Investments

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

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

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

(f) Inventories

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

(g) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at the date of receipt. Prior to the adoption of GASB Statement No. 89 during the year ended June 30, 2020, interest incurred, net of interest earned on related funds held by a trustee under bond agreements, in connection with borrowings to finance major construction or expansion of facilities is capitalized until the related assets are put into service and subsequently amortized over the lives of the related assets. All capital assets are depreciated or amortized over the estimated useful life of each class of assets using the straight-line method. Useful lives for buildings and improvements are 20-40 years, equipment is 3-15 years, and leasehold improvements are 3-20 years. Depreciation expense includes depreciation on assets held and used solely by UCHA in addition to allocated depreciation expense on assets held by the Health System.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(g) *Capital Assets (continued)*

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

(h) *Compensated Absences*

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

(i) *Deferred Amortization on Refundings*

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

(j) *Financial Instruments*

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(k) Endowments

UCHA's endowments consist of individual funds restricted by donors for a variety of purposes. The State of Colorado's Uniform Prudent Management of Institutional Funds Act requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, UCHA classifies as non-expendable restricted net position the original value of the gifts donated to the permanent endowment. The appreciation on donor-restricted endowment funds is classified as expendable restricted net position until those amounts are appropriated for expenditure by UCHA. UCHA may spend the net appreciation on the endowment funds based on the individual endowment fund agreements, and considers factors such as duration and preservation of the fund, purposes of the fund, general economic conditions, possible effects of inflation and deflation, expected total return from investment income, and other resources of the Foundation when determining the amounts to authorize and spend in an individual year. The amount of net appreciation on endowments that was available for expenditure at June 30, 2020 and 2019 was \$3,765 and \$3,042, respectively.

(l) Revenue and Expenses

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

(m) Net Patient Service Revenue

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(n) Risk Management

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

(o) Income Taxes

UCHA is a political subdivision and body corporate of the State of Colorado and, as such, the income generated by UCHA in the exercise of its essential government function is exempt from federal income tax under Section 115 of the Code. UCHA also has a determination letter from the IRS, which states that it is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Code. UCHA has recognized a tax liability of \$1,996 and \$2,107 at June 30, 2020 and 2019, respectively, for unrelated business income taxes.

(p) Pension Plans

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

(q) Discontinued Operations

UCHA recognizes losses on discontinued operations during the year in which the operations are discontinued. During 2019, UCHA made a decision to close down and not repurpose a location for which there was a long-term non-cancellable lease with rates significantly above market lease rates. UCHA recognized \$9,246 in loss on discontinued operations for the year ended June 30, 2019 for the estimated future lease payments, reduced by estimated sublease rental income.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) *New Accounting Pronouncements (continued)*

In 2018, the GASB issued Statement No. 84, *Fiduciary Activities*, which established criteria for identifying fiduciary activities of governments and how those activities should be reported. The provisions of this statement were originally effective for UCHA's financial statements for the year ending June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. UCHA is in the process of evaluating the impact of this statement to UCHA's basic financial statements.

In 2017, the GASB issued Statement No. 87, *Leases*, which improves the accounting and financial reporting for leases by governments for the financial statement users. GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this statement were originally effective for UCHA's financial statements for the year ending June 30, 2021 but were extended to June 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. UCHA is in the process of evaluating the impact of this statement to UCHA's basic financial statements.

In 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which supersedes GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest cost incurred before the end of a construction period. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions of this statement were adopted by UCHA for the year ending June 30, 2020, and did not have a material impact to UCHA's basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

In 2018, the GASB issued Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, which provides updated guidance related to a government's majority equity interest in a legally separate organization. This statement requires that a majority equity interest in a legally separate organization should be reported as an investment if the equity holding meets the definition of an investment; otherwise the government should report the legally separate organization as a component unit. The provisions of this statement were originally effective for UCHA's financial statements for the year ending June 30, 2020 but were extended to June 30, 2021 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*, and are not expected to have a material impact to UCHA's basic financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*, which addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. UCHA does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. With the London Interbank Offered Rate (LIBOR) expecting to cease existence in its current form at the end of 2021, this statement addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) in hedging derivative instruments and leases. The removal of LIBOR as an appropriate benchmark interest rate for a hedging derivative instrument is effective for UCHA's financial statements for the year ending June 30, 2022. All other requirements of the statement are effective for UCHA's financial statements for the year ending June 30, 2021. This pronouncement will not have a significant impact on UCHA's financial statements.

In March, 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves accounting and financial reporting for arrangements where a governmental entity contracts with an operator to provide public services by conveying control of the right to operate or use nonfinancial assets, such as infrastructure or other capital assets, for a period of time in an exchange or exchange-like transaction. It establishes the definitions of public-private and public-public partnerships (PPP's) and availability payment arrangements (APA's) and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. It requires governments to report assets and liabilities related to PPP's consistently and disclose important information about PPP transactions. The provisions of this statement are effective for UCHA's financial statements for the year ending June 30, 2023. UCHA is currently evaluating the impact this standard will have on the financial statements when adopted.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

In May 2020, the Governmental Accounting Standards Board issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. The provisions of this statement are effective for UCHA's financial statements for the year ending June 30, 2023. UCHA is in the process of evaluating the impact of this statement to UCHA's basic financial statements.

In June 2020, the Governmental Accounting Standards Board issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 plan should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. UCHA is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for UCHA's financial statements for the year ending June 30, 2022. UCHA is in the process of evaluating the impact of this statement to UCHA's basic financial statements.

(3) Net Patient Service Revenue

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

| | 2020 | 2019 |
|--|--------------|--------------|
| Gross charges | \$ 9,182,863 | \$ 8,959,464 |
| Third-party contractual allowances | (6,870,881) | (6,627,045) |
| Indigent and charity care | (100,247) | (78,304) |
| Provision for bad debt | (93,217) | (86,276) |
| Self-pay packages and other discounts | (138,013) | (126,005) |
| Reimbursement under the Colorado Provider Fee Program, net of pass-through payments | 95,277 | 91,286 |
| Net patient service revenue | \$ 2,075,782 | \$ 2,133,120 |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(3) Net Patient Service Revenue (continued)

UCHA has programs that receive add-on payments to the established rate or that are paid at a reasonable cost by third-party payors. Amounts received for these additional payments from Medicare, Medicaid, and TriCare programs are subject to audit and retroactive adjustment. Generally, provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue under the Medicare and Medicaid programs in 2020 and 2019 was \$605,824 and \$690,792, respectively.

(a) Medicare

Inpatient acute care services rendered to Medicare beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a Diagnostic-Related Group patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicare beneficiaries are paid based upon the Ambulatory Payment Classification system. UCHA is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by UCHA and audits thereof by the Medicare administrative contractor. UCHA's classifications of patients under the Medicare program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with UCHA. UCHA's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2014.

(b) Medicaid

Inpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Prior to October 31, 2016, outpatient services were reimbursed by a combination of fee schedule and a tentative payment rate, with final settlement determined after submission of an annual cost report by UCHA and audits thereof by the Medicaid fiscal intermediary. Beginning October 31, 2016, outpatient services are reimbursed based on the product of a hospital-specific base rate and the Enhanced Ambulatory Patient Group's adjusted relative weight. UCHA's classification of patients under the Medicaid program and medical necessity of procedures performed are subject to an independent audit by a peer review organization under contract with UCHA. UCHA's Medicaid cost reports have been audited and settled by the Medicaid fiscal intermediary through June 30, 2014.

(c) Other Payors

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

(d) Self-Pay

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a 50% discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were \$138,013 and \$126,005 in 2020 and 2019, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(3) Net Patient Service Revenue (continued)

(e) Disproportionate Share Hospital and Charity Care Policy

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the “Act”). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2020 and 2019, UCHA was charged \$82,192 and \$74,000, respectively, in hospital provider fees and received \$95,277 and \$91,826, respectively, in disproportionate share and Medicaid supplemental payments as compensation for indigent and underinsured care services provided, respectively. The 2010 DSH guidance including Frequently Asked Questions (“FAQs”) 33 and 34 required that the Medicare and private insurance payments received on behalf of Medicaid-eligible patients to be subtracted from the costs of care for the Inpatient and Outpatient services to Medicaid-eligible patients, which reduced the hospital-specific DSH payment limit for many hospitals. If the cost of care for those patients, including indigent and uninsured patients, less reimbursement received for those patients exceeded the amount of DSH payment made to the hospital, then a portion of the DSH payment would be recouped. UCHA carried reserves for estimates of such recoupments as a result of those FAQs. As of December 31, 2018, and in light of recent appellate court decisions, CMS revoked these FAQs for services furnished prior to June 2, 2017. As a result, the reserves carried for 2015 and 2016 are no longer required. Therefore, UCHA released \$47,477 in such reserves during the year ended June 30, 2019, which is included in net patient revenue in the accompanying statement of revenue, expenses and changes in net position.

Based on an analysis of the direct and indirect costs of the procedures performed, the cost of charity care services provided was \$36,215 and \$31,434 for the years ended June 30, 2020 and 2019, respectively.

(f) Community Benefit

Based on the application of an adjusted cost to charge ratio to the procedures performed, reduced by actual reimbursement received, UCHA provided \$168,687 and \$143,897 in total benefits to the community for uninsured and underinsured patients in 2020 and 2019, respectively.

(4) Restricted and Unrestricted Pledges

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

The balance of contributions receivable at June 30, 2020 was \$2,312 (unrestricted) and \$160 (restricted). The balance of contributions receivable at June 30, 2019 was \$2,695 (unrestricted) and \$160 (restricted).

The total current portions of unrestricted contributions receivable, net of allowances for uncollectible receivables, were \$2,312 and \$2,695 at June 30, 2020 and 2019, respectively. The total current portions of restricted contributions receivable, net of allowances for uncollectible receivables, were \$160 and \$160 at June 30, 2020 and 2019, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(5) Deposits and Investments

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

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

At June 30, 2020 and 2019, UCHA’s unrestricted cash deposits had a book balance of \$544,420 and \$113,986, respectively, and a bank balance of \$589,918 and \$159,604, respectively. UCHA’s receivables and investments restricted by donors included cash deposits that had a book and bank balance of \$32,679 and \$29,287 at June 30, 2020 and 2019, respectively. The difference between the bank balance and the book balance is related to outstanding reconciling items. These balances are covered by federal depository insurance up to the applicable maximum, as applicable.

