

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Basic Financial Statements
For the Years Ended
June 30, 2021 and 2020
(With Independent Auditors' Report Thereon)

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

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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 funds of University of Colorado Hospital Authority (UCHA), a component unit of University of Colorado Health, as of and for the years ended June 30, 2021 and 2020, 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 opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 funds of University of Colorado Hospital Authority as of June 30, 2021 and 2020, 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 Matters

As discussed in Note 2 to the basic financial statements, as of the year ended June 30, 2021, UCHA adopted new accounting guidance related to GASB Statement No. 84, *Fiduciary Activities*, on a retrospective basis. Our opinion is not modified with respect to this matter.

To the Board of Directors
University of Colorado Hospital Authority

As described in Note 16 to the basic financial statements, UCHA has received general and targeted distributions of the CARES Act Provider Relief Fund as of June 30, 2021 and 2020. The published terms and conditions related to the use of these distributions are 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.

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 28, 2021 on our consideration of 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.



September 28, 2021

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$ 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, 2021, 2020 and 2019.

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 are members of the obligated group UCHA’s master trust indenture, and, thereby, pledge their gross revenues to secure each member's obligations.
- UCHealth entities pool their respective revenues and expenses for a single bottom line. The UCHealth Board of Directors approves the operating and capital budgets of each entity throughout the Health System. Entity-specific boards remain to oversee medical staff and credentialing, quality, joint commission, and oversight of other day-to-day operating activities.
- Effective October 1, 2012, an Integration and Affiliation Agreement and Health System Operating Lease Agreement with the City of Colorado Springs was executed with the purpose of leasing Memorial Health System (“MHS”). UCHealth created the UCH-MHS entity to assume operations of MHS upon receipt of confirmation of exempt status from the IRS. The original lease is for a 40-year term with renewals or extensions anticipated.
- The initial acquisition cost of MHS to UCHealth was \$400,000 with \$290,000 paid in cash at closing and \$110,000 in lease payments to be paid over 30 years. Effective October 1, 2012, a sublease agreement was executed with Children’s Hospital Colorado to operate the pediatric units located at MHS and was valued at 15% of the organization. Children’s Hospital Colorado paid the corresponding amount of the upfront payment and is responsible for its percentage of the ongoing lease payments to the City of Colorado Springs. The net acquisition cost to UCHealth after sublease to Children’s Hospital Colorado was \$340,000. On June 4, 2015, MHS became the licensed operator of the pediatric services, 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, 2021, 2020 and 2019
(\$ in thousands)

UCHA Financial Highlights

Year Ended June 30, 2021 Compared with Year Ended June 30, 2020

- UCHA experienced disruption in operations beginning in March 2020 associated with the impact of the COVID-19 pandemic. Hospital statistics and financial performance are improved as Colorado COVID-19 cases trended lower in the second half of the year ended June 30, 2021.
- Inpatient volumes, measured in admissions and patient days, increased from 2020. Volumes include all volumes except those associated with the Center for Dependency, Addiction, and Rehabilitation (“CeDAR”) and normal newborns. Admissions increased 1.1% in 2021 compared to 2020. Patient days increased 6.3% in 2021. Medical/surgical admissions increased 1.6% in 2021.
- Outpatient volumes, measured by clinic visits, increased 10.5% in 2021. The increase in OP clinic visits is due to challenges experienced due to the COVID-19 pandemic in the last quarter of the prior year and declining impacts from COVID-19 in the current year as the hospital and economy recovered.
- Net patient service revenue was \$2,341,625 and \$2,075,782 in 2021 and 2020, respectively. Year over year increases are due to challenges experienced due to the COVID-19 pandemic in the last quarter of the prior year. Total operating revenue consists of net patient revenue and other operating revenue.
- Operating income was \$328,552 and \$238,135 in 2021 and 2020, 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 \$286,439 in 2021 and \$193,261 in 2020 if interest expense was included as an operating expense.
- Non-operating revenue and expenses were \$656,302 and \$146,990 in 2021 and 2020, respectively. Included in non-operating revenue is \$33,401 and \$79,252 of grant revenue received in 2021 and 2020, respectively, 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 gain/(loss) on derivative instruments. The income is offset by interest expense of \$42,113 and \$44,874 for the years ended June 30, 2021 and 2020, respectively. The year-over-year changes were driven by existing market conditions.
- Income before contributions was \$984,854 and \$385,125 in 2021 and 2020, respectively.
- Contribution revenue of \$5,899 was a \$1,090 decrease from 2020 contribution revenue of \$6,989. 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.
- In January 2019, the project to construct the Anschutz Inpatient Pavilion Expansion Tower 3 at UCHA was approved. The project includes 120 hospital beds, nine operating or procedure rooms and additional shelled space. 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$ in thousands)

UCHA Financial Highlights (continued)

Year Ended June 30, 2021 Compared with Year Ended June 30, 2020 (continued)

- In December 2020, 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, with the outlook being revised to Positive from Stable. Standard & Poor's maintained its rating at AA Stable. Fitch Ratings maintained its UCHA rating at AA Stable.

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 recovered partially at the end of the fourth quarter as Colorado COVID-19 trended lower. The impact of the COVID-19 pandemic was considered as we forecast our outlook for the 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 decrease was due to the decline in net patient revenue and increase in cost associated with the onset of COVID-19 in the spring of 2020, as well as an increase in benefit costs.
- According to 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$ in thousands)

UCHA Financial Highlights (continued)

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

- UCHA continued building the Inpatient Tower 3 expansion.
- In September 2019, 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 upgraded its rating to AA Stable from AA- Stable. Fitch Ratings maintained its UCHA rating at AA Stable.
- 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, 2021 and 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. UCHHealth 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%. UCHHealth 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 schedule.
- 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.

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, the health benefits 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

UCHA Financial Highlights (continued)

Overview of the Basic Financial Statements (continued)

UCHA has two types of funds: an enterprise fund, which accounts for all transactions related to UCHA's and the Foundation's business, and fiduciary funds for UCHA's employee pension plan and health benefits trust.

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, 2021, 2020 and 2019
 (\$s in thousands)

Financial Analysis and Results of Operations

Table 1
University of Colorado Hospital Authority
Statements of Net Position

	June 30,		
	2021	2020	2019
Current assets	\$ 1,653,714	\$ 1,779,770	\$ 1,364,995
Capital assets, net of accumulated depreciation	920,731	856,919	836,173
Non-current assets and other assets	4,307,539	3,321,638	2,908,822
Total assets	<u>6,881,984</u>	<u>5,958,327</u>	<u>5,109,990</u>
Deferred amortization on refundings	16,343	17,556	18,775
Deferred amortization related to pension plan	17,558	19,913	19,212
Total deferred outflows of resources	<u>33,901</u>	<u>37,469</u>	<u>37,987</u>
Total assets and deferred outflows of resources	<u>\$ 6,915,885</u>	<u>\$ 5,995,796</u>	<u>\$ 5,147,977</u>
Current liabilities	\$ 1,025,900	\$ 934,561	\$ 607,505
Long-term liabilities	1,363,707	1,576,050	1,448,282
Total liabilities	2,389,607	2,510,611	2,055,787
Deferred amortization related to pension plan	53,282	2,942	2,061
Total liabilities and deferred inflows of resources	<u>2,442,889</u>	<u>2,513,553</u>	<u>2,057,848</u>
Net position			
Invested in capital assets, net of related debt	289,668	207,884	177,885
Restricted			
Expendable			
Held by trustee for debt service	99	129	811
Restricted by donors	13,526	11,220	10,308
Non-expendable			
Permanent endowments	21,479	21,459	21,451
Unrestricted	4,148,224	3,241,551	2,879,674
Total net position	<u>4,472,996</u>	<u>3,482,243</u>	<u>3,090,129</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,915,885</u>	<u>\$ 5,995,796</u>	<u>\$ 5,147,977</u>

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$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, 2021, UCHA's total net position was \$4,472,996, which is an increase in total net position of \$990,753, or 28.5% 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, 2021, UCHA's unrestricted cash and investment position, including assets designated for long-term purposes, increased \$759,040 compared to June 30, 2020. Days cash on hand were 685.0 days and net days in accounts receivable were 40.6 as of June 30, 2021.