The members effectively pool their cash and investments within UCHealth’s investment account structure to ease the cash and investment functions within the Health System. The balances below as of June 30, 2020 and 2019 reflect UCHA’s share of the cash and investments held at the Health System level.

| | June 30, 2020 | | |
|--|-------------------|---------------------|---------------------|
| | Deposits | Investments | Total |
| Enterprise fund | | | |
| Cash and cash equivalents | \$ 544,420 | \$ - | \$ 544,420 |
| Assets limited as to use | - | 34,562 | 34,562 |
| Investments designated for liquidity support | - | 234,595 | 234,595 |
| Long-term investments | - | 2,149,298 | 2,149,298 |
| | <u>\$ 544,420</u> | <u>\$ 2,418,455</u> | <u>\$ 2,962,875</u> |
| | | | |
| | June 30, 2019 | | |
| | Deposits | Investments | Total |
| Enterprise fund | | | |
| Cash and cash equivalents | \$ 113,986 | \$ - | \$ 113,986 |
| Assets limited as to use | - | 37,989 | 37,989 |
| Investments designated for liquidity support | - | 283,195 | 283,195 |
| Long-term investments | - | 1,916,071 | 1,916,071 |
| | <u>\$ 113,986</u> | <u>\$ 2,237,255</u> | <u>\$ 2,351,241</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(5) Deposits and Investments (continued)

Enterprise fund investments consist of the following:

| | June 30, | |
|--|--------------|--------------|
| | 2020 | 2019 |
| Restricted by trustee under bond agreement | \$ 129 | \$ 811 |
| Restricted investments, other | 1 | - |
| Restricted by donor | 34,432 | 37,178 |
| Designated for liquidity support | 234,595 | 283,195 |
| Long-term investments | 2,149,298 | 1,916,071 |
| Total investments | \$ 2,418,455 | \$ 2,237,255 |

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

| | June 30, | |
|--|--------------|--------------|
| | 2020 | 2019 |
| Cash equivalents | \$ 72,894 | \$ 66,788 |
| U.S. Treasury bills | 93,421 | 130,197 |
| U.S. government agency, pool, and mortgage-backed securities | 169,560 | 169,861 |
| Asset-backed securities | 85,148 | 63,347 |
| Mutual bond funds | 258,500 | 317,445 |
| Treasury inflation protected securities ("TIPS") | 115,531 | 111,481 |
| Alternative investments | 4,824 | - |
| Corporate bonds | 306,928 | 193,219 |
| Equity securities | 1,317,133 | 1,209,723 |
| Interest and dividends receivable | 510 | 3,722 |
| Miscellaneous investment payable | (5,994) | (28,528) |
| Total investments | \$ 2,418,455 | \$ 2,237,255 |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(5) Deposits and Investments (continued)

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

| | June 30, | |
|--|--------------|------------|
| | 2020 | 2019 |
| Cash equivalents | \$ 26,877 | \$ 31,397 |
| U.S. Treasury bills | 1,189 | 28,747 |
| U.S. government agency, pool, and mortgage-backed securities | 31,156 | 25,639 |
| Asset-backed securities | 7,268 | 6,270 |
| TIPS | 30,423 | 28,992 |
| Corporate bonds | 53,260 | 14,467 |
| Alternative investments | 73,288 | 118,063 |
| Private real estate | 52,827 | 50,590 |
| Mutual bond funds | 166,490 | 141,341 |
| Other mutual funds | 571,701 | 469,827 |
| Interest and dividends payable | (144) | (684) |
| Miscellaneous investment payable | (1,409) | (7,233) |
| Total investments | \$ 1,012,926 | \$ 907,416 |

(a) Credit Risk

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(5) Deposits and Investments (continued)

(a) Credit Risk (continued)

The following is a summary of enterprise fund investments at June 30, 2020 and 2019. The ratings are presented as the lower of Standard & Poor's or Moody's rating using the S&P scale.

| | 2020 | | 2019 | |
|---|--------------------|-------------------|--------------------|-------------------|
| | 2020 Fair Value | Average Rating | 2019 Fair Value | Average Rating |
| U.S. government agency, pool, and mortgage-backed securities | \$ 169,560 | AA+ | \$ 169,861 | AA+ |
| Asset-backed securities | 85,148 | AA+ | 63,347 | AA+ |
| Mutual bond funds | 258,500 | BBB+ | 317,445 | BBB+ |
| TIPS | 115,531 | AA+ | 111,481 | AA+ |
| Corporate bonds | 306,928 | BBB+ | 193,219 | BBB+ |

The following is a summary of pension trust fund investments at June 30, 2020 and 2019, with average credit ratings based on the lower of Standard & Poor's or Moody's rating using the S&P scale:

| | 2020 | | 2019 | |
|---|--------------------|-------------------|--------------------|-------------------|
| | 2020 Fair Value | Average Rating | 2019 Fair Value | Average Rating |
| U.S. government agency, pool, and mortgage-backed securities | \$ 31,156 | AA+ | \$ 25,639 | AA+ |
| Asset-backed securities | 7,268 | AAA | 6,270 | AAA |
| Mutual bond funds | 166,490 | BBB | 141,341 | BBB |
| TIPS | 30,423 | AAA | 28,992 | AAA |
| Total corporate bonds | 53,260 | BBB+ | 14,467 | A- |

(b) Interest Rate Risk

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(5) Deposits and Investments (continued)

(b) Interest Rate Risk (continued)

As of June 30, 2020 and 2019, the enterprise fund held the following investments. Modified duration is in years.

| | 2020 | | 2019 | |
|---|--------------------|----------------------|--------------------|----------------------|
| | 2020 Fair Value | Modified Duration | 2019 Fair Value | Modified Duration |
| U.S. Treasury bills | \$ 93,421 | 8.88 | \$ 130,197 | 7.21 |
| U.S. government agency, pool, and mortgage-backed securities | 169,560 | 3.55 | 169,861 | 4.61 |
| Asset-backed securities | 85,148 | 1.72 | 63,347 | 4.07 |
| Mutual bond funds | 258,500 | 4.49 | 317,445 | 3.60 |
| TIPS | 115,531 | 6.23 | 111,481 | 7.57 |
| Corporate bonds | 306,928 | 6.65 | 193,219 | 4.48 |

As of June 30, 2020 and 2019, the pension trust fund held the following investments. Modified duration is in years.

| | 2020 | | 2019 | |
|---|--------------------|----------------------|--------------------|----------------------|
| | 2020 Fair Value | Modified Duration | 2019 Fair Value | Modified Duration |
| U.S. Treasury bills | \$ 1,189 | 24.69 | \$ 28,747 | 5.12 |
| U.S. government agency, pool, and mortgage-backed securities | 31,156 | 4.04 | 25,639 | 4.02 |
| Asset-backed securities | 7,268 | 2.10 | 6,270 | 2.12 |
| Mutual bond funds | 166,490 | 6.30 | 141,341 | 5.98 |
| TIPS | 30,423 | 4.30 | 28,992 | 7.54 |
| Total corporate bonds | 53,260 | 7.45 | 14,467 | 3.70 |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(5) Deposits and Investments (continued)

(c) Foreign Currency Risk

UCHA's enterprise and pension trust fund investment policies manage exposure to foreign currency risk by limiting the allocation percentage of international mutual funds to 5-15% of the total fair value for the enterprise fund and 10-30% of the total fair value for the pension trust fund. All of UCHA's investments exposed to foreign currency risk are held in international equities and international mutual funds. UCHA's enterprise and pension trust fund investments are exposed to foreign currency risk as illustrated in the following table as of June 30, 2020 and 2019.

| <u>Currency</u> | <u>Enterprise Fund Fair Value</u> | | <u>Pension Trust Fund Fair Value</u> | |
|-------------------------------|-----------------------------------|-------------------|--------------------------------------|-------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Argentine Peso | \$ 26 | \$ 918 | \$ 23 | \$ 825 |
| Australian Dollar | 12,023 | 9,773 | 8,745 | 6,158 |
| Brazilian Real | 8,257 | 7,356 | 6,036 | 3,851 |
| Canadian Dollar | 7,707 | 11,847 | 6,058 | 10,200 |
| Chilean Peso | (3,411) | (445) | (2,958) | (416) |
| Chinese Yuan Reminbi | 22,571 | 14,310 | 17,896 | 9,733 |
| Colombian Peso | (24) | 192 | 31 | 164 |
| Czech Koruna | (1,498) | 340 | (1,292) | 270 |
| Danish Krone | 676 | 3,558 | 672 | 3,167 |
| Egyptian Pound | 173 | (40) | 153 | (43) |
| Euro | 62,371 | 55,620 | 42,703 | 35,629 |
| Hong Kong Dollar | 18,900 | 17,791 | 19,258 | 15,472 |
| Hungarian Forint | 161 | 535 | 11 | 264 |
| Indian Rupee | 10,072 | 10,925 | 8,101 | 7,543 |
| Indonesian Rupiah | 4,222 | 3,379 | 3,798 | 2,392 |
| Israel New Shekel | 241 | 575 | 170 | 503 |
| Japanese Yen | 55,099 | 39,120 | 44,651 | 29,564 |
| Kenyan Schilling | 221 | 407 | 303 | 324 |
| Kuwaiti Dinar | 14 | 30 | - | - |
| Malaysian Ringgit | 904 | 1,154 | 476 | 474 |
| Mexican Peso | 2,458 | 2,474 | 1,813 | 1,477 |
| Moroccan Dirham | 86 | 62 | 76 | 55 |
| New Zealand Dollar | 3,392 | 1,437 | 3,027 | 1,274 |
| Norwegian Krone | 5,871 | 4,656 | 464 | 1,143 |
| Pakistani Rupee | 33 | 113 | 4 | 7 |
| Preu Newsol | (394) | 40 | (277) | 28 |
| Phillipines Peso | 842 | 441 | 818 | 382 |
| Polish Zloty | (542) | 931 | (514) | 826 |
| Qatari Riyal | (253) | 236 | (227) | 184 |
| Rmoznizn Leu | 393 | 353 | 350 | 314 |
| Russian Ruble | 6,014 | 6,090 | 3,123 | 2,264 |
| Saudi Riyal | (1,037) | (1,992) | (925) | (1,800) |
| Singapore Dollars | (1,347) | 2,129 | (1,120) | 2,624 |
| South African Rand | 3,037 | 7,685 | 1,524 | 3,278 |
| South Korean Won | 11,809 | 11,571 | 7,812 | 6,316 |
| Swedish Krona | 3,907 | 2,277 | 2,679 | 1,804 |
| Swiss Franc | 20,845 | 14,796 | 14,110 | 10,288 |
| Taiwan New Dollar | 3,190 | 12,081 | 1,612 | 8,173 |
| Thailand Baht | 1,745 | 1,747 | 1,404 | 1,509 |
| Turkish Lira | 3,112 | 494 | 2,838 | 292 |
| United Arab Emirates Dirham | (1,065) | (1,736) | (951) | (1,594) |
| United Kingdom Pound Sterling | 28,515 | 32,271 | 16,799 | 20,830 |
| Vietnam Dong | - | 23 | - | 24 |
| | <u>\$ 289,316</u> | <u>\$ 275,524</u> | <u>\$ 209,274</u> | <u>\$ 185,772</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(5) Deposits and Investments (continued)

(d) Concentration of Credit Risk

UCHA's enterprise and pension trust fund investment policies state that the equity and fixed income portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry, or individual security. UCHA has evaluated all investments at June 30, 2020 and confirmed that no more than 5% of total investments are held in any one issuer.

Additionally, UCHA's enterprise and pension trust fund investment policies state that within each equity investment manager, portfolio exposure is generally limited to 5% to 7.5% of assets for any single issuer, subject to exceptions for the most heavily weighted securities in the index. Within each fixed income portfolio investment manager, except for securities issued by the U.S. government and its agencies, no more than 5% of the fixed income portfolio, based on market value, shall be invested in the securities of any one issuing entity at the time of purchase. At June 30, 2020, the fixed income and equity investment managers were in compliance with the stated diversification policy.

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

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

During the years ended June 30, 2020 and 2019, UCHA was party to four swap agreements as follows:

- *A floating-to-fixed swap agreement having an original notional value of \$71,235 and current notional amount of \$58,895, reducing on the dates and the amounts set forth in the Series 2013C bond offering documents describing principal payments.* This agreement was entered into in November 2006 and is scheduled to terminate in November 2031. In this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.5% and receives the sum of 61.8% of USD-LIBOR-BMA plus 0.31%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013C Revenue Bonds to fixed rate obligations. At June 30, 2020 and 2019, this swap had an approximate fair value of \$(14,475) and \$(10,707), respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

- *A floating-to-fixed swap agreement having an original notional value of \$100,160 and a current notional value of \$82,275, reducing on the dates and amounts set forth in the Series 2013A bond offering documents describing principal payments.* This agreement was entered into in October 2004 and is scheduled to terminate in November 2033. Under the terms of this agreement, on the first Wednesday of each calendar month, UCHA pays a fixed rate of 3.631% and receives the sum of 62.2% of USD-LIBOR-BBA plus 0.30%. The objective of this agreement is generally to convert UCHA's floating rate obligations with respect to the Series 2013A Revenue Bonds to fixed rate obligations. At June 30, 2020 and 2019 the floating-to-fixed rate swap had an approximate fair value of \$(24,337) and \$(17,851), respectively.
- *A fixed-to-floating swap agreement having a notional value of \$152,075, reducing on the dates and the amounts set forth in the Series 2017A bond offering documents describing principal payments.* This agreement was entered into in February 2017. Under the terms of the total return swap agreement, UCHealth receives an amount equal to the coupon of the bonds (4.625%) and makes payments based on the Securities Industry and Financial Markets Association ("SIFMA") Index plus 40 basis points. UCHealth settles with the counterparty semi-annually each May and November. The swap agreement carries a 10-year term. At June 30, 2020 and 2019, this swap had an approximate fair value of \$962 and \$608, respectively.
- *A floating-to-fixed swap agreement having an original and current notional amount of \$195,195, reducing on the dates and the amounts set forth in the 2012B, 2012C, and 2017B1 bond series offering documents describing principal payments.* The swap agreement includes a fixed payor rate of 1.971% and UCHA will receive 70% of one-month LIBOR for the entire swap term, which expires November 2046. Settlements are to be made monthly. At June 30, 2020 and 2019, this swap had an approximate fair value of \$(58,682) and \$(19,197), respectively.

The swaps produced annual net cash inflows of \$3,176 and \$2,645 during the years ended June 30, 2020 and 2019, respectively. Cash flows associated with the floating-to-fixed swaps are treated as interest expense. According to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, none of UCHA's swap agreements qualify as effective hedging derivative instruments. Swap agreements tied directly to a bond issuance are reported as fair value of derivative instruments on the statements of net position and changes in fair value are reported as unrealized gain (loss) on derivative investments on the statements of revenue, expenses, and changes in net position.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(7) Fair Value Measurement

(a) Fair Value Hierarchy

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

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

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

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

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

As of June 30, 2020, the enterprise fund held the following financial instruments, by level, within the fair value hierarchy.

| | June 30, 2020 | | | |
|---|---------------------|---------------------|---------------------|-----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| U.S. Treasury bills | \$ 93,421 | \$ - | \$ 93,421 | \$ - |
| U.S. government agency, pool, and mortgage-backed securities | 169,560 | - | 169,560 | - |
| Asset-backed securities | 85,148 | - | 85,148 | - |
| Mutual bond funds | 258,500 | 63,955 | 194,127 | 418 |
| TIPS | 115,531 | 60,550 | 54,981 | - |
| Corporate bonds | 306,928 | - | 305,385 | 1,543 |
| Equity securities | 1,317,133 | 1,146,869 | 169,695 | 569 |
| Alternative Investments | 4,824 | - | - | 4,824 |
| | <u>2,351,045</u> | <u>1,271,374</u> | <u>1,072,317</u> | <u>7,354</u> |
| Total investments by fair value level | <u>\$ 2,351,045</u> | <u>\$ 1,271,374</u> | <u>\$ 1,072,317</u> | <u>\$ 7,354</u> |
| Derivative instruments | | | | |
| Interest rate swaps | <u>\$ (96,532)</u> | <u>\$ -</u> | <u>\$ (96,532)</u> | <u>\$ -</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2019, the enterprise fund held the following financial instruments, by level, within the fair value hierarchy.

| | June 30, 2019 | | | |
|---|---------------------|---------------------|--------------------|-----------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Investments by fair value level | | | | |
| U.S. Treasury bills | \$ 130,197 | \$ - | \$ 130,197 | \$ - |
| U.S. government agency, pool, and mortgage-backed securities | 169,861 | 169,861 | - | - |
| Asset-backed securities | 63,347 | - | 62,155 | 1,192 |
| Mutual bond funds | 317,445 | 135,721 | 181,724 | - |
| TIPS | 111,481 | 56,300 | 55,181 | - |
| Corporate bonds | 193,219 | - | 193,219 | - |
| Equity securities | <u>1,209,723</u> | <u>1,001,374</u> | <u>205,396</u> | <u>2,953</u> |
| Total investments by fair value level | <u>\$ 2,195,273</u> | <u>\$ 1,363,256</u> | <u>\$ 827,872</u> | <u>\$ 4,145</u> |
| Derivative instruments | | | | |
| Interest rate swaps | <u>\$ (47,146)</u> | <u>\$ -</u> | <u>\$ (47,146)</u> | <u>\$ -</u> |

As of June 30, 2020, the pension trust fund held the following financial instruments, by level, within the fair value hierarchy.

| | June 30, 2020 | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| U.S. Treasury bills | \$ 1,189 | \$ - | \$ 1,189 | \$ - |
| U.S. government agency, pool, and mortgage-backed securities | 31,156 | - | 31,156 | - |
| Asset-backed securities | 7,268 | - | 7,268 | - |
| TIPS | 30,423 | - | 30,423 | - |
| Corporate bonds | 53,260 | - | 52,273 | 987 |
| Alternative investments | 73,288 | - | 2,650 | 70,638 |
| Private real estate | 52,827 | - | - | 52,827 |
| Mutual bond funds | 166,490 | 29,439 | 136,301 | 750 |
| Other Mutual Funds | <u>571,701</u> | <u>434,135</u> | <u>137,566</u> | <u>-</u> |
| Total investments | <u>\$ 987,602</u> | <u>\$ 463,574</u> | <u>\$ 398,826</u> | <u>\$ 125,202</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2019, the pension trust fund held the following financial instruments, by level, within the fair value hierarchy.

| | June 30, 2019 | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Total | Level 1 | Level 2 | Level 3 |
| U.S. Treasury bills | \$ 28,747 | \$ - | \$ 28,747 | \$ - |
| U.S. government agency, pool, and mortgage-backed securities | 25,639 | - | 25,639 | - |
| Asset-backed securities | 6,270 | - | 6,270 | - |
| TIPS | 28,992 | - | 28,992 | - |
| Corporate bonds | 14,467 | - | 14,467 | - |
| Alternative investments | 118,063 | 29,209 | 523 | 88,331 |
| Private real estate | 50,590 | - | - | 50,590 |
| Mutual bond funds | 141,341 | 28,212 | 113,129 | - |
| Equity Securities | 469,827 | 337,332 | 132,495 | - |
| Total investments | <u>\$ 883,936</u> | <u>\$ 394,753</u> | <u>\$ 350,262</u> | <u>\$ 138,921</u> |

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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

| | June 30, | |
|---------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| Enterprise fund investments | | |
| Total investments by fair value level | \$ 2,351,045 | \$ 2,195,273 |
| Cash equivalents | 72,894 | 66,788 |
| Interest and dividends receivable | 510 | 3,722 |
| Miscellaneous investment payable | (5,994) | (28,528) |
| Total enterprise fund investments | \$ 2,418,455 | \$ 2,237,255 |
| Pension trust fund investments | | |
| Total investments by fair value level | \$ 987,602 | \$ 883,936 |
| Cash equivalents | 26,877 | 31,397 |
| Interest and dividends payable | (144) | (684) |
| Miscellaneous investment payable | (1,409) | (7,233) |
| Total pension trust fund investments | \$ 1,012,926 | \$ 907,416 |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(8) Capital Assets

Capital assets consist of the following at June 30, 2018, 2019, and 2020:

| | June 30, 2018 | Additions | Transfers | Disposals | June 30, 2019 | Additions | Transfers | Disposals | June 30, 2020 |
|---|------------------|------------|-----------|-----------|------------------|-----------|-----------|-----------|------------------|
| Capital assets, not being depreciated | | | | | | | | | |
| Land | \$ 48 | \$ - | \$ - | \$ - | \$ 48 | \$ - | \$ 1,978 | \$ - | \$ 2,026 |
| Construction in progress | 18,653 | 57,913 | (16,830) | - | 59,736 | 84,287 | (39,822) | - | 104,201 |
| Total capital assets, not being depreciated | 18,701 | 57,913 | (16,830) | - | 59,784 | 84,287 | (37,844) | - | 106,227 |
| Capital assets, being depreciated | | | | | | | | | |
| Buildings and improvements | 1,015,883 | 78 | 4,150 | (16,950) | 1,003,161 | - | 2,314 | (13,736) | 991,739 |
| Fixed and moveable equipment | 359,242 | 897 | 12,569 | (32,330) | 340,378 | 120 | 39,292 | (4,981) | 374,809 |
| Total capital assets, being depreciated | 1,375,125 | 975 | 16,719 | (49,280) | 1,343,539 | 120 | 41,606 | (18,717) | 1,366,548 |
| Accumulated depreciation and impairment | | | | | | | | | |
| Buildings and improvements | 299,979 | 31,296 | (10) | (16,837) | 314,428 | 31,930 | (4) | (13,736) | 332,618 |
| Fixed and moveable equipment | 248,381 | 36,541 | (30) | (32,170) | 252,722 | 35,726 | (229) | (4,981) | 283,238 |
| Total accumulated depreciation and impairment | 548,360 | 67,837 | (40) | (49,007) | 567,150 | 67,656 | (233) | (18,717) | 615,856 |
| Total capital assets, net | \$ 845,466 | \$ (8,949) | \$ (71) | \$ (273) | \$ 836,173 | \$ 16,751 | \$ 3,995 | \$ - | \$ 856,919 |

Transfers in the above table include assets transferred between UCHA and other entities within the Health System.