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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
 Years Ended June 30, 2021, 2020 and 2019
 (\$s in thousands)

Financial Analysis and Results of Operations (continued)

Revenues, Expenses, and Change in Net Position

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,		
	2021	2020	2019
Operating revenue			
Net patient service revenue	\$ 2,341,625	\$ 2,075,782	\$ 2,133,120
Other operating revenue	25,198	25,728	10,693
Total operating revenue	<u>2,366,823</u>	<u>2,101,510</u>	<u>2,143,813</u>
Operating expenses			
Wages, contract labor, and benefits	735,070	705,061	661,193
Supplies	654,876	557,986	537,305
Purchased services and other expenses	571,102	522,025	486,645
Depreciation and amortization	77,223	78,303	77,841
Total operating expenses	<u>2,038,271</u>	<u>1,863,375</u>	<u>1,762,984</u>
Operating income	<u>328,552</u>	<u>238,135</u>	<u>380,829</u>
Non-operating revenues and expenses			
Interest expense	(42,113)	(44,874)	(49,374)
Investment income	658,970	153,994	171,076
Unrealized gain (loss) on derivative instruments	25,501	(31,914)	(18,212)
Gain (loss) on disposal of capital assets	25	12	(210)
Grant revenue	33,401	79,252	-
Other, net	(19,482)	(9,480)	(26,084)
Total non-operating revenue and expenses	<u>656,302</u>	<u>146,990</u>	<u>77,196</u>
Income before contributions	984,854	385,125	458,025
Contributions to affiliates	-	-	(472)
Contributions restricted, other	5,899	6,989	4,507
Change in net position	990,753	392,114	462,060
Net position, beginning of year	<u>3,482,243</u>	<u>3,090,129</u>	<u>2,628,069</u>
Net position, end of year	<u>\$ 4,472,996</u>	<u>\$ 3,482,243</u>	<u>\$ 3,090,129</u>

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

Year ended June 30, 2021 Compared with Year Ended June 30, 2020

Net patient service revenue was \$2,341,625 in 2021 compared to \$2,075,782 in 2020. 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 \$33,769 in 2021, a decrease of \$2,446 or 6.8% from 2020.

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 2021 were \$156,144, an increase of \$18,131, or 13.1% over 2020.

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 \$94,529 in hospital provider fees, an increase of \$12,337, or 15.0% over 2020, and received \$115,149 in disproportionate share revenue as compensation for indigent and uninsured care services, an increase of \$19,871, or 20.9% over 2020.

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 \$155,343 in 2021, which is a decrease of \$13,344, or 7.9% from 2020, 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 \$2,038,271 in 2021. This was an increase of \$174,896, or 9.4%, compared to 2020.

Wages, contract labor and benefits expense of \$735,070 was a \$30,009, or 4.3% increase over the 2020 expense. This includes a 5.5% increase in salaries, a 26.6% increase in contract labor and a 1.3% decrease in benefits.

Medical and non-medical supplies expense of \$654,876 increased by \$96,890, or 17.4%, in 2021. Purchased services and other expenses of \$571,102 increased over 2020 by \$49,077, or 9.4%.

In accordance with GASB statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2021 was \$42,113, a decrease of \$2,761, or 6.2% compared to 2020.

Non-operating gain from UCHA's investment portfolio was \$625,397 in 2021, an increase of \$507,403 from 2020. Interest and dividend income on the portfolio was \$48,198, and realized and unrealized gains on the portfolio were \$582,239. Investment expense was \$5,040 for the year. Interest income derived from receivables from affiliates for debt was \$33,573 in 2021, a decrease of \$2,427 from 2020.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

Year ended June 30, 2021 Compared with Year Ended June 30, 2020 (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 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 maintaining or increasing the workforce. UCHA has recognized \$33,401 and \$79,252 in grant revenue from the CARES Act funds in 2021 and 2020, respectively.

Other net non-operating expenses were \$19,482 in 2021 due to donations made to the University of Colorado School of Medicine.

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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

Financial Analysis and Results of Operations (continued)

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

In 2010, the state of Colorado modified the CICP 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 a 4.6% increase in salaries, a 36.0% decrease in contract labor and an 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.

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment, at June 30, 2021, 2020 and 2019 are summarized in Table 3 and discussed below.

Table 3
University of Colorado Hospital Authority

	2021	2020	2019
Land	\$ 2,026	\$ 2,026	\$ 48
Buildings and Improvements	637,967	659,121	688,733
Equipment	86,374	91,571	87,656
Construction in progress	<u>194,364</u>	<u>104,201</u>	<u>59,736</u>
Total	<u>\$ 920,731</u>	<u>\$ 856,919</u>	<u>\$ 836,173</u>

Capital Assets, Net of Depreciation and Impairment

Net capital assets have increased 7.5% from the prior year.

In 2021 there were two capital additions in excess of \$5,000, which were the Anschutz Inpatient Pavilion Tower 3 with spend of \$68,978 and OR instrument replacement with spend of \$5,030. In 2020 there were two capital additions in excess of \$5,000, which were the Anschutz Inpatient Pavilion Tower 3 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 3 with spend of \$11,750.

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 \$27,546 in 2021 and \$27,994 in 2020. The 2021 and 2020 capital budgets are exclusive of the UCHHealth capital allocation. Cash flows related to capital expenditures totaled \$118,525 in 2021 compared to \$83,333 in 2020. Total depreciation expense on capital assets was \$77,223 and \$78,303 in 2021 and 2020, respectively.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
 Years Ended June 30, 2021, 2020 and 2019
 (\$ 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

	2021	2020	2019
Capital leases	\$ -	\$ 4	\$ 7
2009A Revenue Bonds	-	-	-
2011B Revenue Bonds	93,990	95,220	96,330
2011C Revenue Bonds	16,450	24,065	31,300
2012A Revenue Bonds	249,094	252,306	255,171
2012B Revenue Bonds	50,000	50,000	50,000
2012C Revenue Bonds	87,510	87,510	87,510
2013A Revenue Bonds	80,000	82,275	84,490
2013B Revenue Bonds	-	6,800	7,970
2013C Revenue Bonds	57,130	58,895	60,605
2015D Revenue Bonds	197,360	197,815	198,210
2017A Revenue Bonds	152,075	152,075	152,075
2017B1 Revenue Bonds	57,685	57,685	57,685
2017B2 Revenue Bonds	30,995	37,955	44,630
2017C1C2 Revenue Bonds	136,575	139,961	286,736
2018A Revenue Bonds	45,915	45,915	45,915
2018B Revenue Bonds	76,170	76,170	76,170
2018C Revenue Bonds	75,265	75,265	75,265
2019A Revenue Bonds	100,000	100,000	-
2019B Revenue Bonds	50,000	50,000	-
2019C Revenue Bonds	135,970	139,936	-
2019D Revenue Bonds	50,000	50,000	-
Less current portion	(251,140)	(166,594)	(22,519)
Less long-term debt subject to short-term remarketing arrangements	(227,330)	(234,595)	(283,195)
	<u>\$ 1,263,714</u>	<u>\$ 1,378,663</u>	<u>\$ 1,304,355</u>

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 2022. 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2021, 2020 and 2019
(\$s in thousands)

Economic Factors and Next Year's Activities and Rates (continued)

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 2022.

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

- Pursued available Federal and State programs, including FEMA, CARES and other COVID-19 programs
- Deferred certain non-essential and non-COVID-19 related capital expenditures
- Evaluated expenses, including staffing levels, and identified and implemented 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, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 309,175	\$ 544,420
Patient accounts receivable, less allowances for uncollectible accounts of \$250,762 and \$228,445, respectively	260,219	230,660
Receivables from related parties	720,918	656,137
Receivables from affiliates for debt	10,060	9,320
Other receivables	29,418	20,015
Inventories	55,959	53,085
Prepaid expenses	40,635	31,538
Investments designated for liquidity support	227,330	234,595
Total current assets	<u>1,653,714</u>	<u>1,779,770</u>
Non-current assets		
Restricted investments, bonds	99	129
Restricted investments, other	1	1
Restricted investments and donor pledges	36,803	34,432
Capital assets, net of accumulated depreciation	920,731	856,919
Long-term investments	1,789,117	2,149,298
Assets designated for long-term purposes	1,361,731	-
Other investments	7,335	7,402
Receivable from affiliates for debt	1,110,950	1,128,939
Other assets	1,503	1,437
Total non-current assets	<u>5,228,270</u>	<u>4,178,557</u>
Total assets	<u>6,881,984</u>	<u>5,958,327</u>
Deferred Outflows of Resources		
Deferred amortization on refundings	16,343	17,556
Deferred amortization related to pension plan	17,558	19,913
Total deferred outflows of resources	<u>33,901</u>	<u>37,469</u>
Total assets and deferred outflows of resources	<u>\$ 6,915,885</u>	<u>\$ 5,995,796</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Net Position

June 30, 2021 and 2020

(\$ in thousands)