(9) Contractual Arrangements and Concentrations of Credit Risk

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

| | June 30, | |
|-------------------------------------|----------|------|
| | 2020 | 2019 |
| Medicare | 24% | 26% |
| Medicaid, including Colorado Access | 20% | 16% |
| Managed care | 35% | 39% |
| Commercial | 2% | 3% |
| Self-pay and medically indigent | 10% | 7% |
| Other | 9% | 9% |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(9) Contractual Arrangements and Concentrations of Credit Risk (continued)

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(10) Long-Term Debt and Leases

Long-term debt consists of the following:

| Type | Description | June 30, | |
|------------------|--|---------------------|---------------------|
| | | 2020 | 2019 |
| Direct Borrowing | Capital leases, long-term, due in installments through 2021 | \$ 4 | \$ 7 |
| Other Bonds | Revenue Bonds, Series 2019A, due in installments through fiscal year 2050 | 100,000 | - |
| Other Bonds | Revenue Bonds, Series 2019B, due in installments through fiscal year 2049 | 50,000 | - |
| Other Bonds | Revenue Bonds, Series 2019C, due in installments through fiscal year 2048, (inclusive of unamortized premium of \$17,151 at June 30, 2020) | 139,936 | - |
| Other Bonds | Revenue Bonds, Series 2019D, due in installments through fiscal year 2049 | 50,000 | - |
| Other Bonds | Revenue Bonds, Series 2018A, due in installments through fiscal year 2031 | 45,915 | 45,915 |
| Other Bonds | Revenue Bonds, Series 2018B, due in installments through fiscal year 2036 | 76,170 | 76,170 |
| Other Bonds | Revenue Bonds, Series 2018C, due in installments through fiscal year 2040 | 75,265 | 75,265 |
| Direct Placement | Revenue Bonds, Series 2017A, due in installments through fiscal year 2047 | 152,075 | 152,075 |
| Other Bonds | Revenue Bonds, Series 2017B1, due in installments through fiscal year 2040 | 57,685 | 57,685 |
| Other Bonds | Revenue Bonds, Series 2017B2, due in installments through fiscal year 2025 | 37,955 | 44,630 |
| Other Bonds | Revenue Bonds, Series 2017C1C2, due in installments through fiscal year 2048, (inclusive of unamortized premium of \$5,511 and \$10,646 at June 30, 2020 and 2019, respectively) | 139,961 | 286,736 |
| Direct Placement | Revenue Bonds, Series 2015D, due in installments through fiscal year 2042 | 197,815 | 198,210 |
| Direct Placement | Revenue Bonds, Series 2013A, due in installments through fiscal year 2034 | 82,275 | 84,490 |
| Direct Placement | Revenue Bonds, Series 2013B, due in installments through fiscal year 2025 | 6,800 | 7,970 |
| Direct Placement | Revenue Bonds, Series 2013C, due in installments through fiscal year 2032 | 58,895 | 60,605 |
| Other Bonds | Revenue Bonds, Series 2012A, due in installments through fiscal year 2043, (inclusive of unamortized premium of \$14,794 and \$15,690 and net of unamortized discounts of \$613 and \$650 at June 30, 2020 and 2019, respectively) | 252,306 | 255,171 |
| Direct Placement | Revenue Bonds, Series 2012B, due in installments through fiscal year 2047 | 50,000 | 50,000 |
| Direct Placement | Revenue Bonds, Series 2012C, due in installments through fiscal year 2046 | 87,510 | 87,510 |
| Direct Placement | Revenue Bonds, Series 2011B, due in installments through fiscal year 2030 | 95,220 | 96,330 |
| Direct Placement | Revenue Bonds, Series 2011C, due in installments through fiscal year 2023 | 24,065 | 31,300 |
| | Total long-term debt | 1,779,852 | 1,610,069 |
| | Less long-term debt subject to short-term remarketing arrangements | (234,595) | (283,195) |
| | Less current portion | (166,594) | (22,519) |
| | | <u>\$ 1,378,663</u> | <u>\$ 1,304,355</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

Changes in long-term debt for the years ended June 30, 2020 are as follows:

| 2020 | Type | Date of Issuance | Beginning Balance | Issuances/ Refundings of Debt | Discount and Deferred Refunding Amortization | Principal Payments | Ending Balance | Due Within One Year |
|-----------------|------------------|------------------|---------------------|-------------------------------|--|--------------------|---------------------|---------------------|
| Capital lease | Direct Borrowing | 04/01/06 | \$ 7 | \$ - | \$ - | \$ (3) | \$ 4 | \$ 4 |
| Series 2011B | Direct Placement | 11/09/11 | 96,330 | - | - | (1,110) | 95,220 | 1,230 |
| Series 2011C | Direct Placement | 11/16/11 | 31,300 | - | - | (7,235) | 24,065 | 7,615 |
| Series 2012A | Other Bonds | 10/01/12 | 255,171 | - | (860) | (2,005) | 252,306 | 2,360 |
| Series 2012B | Direct Placement | 10/01/12 | 50,000 | - | - | - | 50,000 | - |
| Series 2012C | Direct Placement | 10/01/12 | 87,510 | - | - | - | 87,510 | - |
| Series 2013A | Direct Placement | 11/18/13 | 84,490 | - | - | (2,215) | 82,275 | 82,275 |
| Series 2013B | Direct Placement | 11/18/13 | 7,970 | - | - | (1,170) | 6,800 | 6,800 |
| Series 2013C | Direct Placement | 11/18/13 | 60,605 | - | - | (1,710) | 58,895 | 58,895 |
| Series 2015D | Direct Placement | 09/01/15 | 198,210 | - | - | (395) | 197,815 | 455 |
| Series 2017A | Direct Placement | 02/16/17 | 152,075 | - | - | - | 152,075 | - |
| Series 2017B-1 | Other Bonds | 02/16/17 | 57,685 | - | - | - | 57,685 | - |
| Series 2017B-2 | Other Bonds | 02/16/17 | 44,630 | - | - | (6,675) | 37,955 | 6,960 |
| Series 2017C1C2 | Other Bonds | 02/16/17 | 286,736 | (141,640) | (5,135) | - | 139,961 | - |
| Series 2018A | Other Bonds | 07/25/18 | 45,915 | - | - | - | 45,915 | - |
| Series 2018B | Other Bonds | 07/25/18 | 76,170 | - | - | - | 76,170 | - |
| Series 2018C | Other Bonds | 07/25/18 | 75,265 | - | - | - | 75,265 | - |
| Series 2019A | Other Bonds | 10/30/19 | - | 100,000 | - | - | 100,000 | - |
| Series 2019B | Other Bonds | 10/28/19 | - | 50,000 | - | - | 50,000 | - |
| Series 2019C | Other Bonds | 10/30/19 | - | 122,785 | 17,151 | - | 139,936 | - |
| Series 2019D | Other Bonds | 10/28/19 | - | 50,000 | - | - | 50,000 | - |
| Total | | | <u>\$ 1,610,069</u> | <u>\$ 181,145</u> | <u>\$ 11,156</u> | <u>\$ (22,518)</u> | <u>\$ 1,779,852</u> | <u>\$ 166,594</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

Changes in long-term debt for the years ended June 30, 2019 are as follows:

| 2019 | Type | Date of Issuance | Beginning Balance | Issuances/ Refundings of Debt | Discount and Deferred Refunding Amortization | Principal Payments | Ending Balance | Due Within One Year |
|-----------------|------------------|------------------|---------------------|-------------------------------|--|--------------------|---------------------|---------------------|
| Capital lease | Direct Borrowing | 04/01/06 | \$ - | \$ 10 | \$ - | \$ (3) | \$ 7 | \$ 4 |
| Series 2009A | Other Bonds | 08/06/09 | 37,704 | (35,680) | 96 | (2,120) | - | - |
| Series 2011B | Direct Placement | 11/09/11 | 97,430 | - | - | (1,100) | 96,330 | 1,110 |
| Series 2011C | Direct Placement | 11/16/11 | 38,170 | - | - | (6,870) | 31,300 | 7,235 |
| Series 2012A | Other Bonds | 10/01/12 | 258,276 | - | (865) | (2,240) | 255,171 | 2,005 |
| Series 2012B | Direct Placement | 10/01/12 | 50,000 | - | - | - | 50,000 | - |
| Series 2012C | Direct Placement | 10/01/12 | 87,510 | - | - | - | 87,510 | - |
| Series 2013A | Direct Placement | 11/18/13 | 86,630 | - | - | (2,140) | 84,490 | 2,215 |
| Series 2013B | Direct Placement | 11/18/13 | 9,080 | - | - | (1,110) | 7,970 | 1,170 |
| Series 2013C | Direct Placement | 11/18/13 | 62,245 | - | - | (1,640) | 60,605 | 1,710 |
| Series 2015D | Direct Placement | 09/01/15 | 198,640 | - | - | (430) | 198,210 | 395 |
| Series 2017A | Direct Placement | 02/16/17 | 152,075 | - | - | - | 152,075 | - |
| Series 2017B-1 | Other Bonds | 02/16/17 | 57,685 | - | - | - | 57,685 | - |
| Series 2017B-2 | Other Bonds | 02/16/17 | 51,025 | - | - | (6,395) | 44,630 | 6,675 |
| Series 2017C1C2 | Other Bonds | 02/16/17 | 292,908 | - | (6,172) | - | 286,736 | - |
| Series 2018A | Other Bonds | 07/25/18 | - | 45,915 | - | - | 45,915 | - |
| Series 2018B | Other Bonds | 07/25/18 | - | 76,170 | - | - | 76,170 | - |
| Series 2018C | Other Bonds | 07/25/18 | - | 75,265 | - | - | 75,265 | - |
| Total | | | <u>\$ 1,479,378</u> | <u>\$ 161,680</u> | <u>\$ (6,941)</u> | <u>\$ (24,048)</u> | <u>\$ 1,610,069</u> | <u>\$ 22,519</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