	<u>2021</u>	<u>2020</u>
Liabilities		
Current liabilities		
Current portion of long-term debt	\$ 251,140	\$ 166,594
Accounts payable and accrued expenses	243,594	183,243
Accounts payable - construction	9,890	7,443
Accrued compensated absences	31,162	31,230
Accrued interest payable	6,671	6,701
Payables to affiliates	5,111	11,441
Fair value of derivative instruments	7,961	7,743
Estimated third-party settlements	243,041	285,571
Long-term debt subject to short-term remarketing arrangements	<u>227,330</u>	<u>234,595</u>
Total current liabilities	1,025,900	934,561
Long-term liabilities		
Long-term debt, less current portion	1,263,714	1,378,663
Fair value of derivative instruments, less current portion	50,783	88,789
Net pension liability	46,157	105,728
Other long-term liabilities	<u>3,053</u>	<u>2,870</u>
Total liabilities	<u>2,389,607</u>	<u>2,510,611</u>
Deferred Inflows of Resources		
Deferred amortization related to pension plan	<u>53,282</u>	<u>2,942</u>
Total deferred inflows of resources	<u>53,282</u>	<u>2,942</u>
Total liabilities and deferred inflows of resources	<u>2,442,889</u>	<u>2,513,553</u>
Net Position		
Invested in capital assets, net of related debt	289,668	207,884
Restricted expendable		
Held by trustee for debt service	99	129
Restricted by donors	13,526	11,220
Restricted non-expendable		
Permanent endowments	21,479	21,459
Unrestricted	<u>4,148,224</u>	<u>3,241,551</u>
Total net position	<u>4,472,996</u>	<u>3,482,243</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 6,915,885</u>	<u>\$ 5,995,796</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, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Operating revenue		
Net patient service revenue, net of provision for bad debts of \$95,630 and \$93,217, respectively	\$ 2,341,625	\$ 2,075,782
Other operating revenue	<u>25,198</u>	<u>25,728</u>
Total operating revenue	<u>2,366,823</u>	<u>2,101,510</u>
Operating expenses		
Wages, contract labor, and benefits	735,070	705,061
Supplies	654,876	557,986
Purchased services and other expenses	571,102	522,025
Depreciation and amortization	<u>77,223</u>	<u>78,303</u>
Total operating expenses	<u>2,038,271</u>	<u>1,863,375</u>
Operating income	<u>328,552</u>	<u>238,135</u>
Non-operating revenue and expenses		
Interest expense	(42,113)	(44,874)
Investment income	658,970	153,994
Unrealized gain (loss) on derivative instruments	25,501	(31,914)
Gain on disposal of capital assets	25	12
Grant revenue	33,401	79,252
Other, net	<u>(19,482)</u>	<u>(9,480)</u>
Total non-operating revenue and expenses	<u>656,302</u>	<u>146,990</u>
Income before contributions	984,854	385,125
Contributions restricted, other	<u>5,899</u>	<u>6,989</u>
Change in net position	990,753	392,114
Net position, beginning of year	<u>3,482,243</u>	<u>3,090,129</u>
Net position, end of year	<u>\$ 4,472,996</u>	<u>\$ 3,482,243</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Cash Flows
 Years Ended June 30, 2021 and 2020
 (\$ in thousands)

	2021	2020
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 2,262,587	\$ 2,317,951
Cash payments to suppliers for goods and services	(1,204,731)	(1,116,442)
Cash payments to employees/UCDHSC/other on behalf of employees	(727,231)	(676,327)
Cash payments to affiliates	(92,000)	(47,818)
Other receipts	4,164	34,714
Net cash provided by operating activities	<u>242,789</u>	<u>512,078</u>
Cash flows from capital and related financing activities		
Distributions for intercompany bonds	17,249	(181,358)
Principal repayments under capital lease obligations	(4)	(3)
Proceeds from long-term debt	-	200,000
Principal repayments of long-term debt	(29,460)	(22,515)
Payments of interest on long-term debt	(49,134)	(53,792)
Capital expenditures	(118,525)	(83,333)
Receipt of contributions	5,899	6,989
Proceeds on disposition of capital assets	25	12
Net cash used in capital and related financing activities	<u>(173,950)</u>	<u>(134,000)</u>
Cash flows from noncapital financing activities		
Receipt of grant revenue	33,401	79,252
Net cash provided by noncapital financing activities	<u>33,401</u>	<u>79,252</u>
Cash flows from investing activities		
Investment income	479,326	153,621
Distributions from joint ventures	171	310
Proceeds from sale and maturities of investments	2,668,487	2,406,070
Purchases of investments	(3,485,469)	(2,586,897)
Net cash used in investing activities	<u>(337,485)</u>	<u>(26,896)</u>
Net (decrease) increase in cash and cash equivalents	(235,245)	430,434
Cash and cash equivalents, beginning of year	544,420	113,986
Cash and cash equivalents, end of year	<u>\$ 309,175</u>	<u>\$ 544,420</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 328,552	\$ 238,135
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	77,223	78,303
Provision for bad debts	95,630	93,217
Increase in patient accounts receivable	(125,189)	(66,356)
Increase in other receivables and receivables from related parties and affiliates	(112,864)	(39,672)
Increase in inventories	(2,417)	(8,655)
Increase in prepaid expenses and other assets	(9,267)	(4,431)
Increase (decrease) in accounts payable and accrued expenses	40,412	(12,674)
(Decrease) increase in estimated third-party settlements	(42,530)	223,382
Change in net pension liability and pension-related deferred inflows and outflows of resources	(6,876)	6,869
Increase in accrued compensated absences and other long-term liabilities	115	3,960
Total adjustments	<u>(85,763)</u>	<u>273,943</u>
Net cash provided by operating activities	<u>\$ 242,789</u>	<u>\$ 512,078</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, 2021 and 2020
(\$s in thousands)

(Continued from the previous page)

	<u>2021</u>	<u>2020</u>
Non-cash transactions		
Donated pharmaceuticals	\$ 7,015	\$ 8,074
Non-cash refunding of debt	\$ -	\$ 141,640
Construction in progress accrued	\$ 9,890	\$ 7,443
Unrealized gain on investments	\$ 179,674	\$ 1,054
Unrealized gain (loss) on derivative instruments	\$ 25,501	\$ (31,914)

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Fiduciary Net Position – Pension Trust

June 30, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Investments	<u>\$ 1,393,593</u>	<u>\$ 1,012,926</u>
Net Position		
Held in trust for pension benefits	<u>\$ 1,393,593</u>	<u>\$ 1,012,926</u>

Statements of Changes in Fiduciary Net Position – Pension Trust

Years Ended June 30, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Additions		
Contributions	<u>\$ 113,027</u>	<u>\$ 101,800</u>
Investment income		
Increase (decrease) in fair value of investments	115,995	(13,353)
Interest	2,158	2,793
Dividends and other	<u>192,435</u>	<u>50,024</u>
Investment income	<u>310,588</u>	<u>39,464</u>
Total additions	<u>423,615</u>	<u>141,264</u>
Deductions		
Benefits	39,075	32,729
Administrative expenses	<u>3,873</u>	<u>3,025</u>
Total deductions	<u>42,948</u>	<u>35,754</u>
Change in net position	380,667	105,510
Net position, beginning of year	<u>1,012,926</u>	<u>907,416</u>
Net position, end of year	<u>\$ 1,393,593</u>	<u>\$ 1,012,926</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Fiduciary Net Position – Health Benefits Trust

June 30, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ <u>8,242</u>	\$ <u>1,189</u>
Liabilities		
Unpaid claims	\$ <u>8,062</u>	\$ <u>1,024</u>
Net Position		
Restricted for health benefits	\$ <u>180</u>	\$ <u>165</u>

Statements of Changes in Fiduciary Net Position – Health Benefits Trust

Years Ended June 30, 2021 and 2020

(\$s in thousands)

	<u>2021</u>	<u>2020</u>
Additions		
Contributions - Employer	\$ 239,583	\$ 2,599
Contributions - Employee	<u>52,005</u>	<u>10,780</u>
Total additions	<u>291,588</u>	<u>13,379</u>
Deductions		
Benefits	285,012	11,689
Administrative expenses	<u>6,561</u>	<u>569</u>
Total deductions	<u>291,573</u>	<u>12,258</u>
Change in net position	15	1,121
Net position, beginning of year	<u>165</u>	<u>(956)</u>
Net position, end of year	\$ <u>180</u>	\$ <u>165</u>

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$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 698-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 enhances 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 are members of the obligated group under UCHA’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 and health benefits trust) funds. 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, 2021 and 2020
(\$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 or the health benefits 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.

The health benefits trust fund is used to account for assets held in trust for the benefit of the employees of UCHA for the health and welfare benefit plan (the "Health and Welfare Plan"). In accordance with the 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 health and welfare trust fund are presented separately from the enterprise fund. The basic financial statements of the health and welfare trust fund are prepared using the accrual basis of accounting. Employer contributions to the Health and Welfare Plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Health and Welfare 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(c) Net Position

UCHA's net position is classified as follows:

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

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

(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, Assets Designated for Long-Term Purposes, and Restricted Investments

Investments include undesignated investments.

Assets designated for long-term purposes consist of assets designated by the Board of Directors for purchases of long-term assets and funding of long-term liabilities and commitments. The Board of Directors retains complete control over these assets, and may, at its discretion, subsequently use these assets for other purposes.

Restricted investments include assets restricted by donors and assets held by trustees under bond indenture and insurance agreements.

UCHA records all debt and equity investment securities at 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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(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.

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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(j) *Financial Instruments*

Financial instruments consist of cash and cash equivalents, accounts receivable, restricted investments, long-term investments, assets designated for long-term purposes, 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.

(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, 2021 and 2020 was \$4,270 and \$3,765, 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.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$ in thousands)

(2) Summary of Significant Accounting Policies (continued)

(m) Net Patient Service Revenue (continued)

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

(n) Risk Management

UCHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; fiduciary liability; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. UCHA is insured for medical malpractice claims and judgments through the University of Colorado Self-Insurance and Risk Management Trust. UCHA is self-insured for employee health and dental benefits through the Health and Welfare Plan. 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, 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 \$1,879 and \$1,996 at June 30, 2021 and 2020, respectively, for unrelated business income taxes.

(p) Pension Trust

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) Health Benefits Trust

UCHA accounts for its health benefits trust under GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and how those activities should be reported.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) *New Accounting Pronouncements*

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. UCHA adopted this guidance in 2021. As a result of implementing this standard, the health benefits trust was previously reported within the enterprise fund but now meets the definition of a fiduciary activity and is reported as such. The pronouncement was adopted retrospectively and did not have a material impact 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. 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 did not 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 through June 30, 2022. UCHA does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

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 did 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.

In May 2020, the GASB issued 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 GASB issued 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. 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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(3) Net Patient Service Revenue

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

	<u>2021</u>	<u>2020</u>
Gross charges	\$ 10,290,754	\$ 9,182,863
Third-party contractual allowances	(7,717,301)	(6,870,881)
Indigent and charity care	(95,203)	(100,247)
Provision for bad debt	(95,630)	(93,217)
Self-pay packages and other discounts	(156,144)	(138,013)
Reimbursement under the Colorado Provider Fee Program, net of pass-through payments	<u>115,149</u>	<u>95,277</u>
Net patient service revenue	<u>\$ 2,341,625</u>	<u>\$ 2,075,782</u>

UCHA has programs that receive add-on payments to the established rate or that are paid at a reasonable cost by third-party payors. Amounts received for these additional payments from Medicare, Medicaid, and TriCare programs are subject to audit and retroactive adjustment. Generally, provisions for estimated retroactive adjustments under such programs are provided in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue under the Medicare and Medicaid programs in 2021 and 2020 was \$684,992 and \$605,824, 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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(3) Net Patient Service Revenue (continued)

(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 discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were \$156,144 and \$138,013 in 2021 and 2020, respectively.

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

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2021 and 2020, UCHA was charged \$94,529 and \$82,192, respectively, in hospital provider fees and received \$115,149 and \$95,277, respectively, in disproportionate share and Medicaid supplemental payments as compensation for indigent and underinsured care services provided.

Based on an analysis of the direct and indirect costs of the procedures performed, the cost of charity care services provided was \$33,769 and \$36,215 for the years ended June 30, 2021 and 2020, 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 \$155,343 and \$168,687 in total benefits to the community for uninsured and underinsured patients in 2021 and 2020, respectively.

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Notes to Basic Financial Statements
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(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, 2021 was \$2,021 (unrestricted) and \$284 (restricted). The balance of contributions receivable at June 30, 2020 was \$2,312 (unrestricted) and \$160 (restricted).

The total current portions of unrestricted contributions receivable, net of allowances for uncollectible receivables, were \$2,021 and \$2,312 at June 30, 2021 and 2020, respectively. The total current portions of restricted contributions receivable, net of allowances for uncollectible receivables, were \$284 and \$160 at June 30, 2021 and 2020, respectively.

(5) **Deposits and Investments**

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

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

At June 30, 2021 and 2020, UCHA's unrestricted cash deposits had a book balance of \$309,175 and \$544,420, respectively, and a bank balance of \$339,060 and \$589,918, respectively. UCHA's receivables and investments restricted by donors included cash deposits that had a book and bank balance of \$41,882 and \$32,679 at June 30, 2021 and 2020, respectively. The difference between the bank balance and the book balance is related to outstanding reconciling items. These balances are covered by federal depository insurance up to the applicable maximum, as applicable.

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

(5) Deposits and Investments (continued)

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, 2021 and 2020 reflect UCHA’s share of the cash and investments held at the Health System level.

	June 30, 2021		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	\$ 309,175	\$ -	\$ 309,175
Restricted investments	-	36,903	36,903
Investments designated for liquidity support	-	227,330	227,330
Long-term investments	-	1,789,117	1,789,117
Assets designated for long-term purposes	-	1,361,731	1,361,731
	<u>\$ 309,175</u>	<u>\$ 3,415,081</u>	<u>\$ 3,724,256</u>
	June 30, 2020		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	\$ 544,420	\$ -	\$ 544,420
Restricted investments	-	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>

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Notes to Basic Financial Statements
 Years Ended June 30, 2021 and 2020
 (\$s in thousands)

(5) Deposits and Investments (continued)

Enterprise fund investments consist of the following:

	June 30,	
	2021	2020
Restricted by trustee under bond agreement	\$ 99	\$ 129
Restricted investments, other	1	1
Restricted by donor	36,803	34,432
Designated for liquidity support	227,330	234,595
Long-term investments	1,789,117	2,149,298
Assets designated for long-term purposes	1,361,731	-
 Total investments	 \$ 3,415,081	 \$ 2,418,455

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

	June 30,	
	2021	2020
Cash equivalents	\$ 117,787	\$ 72,894
U.S. Treasury bills	312,238	93,421
U.S. government agency, pool, and mortgage-backed securities	142,891	169,560
Asset-backed securities	251,012	85,148
Mutual bond funds	333,296	258,500
Treasury inflation protected securities ("TIPS")	147,631	115,531
Alternative investments	7,609	4,824
Corporate bonds	307,935	306,928
Equity securities	1,810,112	1,317,133
Interest and dividends receivable	495	510
Miscellaneous investment payable	(15,925)	(5,994)
 Total investments	 \$ 3,415,081	 \$ 2,418,455

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

(5) Deposits and Investments (continued)

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

	June 30,	
	2021	2020
Cash equivalents	\$ 33,413	\$ 26,877
U.S. Treasury bills	94,237	1,189
U.S. government agency, pool, and mortgage-backed securities	17,999	31,156
Asset-backed securities	30,977	7,268
TIPS	34,999	30,423
Corporate bonds	115,958	53,260
Alternative investments	113,678	73,288
Private real estate	92,961	52,827
Mutual bond funds	70,757	166,490
Other mutual funds	786,533	571,701
Interest and dividends payable	(14)	(144)
Miscellaneous investment receivable (payable)	2,095	(1,409)
 Total investments	 \$ 1,393,593	 \$ 1,012,926

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

	June 30,	
	2021	2020
Cash and cash equivalents	\$ 8,242	\$ 1,189
 Total investments	 \$ 8,242	 \$ 1,189

(a) Credit Risk

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

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

(a) Credit Risk (continued)

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

The following is a summary of enterprise fund investments at June 30, 2021 and 2020. The ratings are presented as the lower of Standard & Poor's or Moody's rating using the S&P scale.

	2021		2020	
	2021 Fair Value	Average Rating	2020 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	\$ 142,891	AA+	\$ 169,560	AA+
Asset-backed securities	251,012	AA+	85,148	AA+
Mutual bond funds	333,296	BBB	258,500	BBB+
TIPS	147,631	AA+	115,531	AA+
Corporate bonds	307,935	BBB+	306,928	BBB+

The following is a summary of pension trust fund investments at June 30, 2021 and 2020, with average credit ratings based on the lower of Standard & Poor's or Moody's rating using the S&P scale:

	2021		2020	
	2021 Fair Value	Average Rating	2020 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	\$ 17,999	AA+	\$ 31,156	AA+
Asset-backed securities	30,977	AA+	7,268	AAA
Mutual bond funds	70,757	B+	166,490	BBB
TIPS	34,999	AAA	30,423	AAA
Total corporate bonds	115,958	BBB+	53,260	BBB+

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

(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.

As of June 30, 2021 and 2020, the enterprise fund held the following investments. Modified duration is in years.