Annual debt service requirements are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| 2021 | 166,594 | 49,101 | 215,695 |
| 2022 | 19,775 | 43,566 | 63,341 |
| 2023 | 29,365 | 38,164 | 67,529 |
| 2024 | 30,605 | 37,531 | 68,136 |
| 2025 | 31,805 | 34,841 | 66,646 |
| 2026-2030 | 186,460 | 151,439 | 337,899 |
| 2031-2035 | 177,275 | 134,894 | 312,169 |
| 2036-2040 | 310,365 | 103,593 | 413,958 |
| 2041-2045 | 367,670 | 59,400 | 427,070 |
| 2045-2050 | <u>423,095</u> | <u>15,675</u> | <u>438,770</u> |
| | | | |
| Total long-term debt payments | 1,743,009 | <u>\$ 668,204</u> | <u>\$ 2,411,213</u> |
| | | | |
| Unamortized net premium and discount | <u>36,843</u> | | |
| | | | |
| Total carrying amount of long-term debt | <u>\$ 1,779,852</u> | | |

Monthly lease payments are required for the capital lease agreement, which includes principal and interest. During fiscal year 2019, UCHA assumed new capital equipment agreements totaling \$10 and paid \$3 and \$3 in principal on its medical equipment leases during 2020 and 2019, respectively.

At June 30, 2020 and 2019, UCHA maintained capital leases for equipment located in the freestanding emergency department locations totaling \$4 and \$7, respectively. Depreciation expense under capital lease arrangements is included within depreciation and amortization in the accompanying statements of net position.

In October 2019, UCHA issued Series 2019A Revenue Bonds (“Series 2019A”) in the amount of \$100,000 to finance the construction of the Highlands Ranch Hospital. Series 2019A were issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2020, the principal amount of such bonds has been classified as a current liability in the accompanying statements of net position. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

In October 2019, UCHA issued Series 2019B Revenue Bonds ("Series 2019B") in the amount of \$50,000 to finance the construction of the Greeley Hospital. Series 2019B were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a fixed interest rate of 1.67%. The direct purchase bonds were issued with a ten-year term that will expire October 2029.

In October 2019, UCHA issued Series 2019C Revenue Bonds ("Series 2019C") in the amount of \$122,785 to fully refinance the Series 2017C-1 Bonds. Series 2019C were issued as 5 year put bonds at a premium. Series 2019C, while subject to a long-term amortization period, are puttable in 2024. Interest is paid semi-annually and principal paid according to a mandatory sinking fund redemption schedules.

In October 2019, UCHA issued Series 2019D Revenue Bonds ("Series 2019D") in the amount of \$50,000 to finance the construction of the Greeley Hospital. Series 2019D were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a fixed interest rate of 1.67%. The direct purchase bonds were issued with a ten-year term that will expire October 2029.

In July 2018, UCHA issued Series 2018A Revenue Bonds ("Series 2018A") in the amount of \$45,915 to fully refund PVHS Series 2005A bonds. Series 2018A were issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2020 and 2019, the principal amount of such bonds has been classified as a current liability in the accompanying statements of net position. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

In July 2018, UCHA issued Series 2018B Revenue Bonds ("Series 2018B") in the amount of \$76,170 to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018B were issued as variable rate bonds that bear interest as determined by the Remarketing Agent each week and principal is paid according to a mandatory sinking fund redemption schedule. UCHHealth has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B. The Standby Bond Purchase Agreement expires on July 26, 2023 unless extended by the bank.

In July 2018, UCHA issued Series 2018C Revenue Bonds ("Series 2018C") in the amount of \$75,265 to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018C were issued as variable rate bonds that bear interest as determined by the Remarketing Agent each week and principal is paid according to a mandatory sinking fund redemption schedule. UCHHealth has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B. The Standby Bond Purchase Agreement expires on July 26, 2023 unless extended by the bank.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

In February 2017, UCHA issued Series 2017A Revenue Bonds (“Series 2017A”) in the amount of \$152,075 to fully refund UCHA Series 2015A Revenue bonds. Series 2017A were issued as fixed rate bonds at a rate of 4.625% with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Concurrently, UCHealth entered into a total return, fixed-to-floating swap agreement having a notional amount of \$152,075. Under the terms of the swap agreement, UCHealth receives an amount equal to the coupon of the bonds (4.625%) and makes payments based on the Securities Industry and Financial Markets Association (“SIFMA”) Index plus 40 basis points. UCHealth settles with the counterparty semi-annually each May and November. The swap agreement expires in March 2027. Within the accompanying statements of net position, receivables from affiliates includes a balance for a portion of amounts associated with Series 2017A.

In February 2017, UCHA issued Series 2017B1 and Series 2017B2 Revenue Bonds (“Series 2017B”) in the amounts of \$57,685 and \$57,125, respectively, to fully refund UCHA Series 2015B and 2015C Revenue Bonds. Series 2017B were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2020 and 2019, the principal amount of such bonds has been classified as a current liability in the accompanying statements of net position. However, to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. Within the accompanying statements of net position, receivables from affiliates includes a balance for a portion of amounts associated with Series 2017B.

In February 2017, UCHA issued Series 2017C-1 and Series 2017C-2 Revenue Bonds (“Series 2017C”) in the amounts of \$141,640 and \$134,450, respectively, to finance new projects across UCHealth. Series 2017C-1 were issued as 3 year put bonds at a premium. Series 2017C-1, while subject to a long-term amortization period, were puttable in 2020 and were refinanced with the Series 2019C Revenue Bonds issued in October 2019. To the extent the bondholders may, under the terms of the debt, put their bonds within 12 months after June 30, 2019, the principal amount of such bonds had been classified as a current liability in the accompanying statements of net position. However, to address this possibility, management had taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. Series 2017C-2 were issued as 5 year put bonds at a premium with variable interest rates. Both series pay interest monthly and pay principal according to a mandatory sinking fund redemption schedule.

In September 2015, UCHA issued Series 2015D Revenue Bonds (“Series 2015D”) in the amount of \$200,180 to fully refund UCHA Series 2011A Revenue Bonds. Series 2015D were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. In April 2020, the terms of the bonds were updated to a fixed rate mode of 1.48%. UCHA also extended the original direct placement agreement with Wells Fargo Bank, which will expire April 2027.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

In November 2013, UCHA issued Series 2013A Revenue Bonds (“Series 2013A”) in the amount of \$94,645 to fully refund UCHA Series 2004A Revenue Bonds. Series 2013A were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire in April 2021.

In November 2013, UCHA issued Series 2013B Revenue Bonds (“Series 2013B”) in the amount of \$13,140 to fully refund UCHA Series 2008A Revenue Bonds. Series 2013B were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire in April 2021.

In November 2013, UCHA issued Series 2013C Revenue Bonds (“Series 2013C”) in the amount of \$68,185 to fully refund UCHA Series 2008B Revenue Bonds. Series 2013C were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire in April 2021.

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

In October 2012, UCHA issued Series 2012B Revenue Bonds (“Series 2012B”) in the amount of \$50,000 to fully refund the Series 2004B Revenue Bonds. Series 2012B were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Citibank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds had an original five-year term expiring in October 2017, which was renewed for an additional five-year term. The direct purchase bonds will expire in October 2022.

In October 2012, UCHA issued Series 2012C Revenue Bonds (“Series 2012C”) in the amount of \$87,510 to fully refund PVHS Series 2005D and 2005E Revenue Bonds. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012C were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. In April 2020, the terms of the bonds were updated to a fixed rate mode of 1.35% with interest paid semi-annually. UCHA also extended the original direct purchase agreement with Wells Fargo Bank, N.A. on Series 2012C, which will expire April 2025. Within the accompanying statements of net position, receivable from affiliates includes a balance for all amounts associated with Series 2012C.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

In November 2011, UCHA issued Series 2011B Revenue Bonds (“Series 2011B”) in the amount of \$103,940 to fully refund the Series 1999A Revenue Bonds. Series 2011B were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. JPMorgan Chase Bank, N.A. is the holder of the bonds at a fixed interest rate of 3.28%. The direct purchase bonds were issued with a 10-year term that will expire November 2021.

In November 2011, UCHA issued Series 2011C Revenue Bonds (“Series 2011C”) in the amount of \$72,870 to finance equipment for use and certain other improvements at the Anschutz Medical Campus. Series 2011C were issued as fixed rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. PNC Bank is the holder of the bonds at a current fixed interest rate of 2.31%. The direct purchase bonds were issued with an 11-year term that will expire as the bonds fully mature in November 2022.

In August 2009, UCHA issued Series 2009A Revenue Bonds (“Series 2009A”) in the amount of \$51,795 to fully refund the Series 2006B Revenue Bonds. Series 2009A are a fixed rate issuance with interest paid semi-annually and principal paid according to a mandatory sinking schedule beginning in fiscal year 2011. Series 2009A were issued with an original issue discount of \$239. The average interest rate for the Series 2009A is 5.87%. In June 2019, these bonds were defeased with funds placed into an escrow account to fully refund the 2009A bonds in November 2019.

All bonds are secured by a security interest with respect to all gross revenues of the Health System. The UCHA 1997A Master Indenture, as supplemented, and the PVHS amended and restated Master Trust Indenture as of 2005, as supplemented, each require the Health System to maintain certain financial ratios. In July 2018, the PVHS amended and restated Master Trust Indenture was terminated.

Under the UCHA 1997A Master Indenture and various bond agreements, events of default include failure to pay interest or principal payments, declaration of bankruptcy and failure to comply with financial and nonfinancial covenants. Key covenants include the maintenance of tax exemption status within the obligated group, keeping property free of liens, maintaining proper and accurate accounting records, complying with disclosure reporting requirements, and meeting financial ratio requirements.

During 2020 and 2019, the Health System met all of the financial ratio requirements as follows:

| | <u>Requirement</u> | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|--------------------------------|--------------------|----------------------|----------------------|
| Days cash on hand | 90 | 397 | 346 |
| Debt to capitalization percent | < 65% | 25% | 25% |
| Maximum debt service coverage | 1.50 | 10.14 | 11.54 |

Cash paid for interest in 2020 and 2019 was \$53,792 and \$55,352, respectively. Interest received on the unexpended bond funds in 2020 and 2019 was \$1 and \$5, respectively.

The fair value of UCHA’s long-term debt is based on the most recent trading price as of June 30, 2020 and 2019, respectively. The fair value of the Revenue Bonds at June 30, 2020 and 2019 was approximately \$1,776,808 and \$1,615,859, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

UCHA leases certain equipment and facilities under non-cancelable operating leases. Future minimum lease payments for equipment and facilities under non-cancelable operating leases as of June 30, 2020 are:

| Year Ending June 30, | |
|---------------------------|------------------|
| 2021 | \$ 6,955 |
| 2022 | 6,265 |
| 2023 | 5,083 |
| 2024 | 4,212 |
| 2025 | 2,714 |
| 2026-2030 | 14,737 |
| 2031-2035 | 11,528 |
| 2036-2040 | <u>1,478</u> |
| Total minimum obligations | <u>\$ 52,972</u> |

Rental expense was \$16,721 and \$16,743 in 2020 and 2019, respectively.

(11) Self-Insurance Trust

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

The Trust provides coverage to its participants up to statutory limitations relating to malpractice claim immunity for government entities. The coverage is \$387 per claimant and \$1,093 per occurrence for claims arising from activities of covered persons and entities within the state of Colorado. The Trust also provides coverage of \$1,500 per occurrence for claims arising outside the state of Colorado. The Trust contracts with a commercial insurance company to provide \$8,000 per occurrence or aggregate per year for claims in which the limits of governmental immunity do not apply.

As of June 30, 2020, the Trust had a fund balance of \$4,530, which is net of \$10,445 in reserves for losses and loss adjustment expenses. At June 30, 2020, plan assets exceed the actuarially determined liability. For 2020 and 2019, UCHA recorded premium and administrative expenses of \$1,014 and \$817, respectively. There were no refunds received during 2020 or 2019.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans

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

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

(a) Pension Plans

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

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

The annual accrued benefits, paid monthly, of the Basic Pension Plan are calculated at 1.5% times the Average Annual Compensation times years of service (based on hire date). The five most highly compensated calendar years of service after March 26, 1995 are used to calculate the Average Annual Compensation. A small number of UCHA employees are eligible to receive additional benefits based on a combined age and years of credited service equal to or greater than 75 on January 1, 2013 (“Rule of 75”). The Basic Pension Plan offers reduced benefits for early retirement and adjusted benefits for late retirement (after age 65). Most plan participants, except those falling under the Rule of 75, will receive a monthly benefit with no annual cost-of-living adjustment factor, which is an amendment to the plan effective for accruals on or after January 1, 2013. Effective July 1, 2018, the Basic Pension Plan was amended to allow employees who leave with less than ten years of service to elect a lump sum distribution upon termination, to allow employees with over ten years of service to elect a partial lump sum to the extent that their balance is above an \$18 per year annuity, to allow terminated participants to elect these options as well based on the same criteria for active participants, and to allow the purchase by the Basic Pension Plan of annuities for retirees periodically when rates are favorable. This plan change reduced the net pension liability by \$38,743 and reduced the actuarially computed net periodic pension cost for the Basic Pension Plan by \$38,743 for the year ending June 30, 2019.

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

UCHA's portion of the actuarially computed net periodic pension cost for the Basic Pension Plan for 2020 and 2019 was \$36,183 and \$26,976, respectively. Investment (losses) gains for 2020 and 2019, including interest, dividends, and realized and unrealized gains (losses), were \$39,464 and \$40,057, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2019 and 2018 (dates of the latest actuarial valuations):

| | 2019 | 2018 |
|--|--------|--------|
| Retirees and beneficiaries receiving benefits | 1,795 | 1,509 |
| Terminated plan members entitled to but not yet receiving benefits | 4,042 | 5,600 |
| Active plan members, includes all participants within the system | 23,610 | 21,595 |
| Total members | 29,447 | 28,704 |

As a governmental entity, UCHA has considerable flexibility in determining the amount to contribute to the Basic Pension Plan each year. The actuarially determined contribution calculated as part of this report is intended to provide a systematic method for prefunding the liabilities for retirement benefits payable under the Basic Pension Plan. It is calculated in a manner intended to remain relatively stable, as a percentage of valuation compensation, over time. This stability is intended to facilitate the annual budgeting process and to keep the cost of the Basic Pension Plan manageable. All employees that work at UCHHealth facilities are employees of UCHA; however, UCHA allocates the cost related to the pension to other entities within UCHHealth. The full contributions made for all UCHA employees were \$101,800 and \$91,812 for the years ended June 30, 2020 and 2019, respectively. UCHA's contributions, net of reimbursements from the Health System, to the Basic Pension Plan were \$29,389 and \$29,549 in 2020 and 2019, respectively. UCHA's average contribution rates were 6.08% and 6.22% of annual payroll for the years ended June 30, 2020 and 2019, respectively.

The Hospital's net pension liability was measured as of June 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2019 and 2018, respectively. UCHA utilized update procedures to roll valuation amounts forward to the respective measurement dates using the calculated service and interest cost, actual contributions, and return on plan assets.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

Additional information as of the latest actuarial valuation date follows:

| | |
|------------------------|--|
| Valuation date | July 1, 2019 |
| Actuarial cost method | Entry Age Normal, Level Percent of Pay |
| Amortization method | Straight Line |
| Asset valuation method | Fair Value |

Actuarial assumptions

| | |
|-----------------------------------|--------------|
| i) Discount rate* | 7.0% |
| ii) Projected salary increases* | 3.3% to 7.5% |
| iii) Cost of living adjustments** | 2.5% |

* Includes inflation at 2.5%.

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

Mortality rates for the 2019 valuation were based on the Sex-distinct Pri-2012 mortality tables with base year 2012, without collar or amount adjustments, using the base mortality improvement scale MP-2019 with generational projections using a 0.75% long-term rate of improvement.

Mortality rates for the 2018 valuation were based on the Sex-distinct RP-2014 mortality tables with base year 2006, without collar or amount adjustments, using the base mortality improvement scale MP-2018 with generational projections.

The actuary is required to use assumptions that represent his or her best estimate of future experience under the Basic Pension Plan and are reasonably related to the experience of the Plan. The actuary will monitor the actuarial experience under the Plan in future years in order to judge the continuing appropriateness of these assumptions. The actuarial assumptions used in the valuations were based on the results of an actuarial experience study for the period July 1, 2013 through July 1, 2018.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

| Asset Class | Target Allocation | Arithmetic Expected Return (10-Year Average) |
|----------------------|----------------------|--|
| Domestic equity | 28% | 6.8 |
| International equity | 22% | 8.9 |
| Fixed income | 30% | 2.9 |
| Real estate | 10% | 7.3 |
| Alternative | 10% | 11.3 |
| | <u>100%</u> | |

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

Changes in the Health System's net pension liability for the years ended June 30, 2020 and 2019 were as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|---------------------------|----------------------------|--------------------------------|--------------------------|
| | (a) | (b) | (a) - (b) |
| Balances at June 30, 2018 | \$ 945,136 | \$ 822,545 | \$ 122,591 |
| Changes for the year | | | |
| Service cost | 82,862 | - | 82,862 |
| Interest | 63,593 | - | 63,593 |
| Contributions - employer | - | 91,812 | (91,812) |
| Net investment income | - | 40,057 | (40,057) |
| Plan Change | (38,743) | - | (38,743) |
| Changes in experience | 42,206 | - | 42,206 |
| Changes in assumptions | (1,159) | - | (1,159) |
| Benefit payments | (42,823) | (42,823) | - |
| Administrative expense | - | (4,175) | 4,175 |
| Net changes | <u>105,936</u> | <u>84,871</u> | <u>21,065</u> |
| Balances at June 30, 2019 | <u>1,051,072</u> | <u>907,416</u> | <u>143,656</u> |
| Changes for the year | | | |
| Service cost | 86,205 | - | 86,205 |
| Interest | 77,822 | - | 77,822 |
| Contributions - employer | - | 101,800 | (101,800) |
| Net investment income | - | 39,464 | (39,464) |
| Changes in experience | 7,101 | - | 7,101 |
| Changes in assumptions | (8,153) | - | (8,153) |
| Benefit payments | (32,729) | (32,729) | - |
| Administrative expense | - | (3,025) | 3,025 |
| Net changes | <u>130,246</u> | <u>105,510</u> | <u>24,736</u> |
| Balances at June 30, 2020 | <u>\$ 1,181,318</u> | <u>\$ 1,012,926</u> | <u>\$ 168,392</u> |

UCHA's portion of the net pension liability as of June 30, 2020 and 2019, totaled \$105,728 and \$99,039, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
 Years Ended June 30, 2020 and 2019
 (\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

The pension plan's fiduciary net position as a percentage of the total pension liability was 85.7% and 86.3% as of June 30, 2020 and 2019, respectively.

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

| | 1% Decrease 6.0% | Current Discount Rate 7.0% | 1% Increase 8.0% |
|-----------------------|---------------------|----------------------------------|---------------------|
| Net pension liability | \$ 327,898 | \$ 168,392 | \$ 36,699 |

For the years ended June 30, 2020 and 2019, UCHA recognized pension expense of \$36,183 and \$29,976, respectively. At June 30, 2020 and 2019, the deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| June 30, 2020 | | |
| Differences between expected and actual experience | \$ 13,411 | \$ - |
| Changes in assumptions | 472 | 2,942 |
| Net difference between projected and actual earnings on pension plan investments | <u>6,030</u> | <u>-</u> |
| Total | <u>\$ 19,913</u> | <u>\$ 2,942</u> |
| June 30, 2019 | | |
| Differences between expected and actual experience | \$ 15,515 | \$ 213 |
| Changes in assumptions | 2,769 | 1,848 |
| Net difference between projected and actual earnings on pension plan investments | <u>928</u> | <u>-</u> |
| Total | <u>\$ 19,212</u> | <u>\$ 2,061</u> |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

| <u>Year Ending June 30,</u> | |
|-----------------------------|------------------|
| 2021 | \$ 3,812 |
| 2022 | 5,560 |
| 2023 | 4,759 |
| 2024 | 2,470 |
| 2025 | <u>370</u> |
| | <u>\$ 16,971</u> |

UCHA has made all required contributions to the pension plan for the year ended June 30, 2020.