	2021		2020	
	2021 Fair Value	Modified Duration	2020 Fair Value	Modified Duration
U.S. Treasury bills	\$ 312,238	5.91	\$ 93,421	8.88
U.S. government agency, pool, and mortgage-backed securities	142,891	4.50	169,560	3.55
Asset-backed securities	251,012	1.22	85,148	1.72
Mutual bond funds	333,296	4.59	258,500	4.49
TIPS	147,631	7.17	115,531	6.23
Corporate bonds	307,935	5.98	306,928	6.65

As of June 30, 2021 and 2020, the pension trust fund held the following investments. Modified duration is in years.

	2021		2020	
	2021 Fair Value	Modified Duration	2020 Fair Value	Modified Duration
U.S. Treasury bills	\$ 94,237	7.55	\$ 1,189	24.69
U.S. government agency, pool, and mortgage-backed securities	17,999	3.38	31,156	4.04
Asset-backed securities	30,977	2.89	7,268	2.10
Mutual bond funds	70,757	5.42	166,490	6.30
TIPS	34,999	6.10	30,423	4.30
Total corporate bonds	115,958	6.49	53,260	7.45

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

(c) Foreign Currency Risk

UCHA's enterprise and pension trust fund investment policies manage exposure to foreign currency risk by limiting the allocation percentage of international mutual funds to 5-15% of the total fair value for the enterprise fund and 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, 2021 and 2020.

<u>Currency</u>	<u>Enterprise Fund Fair Value</u>		<u>Pension Trust Fund Fair Value</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Argentine Peso	\$ 40	\$ 26	\$ 89	\$ 23
Australian Dollar	15,810	12,023	9,550	8,745
Bahraini Dinar	3,457	-	(1,413)	-
Brazilian Real	5,910	8,257	8,692	6,036
Canadian Dollar	16,290	7,707	10,273	6,058
Chilean Peso	13,407	(3,411)	(368)	(2,958)
Chinese Yuan Renminbi	11,808	22,571	31,668	17,896
Colombian Peso	(814)	(24)	(34)	31
Croatian Kuna	492	-	(48)	-
Czech Koruna	(2,263)	(1,498)	(600)	(1,292)
Danish Krone	4,980	676	74	672
Egyptian Pound	22,253	173	105	153
Euro	93,407	62,371	67,459	42,703
Hong Kong Dollar	19,917	18,900	8,840	19,258
Hungarian Forint	(674)	161	85	11
Indian Rupee	15,031	10,072	18,949	8,101
Indonesian Rupiah	8,984	4,222	2,023	3,798
Israel New Shekel	22,920	241	(245)	170
Japanese Yen	55,015	55,099	57,358	44,651
Kazakhstan Tenge	6,824	-	-	-
Kenyan Schilling	194	221	349	303
Korean Won	9,798	-	10,059	-
Kuwaiti Dinar	18	14	170	-
Malyasian Ringgit	(1,620)	904	461	476
Mexican Peso	2,056	2,458	9,823	1,813
Moroccan Dirham	40	86	-	76
New Zealand Dollar	1,778	3,392	(2,275)	3,027
Norwegian Krone	7,816	5,871	653	464
Pakistani Rupee	2	33	7	4
Peru Newsol	(87)	(394)	122	(277)
Phillipines Peso	121	842	2,114	818
Polish Zloty	3,093	(542)	926	(514)
Qatari Riyal	5,478	(253)	57	(227)
Romanian Leu	(844)	393	3,064	350
Russian Rouble	6,221	6,014	7,677	3,123
Saudi Riyal	(6,045)	(1,037)	(38)	(925)
Singapore Dollar	1,768	(1,347)	(6,143)	(1,120)
South African Rand	2,717	3,037	5,388	1,524
South Korean Won	-	11,809	-	7,812
Swedish Krona	7,870	3,907	6,075	2,679
Swiss Franc	22,912	20,845	19,759	14,110
Taiwan New Dollar	11,487	3,190	(977)	1,612
Thailand Baht	(8,402)	1,745	995	1,404
Turkish Lira	15,128	3,112	435	2,838
United Arab Emirates Dirham	696	(1,065)	1,031	(951)
United Kingdom Pound Sterling	41,283	28,515	31,256	16,799
	<u>\$ 436,272</u>	<u>\$ 289,316</u>	<u>\$ 303,445</u>	<u>\$ 209,274</u>

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Years Ended June 30, 2021 and 2020
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(5) Deposits and Investments (continued)

(d) Concentration of Credit Risk

UCHA's enterprise and pension trust fund investment policies state that the equity and fixed income portfolio should be well-diversified to avoid undue exposure to any single economic sector, industry, or individual security. UCHA has evaluated all investments at June 30, 2021 and confirmed that no more than 5% of total investments are held in any one issuer, except for securities issued by the U.S. government and its agencies.

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, 2021, 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 certain variable rate bond issuances. The counterparties to the interest rate swap contracts are major financial institutions that are rated Aa3 and A2 by Moody's. The estimated fair value of interest rate swaps, which is the gross unrealized market gain or loss, is based on quotes obtained from the counterparties. UCHA's credit risk on the swaps is limited to any positive fair value of the financial instruments.

During the years ended June 30, 2021 and 2020, 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 value of \$57,130, 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, 2021 and 2020, this swap had an approximate fair value of \$(10,620) and \$(14,475), respectively.

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

- *A floating-to-fixed swap agreement having an original notional value of \$100,160 and a current notional value of \$80,000, 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, 2021 and 2020 the floating-to-fixed rate swap had an approximate fair value of \$(17,942) and \$(24,337), respectively.
- *A fixed-to-floating swap agreement having an original and current 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, 2021 and 2020, this swap had an approximate fair value of \$1,096 and \$962, respectively.
- *A floating-to-fixed swap agreement having an original and current notional value 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, 2021 and 2020, this swap had an approximate fair value of \$(31,278) and \$(58,682), respectively.

The swaps produced annual net cash inflows of \$6,331 and \$3,176 during the years ended June 30, 2021 and 2020, 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.

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Notes to Basic Financial Statements
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(7) Fair Value Measurement

(a) Fair Value Hierarchy

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

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

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

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

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

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 Years Ended June 30, 2021 and 2020
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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2021, the enterprise fund held the following financial instruments, by level, within the fair value hierarchy.

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	312,238	-	312,238	-
U.S. government agency, pool, and mortgage-backed securities	142,891	-	142,891	-
Asset-backed securities	251,012	-	251,012	-
Mutual bond funds	333,296	96,944	236,352	-
TIPS	147,631	76,943	70,688	-
Corporate bonds	307,935	-	307,935	-
Equity securities	1,810,112	895,650	914,301	161
Alternative investments	7,609	-	-	7,609
Total investments by fair value level	<u>\$ 3,312,724</u>	<u>\$ 1,069,537</u>	<u>\$ 2,235,417</u>	<u>\$ 7,770</u>
Derivative instruments				
Interest rate swaps	<u>\$ (58,744)</u>	<u>\$ -</u>	<u>\$ (58,744)</u>	<u>\$ -</u>

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Notes to Basic Financial Statements
 Years Ended June 30, 2021 and 2020
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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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
 Total investments by fair value level	 \$ 2,351,045	 \$ 1,271,374	 \$ 1,072,317	 \$ 7,354
Derivative instruments				
Interest rate swaps	\$ (96,532)	\$ -	\$ (96,532)	\$ -

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 (\$s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2021, the pension trust fund held the following financial instruments, by level, within the fair value hierarchy.

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
U.S. Treasury bills	\$ 94,237	\$ -	\$ 94,237	\$ -
U.S. government agency, pool, and mortgage-backed securities	17,999	-	17,999	-
Asset-backed securities	30,977	-	30,977	-
TIPS	34,999	-	34,999	-
Corporate bonds	115,958	-	115,958	-
Alternative investments	113,678	-	1,380	112,298
Private real estate	92,961	-	29,139	63,822
FI - bond funds	70,757	35,780	34,977	-
Equity securities	786,533	426,472	360,061	-
Total investments	<u>\$ 1,358,099</u>	<u>\$ 462,252</u>	<u>\$ 719,727</u>	<u>\$ 176,120</u>

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(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

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	571,701	434,135	137,566	-
Total investments	\$ 987,602	\$ 463,574	\$ 398,826	\$ 125,202

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. Private real estate investments classified in Level 3 of the fair value hierarchy are valued using the income approach based on a discounted cash flow model, with reliance on other metrics used in the marketplace, including the analysis of comparable sales and relationship to replacement cost. Alternative investments, equity securities, and other mutual funds classified in Level 3 of the fair value hierarchy are valued by developing a range of values using multiple methodologies deemed relevant by market participants, including discounted cash flow models, market multiple models, and recent transaction multiples. Swap agreements classified in Level 2 of the fair value hierarchy are valued using interest rate and forward yield curve inputs.