At June 30, 2020 and 2019, UCHA had four and four state employees, respectively. State employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was \$47 and \$56 for 2020 and 2019, respectively. Required contributions during fiscal years 2020 and 2019 were \$47 and \$56, respectively. UCHA contributed 100% of each year's required contribution. As UCHA's proportionate share of PERA's net pension liability is insignificant, detailed disclosures regarding this plan are not included in this report. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained online at www.copera.org; by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203; or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(b) Investment Account

The Investment Account is a qualified, single-employer defined contribution retirement plan under the provisions of Code Section 401(a). Employees are required to contribute 6.2% of their gross compensation (limited to the OASDI wage base), which is equivalent to what their OASDI contributions would be under FICA participation. Employees are always fully vested in this component of the plan. Total compensation subject to the plans for the years ended June 30, 2020 and 2019 was \$466,134 and \$454,215, respectively. Total employee contributions made under the provisions of this plan were \$27,847 and \$26,809 for the years ended June 30, 2020 and 2019, respectively. This represents 6.0% of the current year's payroll. In accordance with Code regulations, UCHA is required to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Make-up contributions made by UCHA were \$174 and \$202 in 2020 and 2019, respectively.

(c) Matching Account

The Matching Account is a single-employer, tax-deferred annuity plan under the provisions of Code Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. In addition, UCHA will match employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, UCHA's matching contributions are subject to a five-year, graduated vesting schedule. Certain part-time employees are not eligible for UCHA matching contributions. UCHA's matching contributions for 2020 and 2019 were \$9,482 and \$9,008, respectively. Employees may elect from two investment companies, Fidelity Investments and TIAA-CREF, who provide a broad array of mutual funds with which to invest all contributions under the Investment Account and Matching Account. Employee contributions to the Matching Account for 2020 and 2019 \$21,923 and \$20,373, respectively.

(d) 457b Plan

The 457b Plan is a single-employer, tax-deferred plan under the provisions of Code Section 457. The TIAA-CREF 457b Plan became effective in February 2005, and the Fidelity 457b Plan became effective in January 2011, whereby employees are eligible to contribute a percentage of their gross compensation, tax-deferred, up to legal limitations established under the Code. Employees are always vested 100% in their contributions, and UCHA does not contribute to this plan. Employees may elect from a broad array of mutual funds with their respective investment companies. Employee contributions to the TIAA-CREF 457b Plan for 2020 and 2019 were \$120 and \$137, respectively. Employee contributions to the Fidelity 457b Plan in 2020 and 2019 were \$2,040 and \$1,848, respectively.

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(12) Retirement Plans (continued)

(e) Other Post-Employment Benefit Plan

In addition to the retirement plans mentioned above, UCHA provides a post-retirement medical premium subsidy to employees retiring from UCHA who are covered under the PERA benefit guarantee provision of the state of Colorado legislation creating UCHA. This plan provides a medical premium subsidy of up to \$0.112 per month for medical plan coverage (pro-rated for less than 20 years of service) and an employer-funded life insurance benefit of \$3. An employer-funded life insurance benefit is provided to all employees who retire from UCHA. The accumulated post-retirement benefit obligation for the medical and life premiums was \$3,381 and \$3,474 at June 30 2020 and 2019, respectively. Total benefit costs related to this plan were \$223 and \$43 for the years ended June 30, 2020 and 2019, respectively. In the calculation of the liability, an assumption that 65% of eligible active employees would elect to be covered by the medical premium subsidy plan was used. The discount rate used to measure the liability was 2.21% and 3.50% at June 30, 2020 and 2019, respectively.

(13) Related-Party/Affiliate Transactions

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

(a) University of Colorado Health

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

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

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

(a) *University of Colorado Health (continued)*

Total current assets at June 30, 2020 and 2019 include a receivable from affiliates that is comprised of amounts due from UCH-MHS for the Series 2012A proceeds related to the acquisition of MHS of \$2,360 and \$2,005, respectively, and amounts due for the Series 2017B-2 proceeds related to the refinancing of PVHS Revenue Bonds of \$6,960 and \$6,675, respectively. At June 30, 2020 and 2019, current assets also included \$655,770 and \$609,221, respectively, related to transactions between UCHA and its affiliates.

Total non-current assets at June 30, 2020 and 2019 include receivables from affiliates that comprise amounts due for the Series 2012A, Series 2012C, Series 2017A, Series 2017B, and Series 2017C bond issuances related to ongoing capital expenditures, the acquisition of MHS, and the refinancing of PVHS Revenue Bonds. At June 30, 2020 and 2019, the total receivable was \$1,128,939 and \$945,703, respectively.

UCHA and affiliates effectively pool their investments within the Health System's investment account structure. UCHA's share of pooled cash at June 30, 2020 and 2019 was \$544,203 and \$114,627, respectively. UCHA's share of pooled investments at June 30, 2020 and 2019 was \$2,370,807 and \$2,187,314, respectively.

(b) *UCD*

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

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

Under the operating agreement between the Regents of the University and UCHA dated July 1, 1991, the Regents have entered into contracts with UCHA for the provision of services in support of programs and operations of UCHA, including providing personnel, physical plant maintenance, and other general and administrative services. UCHA paid \$57,428 and \$60,633 for these services, which are recorded in purchased services and other expenses in 2020 and 2019, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

(b) UCD (continued)

UCHA has also entered into contracts with the Regents for the provision of services to UCD, including clinic services, research projects, infrastructure expense, and other items. Reimbursements of \$1,688 and \$1,597 were recognized in other operating revenue for these services during 2020 and 2019, respectively.

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of \$1,274 and \$1,355 were billed to CRC for the cost of these services during 2020 and 2019, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were \$310 and \$429 at June 30, 2020 and 2019, respectively, and are included in related-party receivables on the statements of net position. UCHA recorded amounts due to UCD of \$1,746 and \$1,735 at June 30, 2020 and 2019, respectively, for contract labor costs and School of Pharmacy support expenses.

Effective July 1, 2014, UCHealth entered into a five-year academic support agreement with the University of Colorado School of Medicine, which was subsequently amended to extend it with rolling three-year terms requiring written notice of nonrenewal no later than June 30 of each year if UCHealth is not going to renew 24 months from the date of the notice. The agreement provides that UCHealth make annual academic support donations to enhance the ability of the School of Medicine to fulfill its academic missions of educating students in health-related disciplines and professions and furthering basic and applied biomedical research. UCHA's portion of the academic support donation for the years ended June 30, 2020 and 2019 was \$6,772 and \$13,333, respectively. In November 2018, the Regents and UCHealth entered into a Second Amendment to the Multi-Year Academic Support Agreement which provides an additional, non-terminable (absent mutual consent) academic missions support donation to the University of Colorado Foundation for the benefit of the School of Medicine for funding as expenses are actually incurred in future years, plus additional amounts based on a formula set forth in the Second Amendment.

(c) TriWest

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

(c) *TriWest (continued)*

UCHA originally purchased a minority interest in TriWest for \$3,300. In October 2007, UCHA sold 1,656.55 shares for \$18,053 to TriWest. After the sale, CU Medicine had a 60% share of UCHA's minority interest in TriWest. In March 2014, TriWest restructured its ownership, resulting in UCHA and CU Medicine selling their stock back to TriWest and receiving new stock valued at \$9,250. Based on this restructuring, CU Medicine has a 35% share of UCHA's minority interest in TriWest, valued at \$3,250.

UCHA's investment is accounted for under the cost method and is valued at \$6,000 at June 30, 2020 and 2019.

(d) *CU Medicine*

During the years ended June 30, 2020 and 2019, UCHA recognized \$121,052 and \$111,826, respectively, in contract expense to CU Medicine for contractual reimbursement of faculty administrative services and recruitment support. UCHA also recognized expenses of \$28,664 and \$25,967 during the years ended June 30, 2020 and 2019, respectively, that represent reimbursements channeled through UCHA by external entities for services provided by CU Medicine on behalf of those external entities (e.g., Ryan White program) and for reimbursements for hospital-based programs for services provided by CU Medicine on behalf of UCHA (e.g., on-call services, joint networking, administrative, and other miscellaneous programs).

UCHA recorded payables to CU Medicine of \$11,256 and \$9,762 at June 30, 2020 and 2019, respectively, for various contract labor and provider support expenses and TriWest pass-through balances.

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

(e) *The Children's Hospital*

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

The program is defined in an operating agreement that details the cost and revenue sharing between the two hospitals. UCHA has recorded a related-party payable to CHCO at June 30, 2020 and 2019, of \$21,366 and \$31,348, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

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

(f) VEBA Trust

On July 1, 2010, UCHA entered into an agreement with CU Medicine and the Regents to begin a self-insurance trust known as the Colorado Health and Welfare Trust (the “VEBA Trust”) for the benefit of eligible employees of the University, CU Medicine, and UCHA and their eligible dependents. The VEBA Trust is managed by a third-party administrator and provides healthcare coverage for eligible employees of the three organizations. The VEBA Trust functions as a retrospectively rated contract in which the initial premium is adjusted based on actual experience. For the years ended June 30, 2020 and 2019, UCHA expensed initial premiums of \$79,703 and \$74,981, respectively, into the healthcare flexible spending plans.

(g) Other Related Parties

UCHA and two other entities participate as members in Colorado Access, a Colorado not-for-profit corporation that owns and operates a statewide health maintenance organization that serves Medicaid patients. There are no earnings distribution agreements between Colorado Access and UCHA. Requests for financial information for Colorado Access should be addressed to Colorado Access, President and CEO, 11100 East Bethany Drive, Aurora, Colorado 800014.

(14) Commitments and Contingencies

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

UCHA has entered into contracts for the completion of expansion projects it is currently undertaking. As of June 30, 2020, UCHA has entered into contracts totaling \$252,499 for its current large projects, including planning costs for a Tower III hospital expansion, RMLEI expansion and USP800 pharmacy implementation. The total budget for these projects is \$412,926. UCHA has incurred \$40,090 in related costs during the year ended June 30, 2020 on these projects.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(15) CARES Act Funding

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted hundreds of thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. During the last quarter of fiscal year 2020, UCHA’s operations were significantly impacted as shelter-in-place orders and a government mandate to suspend elective procedures reduced volumes during the period. UCHA has moved to mitigate the impact by managing workforce productivity, delaying capital expenditures, actively managing cash disbursements, and implementing other cost reduction measures.