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Notes to Basic Financial Statements
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 (\$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,	
	2021	2020
Enterprise fund investments		
Total investments by fair value level	\$ 3,312,724	\$ 2,351,045
Cash equivalents	117,787	72,894
Interest and dividends receivable	495	510
Miscellaneous investment payable	<u>(15,925)</u>	<u>(5,994)</u>
Total enterprise fund investments	<u>\$ 3,415,081</u>	<u>\$ 2,418,455</u>
Pension trust fund investments		
Total investments by fair value level	\$ 1,358,099	\$ 987,602
Cash equivalents	33,413	26,877
Interest and dividends payable	(14)	(144)
Miscellaneous investment receivable (payable)	<u>2,095</u>	<u>(1,409)</u>
Total pension trust fund investments	<u>\$ 1,393,593</u>	<u>\$ 1,012,926</u>

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Notes to Basic Financial Statements
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(8) Capital Assets

Capital assets consist of the following at June 30, 2021, 2020, and 2019:

	June 30, 2019	Additions	Transfers	Disposals	June 30, 2020	Additions	Transfers	Disposals	June 30, 2021
Capital assets, not being depreciated									
Land	\$ 48	\$ -	\$ 1,978	\$ -	\$ 2,026	\$ -	\$ -	\$ -	\$ 2,026
Construction in progress	59,736	84,287	(39,822)	-	104,201	127,666	(37,503)	-	194,364
Total capital assets, not being depreciated	59,784	84,287	(37,844)	-	106,227	127,666	(37,503)	-	196,390
Capital assets, being depreciated									
Buildings and improvements	1,003,161	-	2,314	(13,736)	991,739	-	9,618	(116)	1,001,241
Fixed and moveable equipment	340,378	120	39,292	(4,981)	374,809	1,073	20,120	(5,179)	390,823
Total capital assets, being depreciated	1,343,539	120	41,606	(18,717)	1,366,548	1,073	29,738	(5,295)	1,392,064
Accumulated depreciation and impairment									
Buildings and improvements	314,428	31,930	(4)	(13,736)	332,618	30,772	-	(116)	363,274
Fixed and moveable equipment	252,722	35,726	(229)	(4,981)	283,238	34,908	(8,518)	(5,179)	304,449
Total accumulated depreciation and impairment	567,150	67,656	(233)	(18,717)	615,856	65,680	(8,518)	(5,295)	667,723
Total capital assets, net	\$ 836,173	\$ 16,751	\$ 3,995	\$ -	\$ 856,919	\$ 63,059	\$ 753	\$ -	\$ 920,731

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,	
	2021	2020
Medicare	25%	24%
Medicaid, including Colorado Access	20%	20%
Managed care	38%	35%
Commercial	2%	2%
Self-pay and medically indigent	8%	10%
Other	7%	9%

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(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.

(10) Long-Term Debt and Leases

Long-term debt consists of the following:

Type	Description	June 30,	
		2021	2020
Direct Borrowing	Capital leases, long-term, due in installments through 2021	\$ -	\$ 4
Other Bonds	Revenue Bonds, Series 2019A, due in installments through fiscal year 2050	100,000	100,000
Other Bonds	Revenue Bonds, Series 2019B, due in installments through fiscal year 2049	50,000	50,000
Other Bonds	Revenue Bonds, Series 2019C, due in installments through fiscal year 2048, (inclusive of unamortized premium of \$13,185 and \$17,151 at June 30, 2021 and 2020, respectively).	135,970	139,936
Other Bonds	Revenue Bonds, Series 2019D, due in installments through fiscal year 2049	50,000	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	30,995	37,955
Other Bonds	Revenue Bonds, Series 2017C1C2, due in installments through fiscal year 2048, (inclusive of unamortized premium of \$2,125 and \$5,511 at June 30, 2021 and 2020, respectively)	136,575	139,961
Direct Placement	Revenue Bonds, Series 2015D, due in installments through fiscal year 2042	197,360	197,815
Direct Placement	Revenue Bonds, Series 2013A, due in installments through fiscal year 2034	80,000	82,275
Direct Placement	Revenue Bonds, Series 2013B, due in installments through fiscal year 2025	-	6,800
Direct Placement	Revenue Bonds, Series 2013C, due in installments through fiscal year 2032	57,130	58,895
Other Bonds	Revenue Bonds, Series 2012A, due in installments through fiscal year 2043, (inclusive of unamortized premium of \$13,905 and \$14,794 and net of unamortized discounts of \$576 and \$613 at June 30, 2021 and 2020, respectively)	249,094	252,306
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	93,990	95,220
Direct Placement	Revenue Bonds, Series 2011C, due in installments through fiscal year 2023	16,450	24,065
	Total long-term debt	1,742,184	1,779,852
	Less long-term debt subject to short-term remarketing arrangements	(227,330)	(234,595)
	Less current portion	(251,140)	(166,594)
		<u>\$ 1,263,714</u>	<u>\$ 1,378,663</u>

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

Changes in long-term debt for the years ended June 30, 2021 are as follows:

2021	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	\$ 4	\$ -	\$ -	\$ (4)	\$ -	\$ -
Series 2011B	Direct Placement	11/09/11	\$ 95,220	-	-	(1,230)	93,990	93,990
Series 2011C	Direct Placement	11/16/11	\$ 24,065	-	-	(7,615)	16,450	8,015
Series 2012A	Other Bonds	10/01/12	\$ 252,306	-	(852)	(2,360)	249,094	2,795
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	82,275	-	-	(2,275)	80,000	2,345
Series 2013B	Direct Placement	11/18/13	6,800	-	-	(6,800)	-	-
Series 2013C	Direct Placement	11/18/13	58,895	-	-	(1,765)	57,130	1,835
Series 2015D	Direct Placement	09/01/15	197,815	-	-	(455)	197,360	445
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	37,955	-	-	(6,960)	30,995	7,265
Series 2017C1C2	Other Bonds	02/16/17	139,961	-	(3,386)	-	136,575	134,450
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	139,936	-	(3,966)	-	135,970	-
Series 2019D	Other Bonds	10/28/19	50,000	-	-	-	50,000	-
Total			<u>\$ 1,779,852</u>	<u>\$ -</u>	<u>\$ (8,204)</u>	<u>\$ (29,464)</u>	<u>\$ 1,742,184</u>	<u>\$ 251,140</u>

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(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>

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$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>
2022	251,140	45,307	296,447
2023	24,340	39,670	64,010
2024	16,950	39,076	56,026
2025	17,815	36,484	54,299
2026	18,675	33,721	52,396
2027-2031	126,720	157,903	284,623
2032-2036	237,555	131,006	368,561
2037-2041	295,650	96,126	391,776
2042-2046	383,475	48,940	432,415
2047-2050	<u>341,225</u>	<u>9,655</u>	<u>350,880</u>
Total long-term debt payments	1,713,545	<u>\$ 637,888</u>	<u>\$ 2,351,433</u>
Unamortized net premium and discount	<u>28,639</u>		
Total carrying amount of long-term debt	<u>\$ 1,742,184</u>		

Monthly lease payments are required for the capital lease agreement, which includes principal and interest. During the fiscal year, UCHA paid \$4 and \$3 in principal on its medical equipment leases during 2021 and 2020, respectively.

At June 30, 2020, UCHA maintained capital leases for equipment located in the freestanding emergency department locations totaling \$4. 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, 2021 and 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.

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Notes to Basic Financial Statements
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(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 schedule.

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, 2021 and 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.

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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$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, 2021 and 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. 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.

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Notes to Basic Financial Statements
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(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 expired in April 2021, with terms being extended through November 2022.

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 expired and fully refunded 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 expired in April 2021, with terms being extended through November 2022.

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. 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 fund redemption 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. The Series 2012A bonds have an optional redemption date of November 2022. In March 2021, UCHA issued forward starting 2022A and 2022B direct purchase bonds, in the amount of \$230,565, to refinance the 2012A bonds in November 2022.

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.

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Notes to Basic Financial Statements
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(10) Long-Term Debt and Leases (continued)

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. 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.

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.

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, requires the Health System to maintain certain financial ratios.

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 2021 and 2020, the Health System met all of the financial ratio requirements as follows:

	<u>Requirement</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Days cash on hand	90	469	397
Debt to capitalization percent	< 65%	20%	25%
Maximum debt service coverage	1.50	19.86	10.14

Cash paid for interest in 2021 and 2020 was \$49,134 and \$53,792, respectively. Interest received on the unexpended bond funds in 2021 and 2020 was \$0 and \$1, respectively.