Enacted on March 27, 2020, the CARES Act was established, which authorizes \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare and Medicaid-enrolled suppliers and institutional providers. The purpose of these funds is to reimburse providers for lost revenue attributable to the coronavirus disease pandemic, such as forgone revenues from canceled procedures, and to provide support for related healthcare expenses, such as constructing temporary structures or emergency operation centers, retrofitting facilities, purchasing medical supplies and equipment including personal protective equipment and testing supplies, and increasing workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

On April 10, 2020, the U.S. Department of Health & Human Services (HHS) began making payments to healthcare providers from the \$100 billion appropriation. These are payments to healthcare providers that will not need to be repaid as long as UCHA complies with certain terms and conditions outlined by HHS. UCHA received approximately \$79,252 of payments as part of general and targeted distributions of the CARES Act Provider Relief Fund, which it has recognized as grant revenue on the statement of revenue, expenses and changes in net position. UCHA has asserted that it has met the conditions and restrictions outlined within the HHS published terms and conditions for the CARES Act as of June 30, 2020. UCHA relied upon the guidance in the HHS Frequently Asked Questions (FAQs) published as of June 19, 2020 to determine the amount of grant revenue eligible for recognition as of June 30, 2020. Such FAQs stated general and targeted distributions of the CARES Act Provider Relief Fund could be used to offset lost revenues that are attributable to coronavirus and that any reasonable method of estimating the revenue lost could be utilized. Such FAQs also stated that general distributions could be shared within a health system. UCHA estimated the lost revenues in March through May of 2020, which were the months most severely impacted by coronavirus, by comparing the revenues in those months to the expected revenues had coronavirus not caused disruption at UCHA, to derive the total of \$79,252 earned on targeted and general distributions.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019
(\$s in thousands)

(15) CARES Act Funding (continued)

UCHA also requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. After 120 days past receipt of the advance payment, claims for services provided to Medicare beneficiaries will be applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within one year from receipt of the advance payments for acute care hospitals and within 210 days for other health care providers. As of June 30, 2020, UCHA received approximately \$218,207 from these accelerated Medicare payment requests, which is recognized in estimated third-party settlements in the accompanying statements of net position.

(16) Subsequent Events

Effective July 1, 2020, UCHealth began administering its employee health coverage through the Health Trust of the University of Colorado Hospital Authority (the "Health Trust"). The Health Trust is a self-insurance trust set up for the benefit of eligible employees of the Health System and their eligible dependents.

Subsequent to June 30, 2020, UCHA received additional distributions from the CARES Act Provider Relief Fund of \$17,517.

In September 2020, HHS issued new reporting requirements for the CARES Act Provider Relief Fund. The new requirements first require the recipient to identify healthcare related expenses attributable to the coronavirus pandemic that another source has not reimbursed. If those expenses do not exceed the funding received, the recipient will need to demonstrate the remaining funding was used for a negative change in calendar year 2020 patient care operating income compared to calendar year 2019. HHS is entitled to recoup amounts in excess of the negative change in patient care operating income reported net of healthcare related expenses attributable to the coronavirus pandemic. Due to these new reporting requirements there is at least a reasonable possibility that amounts recorded under the CARES Act by UCHA may change in future periods.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

June 30, 2020 and 2019
(\$s in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total pension liability | | | | | | | | |
| Service cost | \$ 86,205 | \$ 82,862 | \$ 84,811 | \$ 63,156 | \$ 57,110 | \$ 49,411 | \$ 50,305 | \$ 38,706 |
| Interest | 77,822 | 63,593 | 56,967 | 50,527 | 44,575 | 37,092 | 29,718 | 25,456 |
| Plan changes | - | (38,743) | - | - | - | 10,490 | - | - |
| Difference in expected and actual experience | 7,101 | 42,206 | 7,291 | 2,020 | 4,388 | 15,584 | - | (9,722) |
| Changes in assumptions | (8,153) | (1,159) | (8,788) | - | (6,213) | 37,858 | - | 20,164 |
| Benefits payments | (32,729) | (42,823) | (20,914) | (19,464) | (14,047) | (12,188) | (9,821) | (8,363) |
| Other | - | - | - | - | 714 | (713) | - | - |
| Net change in total pension liability | 130,246 | 105,936 | 119,367 | 96,239 | 86,527 | 137,534 | 70,202 | 66,241 |
| Total pension liability - beginning | 1,051,072 | 945,136 | 825,769 | 729,530 | 643,003 | 505,469 | 435,267 | 369,026 |
| Total pension liability - ending (a) | <u>\$ 1,181,318</u> | <u>\$ 1,051,072</u> | <u>\$ 945,136</u> | <u>\$ 825,769</u> | <u>\$ 729,530</u> | <u>\$ 643,003</u> | <u>\$ 505,469</u> | <u>\$ 435,267</u> |
| Plan fiduciary net position | | | | | | | | |
| Contributions - employer | \$ 101,800 | \$ 91,812 | \$ 79,213 | \$ 74,356 | \$ 68,000 | \$ 66,184 | \$ 56,311 | \$ 45,310 |
| Net investment (loss) income | 39,464 | 40,057 | 56,395 | 78,610 | (476) | 12,212 | 56,354 | 31,947 |
| Benefits payments | (32,729) | (42,823) | (20,914) | (19,464) | (14,047) | (12,188) | (9,821) | (8,363) |
| Administrative expense | (3,025) | (4,175) | (2,251) | (1,746) | (1,464) | (1,453) | (794) | (543) |
| Net change in plan fiduciary net position | 105,510 | 84,871 | 112,443 | 131,756 | 52,013 | 64,755 | 102,050 | 68,351 |
| Plan fiduciary net position - beginning | 907,416 | 822,545 | 710,102 | 578,346 | 526,333 | 461,578 | 359,528 | 291,177 |
| Plan fiduciary net position - ending (b) | <u>\$ 1,012,926</u> | <u>\$ 907,416</u> | <u>\$ 822,545</u> | <u>\$ 710,102</u> | <u>\$ 578,346</u> | <u>\$ 526,333</u> | <u>\$ 461,578</u> | <u>\$ 359,528</u> |
| UC Health's net pension liability - ending (a) - (b) | <u>\$ 168,392</u> | <u>\$ 143,656</u> | <u>\$ 122,591</u> | <u>\$ 115,667</u> | <u>\$ 151,184</u> | <u>\$ 116,670</u> | <u>\$ 43,891</u> | <u>\$ 75,739</u> |
| Plan fiduciary net position as a percentage of total pension liability | 85.7% | 86.3% | 87.0% | 86.0% | 79.3% | 81.9% | 91.3% | 82.6% |
| Covered employee payroll | \$ 1,674,977 | \$ 1,476,241 | \$ 1,193,744 | \$ 1,059,420 | \$ 940,375 | \$ 862,612 | \$ 807,135 | \$ 584,097 |
| Net pension liability as a percentage of covered payroll | 10.1% | 9.7% | 10.3% | 10.9% | 16.1% | 13.5% | 5.4% | 13.0% |

Note to Schedule:

Changes of assumptions – Based on the results of an experience study, retirement and termination rates, salary increase rates and the assumption regarding election of form of payment upon retirement were updated in 2019. These changes increased the present value of projected benefits by \$741.

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

June 30, 2020 and 2019
(\$s in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

Note to Schedule (continued):

The assumed rates of mortality were updated in 2018 and 2019 by incorporating with the RP-2014 mortality table, updated MP mortality improvement scale. This change decreased the present value of projected benefits by \$1,900 and \$8,788 in 2019 and 2018, respectively.

The assumed rates of mortality were updated in 2020 by incorporating with the Pri-2012 mortality tables with base year 2012 using the base mortality improvement scale MP-2019 with generational projections using a 0.75% long-term rate of improvement. This change decreased the present value of projected benefits by \$8,153 in 2020.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

June 30, 2020 and 2019
(\$s in thousands)

**Schedule of Contributions
(Last 10 Fiscal Years)**

| | Actuarially Determined Contribution | Actual Contributions | Contribution Excess | Covered- Employee Payroll | Percentage of Covered- Employee Payroll |
|------|---|-------------------------|------------------------|------------------------------|--|
| 2020 | \$ 101,598 | \$ 101,800 | \$ 202 | \$ 1,674,977 | 6.08% |
| 2019 | \$ 91,812 | \$ 91,812 | \$ - | \$ 1,476,241 | 6.22% |
| 2018 | \$ 79,213 | \$ 79,213 | \$ - | \$ 1,193,744 | 6.64% |
| 2017 | \$ 74,356 | \$ 74,356 | \$ - | \$ 1,059,420 | 7.02% |
| 2016 | \$ 67,969 | \$ 68,000 | \$ 31 | \$ 940,375 | 7.23% |
| 2015 | \$ 66,184 | \$ 66,184 | \$ - | \$ 862,612 | 7.67% |
| 2014 | \$ 56,311 | \$ 56,311 | \$ - | \$ 807,135 | 6.98% |
| 2013 | \$ 45,310 | \$ 45,310 | \$ - | \$ 584,097 | 7.76% |
| 2012 | \$ 26,398 | \$ 26,398 | \$ - | \$ 256,158 | 10.31% |
| 2011 | \$ 20,101 | \$ 20,101 | \$ - | \$ 236,621 | 8.50% |

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

| | |
|----------------------------|---|
| Actuarial cost method | Entry Age Normal, Level Percent of Pay |
| Amortization method | Straight Line |
| Asset valuation method | Fair Value |
| Investment rate of return | 7.0%, includes inflation at 2.5% |
| Projected salary increases | 3.3% to 7.5% |
| Cost of living adjustments | 2.5% |
| Mortality | In the 2019 actuarial valuation, mortality rates are based on the Pri-2012 mortality table adjusted for the MP-2019 mortality improvement scale. In the 2018 actuarial valuation, mortality rates are based on the RP-2014 mortality table adjusted for the MP-2018 mortality improvement scale. In the 2017 actuarial valuation, mortality rates were based on the RP-2014 mortality table adjusted for the MP-2017 mortality improvement scale. In the 2016 and 2015 actuarial valuation, mortality rates were based on the RP-2014 mortality table. In prior years, those assumptions were based on the RP-2000 mortality table. |

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

June 30, 2020 and 2019
(\$s in thousands)

Schedule of Pension Plan Investment Returns

| <u>Year Ending June 30,</u> | <u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u> |
|-----------------------------|--|
| 2020 | 4.70% |
| 2019 | 5.10% |
| 2018 | 7.80% |
| 2017 | 13.10% |
| 2016 | -0.90% |
| 2015 | 2.40% |
| 2014 | 15.00% |
| 2013 | 10.60% |
| 2012 | -0.60% |
| 2011 | 21.90% |

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

Independent Auditor's Report

To Management and the Board of Directors
University of Colorado Hospital Authority

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 the business-type activities and the fiduciary fund of the University of Colorado Hospital Authority (UCHA) as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise UCHA's basic financial statements and have issued our report thereon dated September 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UCHA's internal control over financial reporting (internal control) as a basis for designing 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 UCHA's internal control. Accordingly, we do not express an opinion on the effectiveness of UCHA'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 UCHA'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 first paragraph of this section 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UCHA's financial statements are free from 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 financial statements. 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*.

To Management and the Board of Directors
University of Colorado Hospital Authority

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 UCHA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UCHA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

September 30, 2020