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Notes to Basic Financial Statements
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(10) Long-Term Debt and Leases (continued)

The fair value of UCHA's long-term debt is based on the most recent trading price as of June 30, 2021 and 2020, respectively. The fair value of the Revenue Bonds at June 30, 2021 and 2020 was \$1,741,532 and \$1,776,808, respectively.

UCHA leases certain equipment and facilities under non-cancelable operating leases. Future minimum lease payments for equipment and facilities under non-cancelable operating leases as of June 30, 2021 are:

Year Ending June 30,	
2022	\$ 5,893
2023	4,668
2024	4,040
2025	33,733
2026	2,937
2027-2031	14,525
2032-2036	8,184
2037	<u>1,187</u>
Total minimum obligations	<u>\$ 75,167</u>

Rental expense was \$15,470 and \$16,721 in 2021 and 2020, 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 \$500 per claimant and \$1,500 per occurrence for claims arising outside the state of Colorado. The Trust contracts with a commercial insurance company to provide \$15,000 per occurrence or aggregate per year for claims in which the limits of governmental immunity do not apply.

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

As of June 30, 2021, the Trust had a fund balance of \$4,224, which is net of \$12,251 in reserves for losses and loss adjustment expenses. At June 30, 2021, plan assets exceed the actuarially determined liability. For 2021 and 2020, UCHA recorded premium and administrative expenses of \$1,061 and \$1,014, respectively. There were no refunds received during 2021 or 2020.

(12) Health Benefits Trust

UCHA administers its employee dental benefit coverage through the Health Trust of the University of Colorado Hospital Authority (the "Health Trust"). Effective July 1, 2020, UCHA began administering its employee health coverage through 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. Contributions to the Health Trust were \$291,588 and \$13,379 during the years ending June 30, 2021 and 2020, respectively. UCHA recognized reserves for claims incurred but not yet paid of \$8,456 and \$426 at June 30, 2021 and 2020, respectively. Reserves for claims incurred but not yet paid are estimated based upon historical claims experience and actuarial development factors. Actual results could differ from those estimates.

(13) 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").

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

(a) Pension Plans (continued)

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

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

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

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

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Notes to Basic Financial Statements
 Years Ended June 30, 2021 and 2020
 (\$s in thousands)

(13) Retirement Plans (continued)

(a) Pension Plans (continued)

UCHA's portion of the actuarially computed net periodic pension cost for the Basic Pension Plan for 2021 and 2020 was \$25,534 and \$36,183, respectively. Investment gains for 2021 and 2020, including interest, dividends, and realized and unrealized gains, were \$310,588 and \$39,464, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2020 and 2019 (dates of the latest actuarial valuations):

	<u>2020</u>	<u>2019</u>
Retirees and beneficiaries receiving benefits	1,988	1,795
Terminated plan members entitled to but not yet receiving benefits	4,542	4,042
Active plan members, includes all participants within the system	<u>24,558</u>	<u>23,610</u>
Total members	<u><u>31,088</u></u>	<u><u>29,447</u></u>

As a governmental entity, UCHA has considerable flexibility in determining the amount to contribute to the Basic Pension Plan each year. The actuarially determined contribution calculated as part of this report is intended to provide a systematic method for prefunding the liabilities for retirement benefits payable under the Basic Pension Plan. It is calculated in a manner intended to remain relatively stable, as a percentage of valuation compensation, over time. This stability is intended to facilitate the annual budgeting process and to keep the cost of the Basic Pension Plan manageable. All employees that work at UCHealth facilities are employees of UCHA; however, UCHA allocates the cost related to the pension to other entities within UCHealth. The full contributions made for all UCHA employees were \$113,027 and \$101,800 for the years ended June 30, 2021 and 2020, respectively. UCHA's contributions, net of reimbursements from the Health System, to the Basic Pension Plan were \$33,570 and \$29,389 in 2021 and 2020, respectively. UCHA's average contribution rates were 6.38% and 6.08% of annual payroll for the years ended June 30, 2021 and 2020, respectively.

The Hospital's net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2020 and 2019, respectively. UCHA utilized update procedures to roll valuation amounts forward to the respective measurement dates using the calculated service and interest cost, actual contributions, and return on plan assets.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
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(13) Retirement Plans (continued)

(a) Pension Plans (continued)

Additional information as of the latest actuarial valuation date follows:

Valuation date	July 1, 2020
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value

Actuarial assumptions

i) Discount rate*	6.75%
ii) Projected salary increases*	3.05% to 7.25%
iii) Cost of living adjustments**	2.25%

* Includes inflation at 2.25%.

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

Mortality rates for the 2020 and 2019 valuations 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.

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.

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Notes to Basic Financial Statements
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(13) 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%	6.5%
International equity	22%	7.1%
Fixed income	30%	2.2%
Real estate	10%	6.5%
Alternative	10%	12.1%
	100%	

The discount rate used to measure the total pension liability was 6.75%, including 2.25% 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.

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Notes to Basic Financial Statements
 Years Ended June 30, 2021 and 2020
 (\$ in thousands)

(13) Retirement Plans (continued)

(a) Pension Plans (continued)

Changes in the Health System's net pension liability (asset) for the years ended June 30, 2021 and 2020 were as follows:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
	(a)	(b)	(a) - (b)
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>
Changes for the year			
Service cost	92,812	-	92,812
Interest	86,477	-	86,477
Contributions - employer	-	113,027	(113,027)
Net investment income	-	310,588	(310,588)
Changes in experience	12,337	-	12,337
Changes in assumptions	25,260	-	25,260
Benefit payments	(39,075)	(39,075)	-
Administrative expense	-	(3,873)	3,873
Net changes	<u>177,811</u>	<u>380,667</u>	<u>(202,856)</u>
Balances at June 30, 2021	\$ <u>1,359,129</u>	\$ <u>1,393,593</u>	\$ <u>(34,464)</u>

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Notes to Basic Financial Statements
 Years Ended June 30, 2021 and 2020
 (\$s in thousands)

(13) Retirement Plans (continued)

(a) Pension Plans (continued)

UCHA's portion of the net pension liability as of June 30, 2021 and 2020, totaled \$46,157 and \$105,728, respectively.

The pension plan's fiduciary net position as a percentage of the total pension liability was 102.5% and 85.7% as of June 30, 2021 and 2020, respectively.

The following presents the net pension liability (asset) of UCHA, calculated using the discount rate of 6.75%, as well as what UCHA's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability (asset)	\$ 153,083	\$ (34,464)	\$ (188,881)

For the years ended June 30, 2021 and 2020, UCHA recognized pension expense of \$25,534 and \$36,183, respectively. At June 30, 2021 and 2020, 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, 2021		
Differences between expected and actual experience	\$ 12,505	\$ -
Changes in assumptions	5,053	2,058
Net difference between projected and actual earnings on pension plan investments	<u>-</u>	<u>51,224</u>
Total	<u>\$ 17,558</u>	<u>\$ 53,282</u>
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>

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(13) 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>	
2022	\$ (6,897)
2023	(7,637)
2024	(9,754)
2025	(11,900)
2026	<u>464</u>
	<u>\$ (35,724)</u>

UCHA has made all required contributions to the pension plan for the year ended June 30, 2021.

At June 30, 2021 and 2020, UCHA had four state employees. State employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was \$47 and \$47 for 2021 and 2020, respectively. Required contributions during fiscal years 2021 and 2020 were \$47 and \$47, 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).

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Notes to Basic Financial Statements
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(13) 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, 2021 and 2020 was \$489,090 and \$466,134, respectively. Total employee contributions made under the provisions of this plan were \$27,844 and \$27,847 for the years ended June 30, 2021 and 2020, respectively. This represents 5.7% 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 \$183 and \$174 in 2021 and 2020, 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 2021 and 2020 were \$9,546 and \$9,482, 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 2021 and 2020 were \$22,656 and \$21,923, 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 2021 and 2020 were \$109 and \$120, respectively. Employee contributions to the Fidelity 457b Plan in 2021 and 2020 were \$2,060 and \$2,040, 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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

(13) 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 \$2,888 and \$3,381 at June 30 2021 and 2020, respectively. Total benefit costs related to this plan were \$218 and \$223 for the years ended June 30, 2021 and 2020, 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 2.16% and 2.21% at June 30, 2021 and 2020, respectively.

(14) 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 are members of the obligated group under UCHA’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.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

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

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

Total current assets at June 30, 2021 and 2020 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 \$2,795 and \$2,360, respectively, and amounts due for the Series 2017B-2 proceeds related to the refinancing of PVHS Revenue Bonds of \$7,265 and \$6,960, respectively. At June 30, 2021 and 2020, current assets also included \$719,970 and \$655,770, respectively, related to transactions between UCHA and its affiliates.

Total non-current assets at June 30, 2021 and 2020 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, 2021 and 2020, the total receivable was \$1,110,950 and \$1,128,939, 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, 2021 and 2020 was \$309,010 and \$544,203, respectively. UCHA's share of pooled investments at June 30, 2021 and 2020 was \$3,357,397 and \$2,370,807, 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 \$65,227 and \$57,428 for these services, which are recorded in purchased services and other expenses in 2021 and 2020, respectively.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
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(14) 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 \$1,470 and \$1,688 were recognized in other operating revenue for these services during 2021 and 2020, respectively.

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of \$381 and \$1,274 were billed to CRC for the cost of these services during 2021 and 2020, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were \$338 and \$310 at June 30, 2021 and 2020, respectively, and are included in related-party receivables on the statements of net position. UCHA recorded amounts due to UCD of \$1,743 and \$1,746 at June 30, 2021 and 2020, 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, 2021 and 2020 was \$14,488 and \$6,772, 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. UCHA's portion of total payments to the University of Colorado Foundation for the benefit of the School of Medicine were \$8,355 and \$7,712 for the years ended June 30, 2021 and 2020, respectively.

(c) TriWest

TriWest was formed to deliver healthcare services to eligible beneficiaries of TriCare within certain specified geographic regions. 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, 2021 and 2020.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
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(14) Related-Party/Affiliate Transactions (continued)

(d) *CU Medicine*

During the years ended June 30, 2021 and 2020, UCHA recognized \$133,773 and \$121,052, respectively, in contract expense to CU Medicine for contractual reimbursement of faculty administrative services and recruitment support. UCHA also recognized expenses of \$29,301 and \$28,664 during the years ended June 30, 2021 and 2020, 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 \$5,072 and \$11,256 at June 30, 2021 and 2020, respectively, for various contract labor and provider support expenses.

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, 2021 and 2020, of \$35,691 and \$21,366, respectively.

(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 year ended June 30, 2020, UCHA expensed initial premiums of \$79,703 to the VEBA Trust. Effective June 30, 2020, UCHA no longer participates in the VEBA Trust.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
(\$s in thousands)

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

(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.

(15) 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 significant new construction and expansion projects it is currently undertaking. At June 30, 2021, UCHA has committed contract expenditures for these significant projects of \$225,968.

(16) 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 millions 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 maintaining or increasing the workforce. Further, these relief funds ensure uninsured patients are receiving testing and treatment for COVID-19.

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Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020
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(16) CARES Act Funding (continued)

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 \$33,401 and \$79,252 during the years ended June 30, 2021 and 2020, respectively, of payments as part of general and targeted distributions of the CARES Act Provider Relief Fund.

UCHA relied upon guidance issued by HHS through the date the financial statements are available to be issued. The terms and conditions first require the healthcare provider to identify healthcare-related expenses attributed to COVID-19 that no other source has reimbursed or is obligated to reimburse. If those expenses do not exceed the funding received, the healthcare provider then applies the funds to patient care lost revenue. HHS' June 11, 2021 notice, *Post-Payment Notice of Reporting Requirements*, provided healthcare providers three options to calculate patient care lost revenue. To determine the total distributions to be recognized as revenue as of June 30, 2021 and 2020, UCHA totaled unreimbursed related expenses attributed to COVID-19 and calculated patient care lost revenue based on the difference between actual and budgeted patient care revenue between January 1, 2020 and June 30, 2020.

UCHA has recognized \$33,401 and \$79,252 as grant revenue on the statement of revenue, expenses and changes in net position for the years ended June 30, 2021 and 2020, respectively. The initial estimate of the recognition of revenue related to the Provider Relief Fund was based upon guidance issued by HHS as of the date the consolidated financial statements were available to be issued for the year ended June 30, 2020. Subsequent to that period, HHS issued additional guidance to calculate lost revenue. These changes to the estimate are recorded prospectively as adjustments to grant revenue. For the year ended June 30, 2021, UCHA recognized no changes in the estimate of the recognition of revenue related to the Provider Relief Fund.

HHS' June 11, 2021 notice, *Post-Payment Notice of Reporting Requirements*, provided healthcare providers with additional guidance on the deadline for the use of funds received. For any payments received between April 10, 2020 and June 30, 2020, providers had until June 30, 2021 to use funds received. For payments received from July 1, 2020 to December 31, 2020, providers have until December 31, 2021 to use the funds; for payments received from January 1, 2021 to June 30, 2021, providers have until June 30, 2022 to use the funds; and for payments received from July 1, 2021 to December 31, 2021, providers have until December 31, 2022 to use the funds.

HHS' requirements for the uses of the CARES Act funds are subject to change and are open to interpretation and clarification; therefore, there may be changes in the amounts recognized as grant revenue during the years ended June 30, 2021 and 2020. Any changes in amounts recognized as result of new guidance, interpretation, or clarification will be recognized in the period in which the change occurred.

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Notes to Basic Financial Statements
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(16) CARES Act Funding (continued)

UCHA also requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible healthcare 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 healthcare providers. Beginning in April 2021, claims for services provided to Medicare beneficiaries were applied against the advance payment balance. Any unapplied advance payment amounts must be paid in full within 41 months from receipt of the advance payments. As of June 30, 2021, UCHA had received \$218,207 from these accelerated Medicare payment requests. UCHA has \$198,191 and \$218,207 recognized in estimated third-party settlements at June 30, 2021 and 2020, respectively, for the unpaid portion of these accelerated Medicare payment.

REQUIRED SUPPLEMENTARY INFORMATION

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June 30, 2021 and 2020

(\$s in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Total pension liability									
Service cost	\$ 92,812	\$ 86,205	\$ 82,862	\$ 84,811	\$ 63,156	\$ 57,110	\$ 49,411	\$ 50,305	\$ 38,706
Interest	86,477	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	12,337	7,101	42,206	7,291	2,020	4,388	15,584	-	(9,722)
Changes in assumptions	25,260	(8,153)	(1,159)	(8,788)	-	(6,213)	37,858	-	20,164
Benefits payments	(39,075)	(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	177,811	130,246	105,936	119,367	96,239	86,527	137,534	70,202	66,241
Total pension liability - beginning	1,181,318	1,051,072	945,136	825,769	729,530	643,003	505,469	435,267	369,026
Total pension liability - ending (a)	<u>\$ 1,359,129</u>	<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	\$ 113,027	\$ 101,800	\$ 91,812	\$ 79,213	\$ 74,356	\$ 68,000	\$ 66,184	\$ 56,311	\$ 45,310
Net investment (loss) income	310,588	39,464	40,057	56,395	78,610	(476)	12,212	56,354	31,947
Benefits payments	(39,075)	(32,729)	(42,823)	(20,914)	(19,464)	(14,047)	(12,188)	(9,821)	(8,363)
Administrative expense	(3,873)	(3,025)	(4,175)	(2,251)	(1,746)	(1,464)	(1,453)	(794)	(543)
Net change in plan fiduciary net position	380,667	105,510	84,871	112,443	131,756	52,013	64,755	102,050	68,351
Plan fiduciary net position - beginning	1,012,926	907,416	822,545	710,102	578,346	526,333	461,578	359,528	291,177
Plan fiduciary net position - ending (b)	<u>\$ 1,393,593</u>	<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>\$ (34,464)</u>	<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	102.5%	85.7%	86.3%	87.0%	86.0%	79.3%	81.9%	91.3%	82.6%
Covered employee payroll	\$ 1,770,242	\$ 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	-1.9%	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.

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June 30, 2021 and 2020
(\$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 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.

The discount rate was reduced from 7.0% to 6.75% in 2021. The projected salary increases were changed to a range of 3.05% to 7.25% in 2021. The cost of living adjustment rate was reduced to 2.25% in 2021. These changes increased the present value of projected benefits by \$25,260 in 2021.

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June 30, 2021 and 2020
(\$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
2021	\$ 113,027	\$ 113,027	\$ -	\$ 1,770,242	6.38%
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%

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	In the 2020 valuation, 6.75%, includes inflation at 2.25%. In the 2019 and prior valuations, 7.0%, includes inflation at 2.5%
Projected salary increases	In the 2020 valuation, 3.05% to 7.25%. In the 2019 and prior valuations, 3.3% to 7.5%
Cost of living adjustments	In the 2020 valuation, 2.25%. In the 2019 and prior valuations, 2.5%
Mortality	In the 2020 and 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, 2021 and 2020
(\$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>
2021	28.50%
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%

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 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 funds of the University of Colorado Hospital Authority (UCHA) as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise UCHA's basic financial statements and have issued our report thereon dated September 28, 2021.

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 opinions 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 the 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 28, 2021