UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Basic Financial Statements
For the Years Ended
June 30, 2019 and 2018
(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 fund information of the University of Colorado Hospital Authority (UCHA), a component unit of University of Colorado Health, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise University of Colorado Hospital Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 fund information of the University of Colorado Hospital Authority as of June 30, 2019 and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Financial Statements

The basic financial statements of the business-type activities and the fiduciary fund information of the University of Colorado Hospital Authority as of and for the year ended June 30, 2018 were audited by EKS&H LLLP, which expressed unmodified opinions on the business-type activities and the fiduciary fund information. EKS&H LLLP's report was dated September 25, 2018.

To the Board of Directors
University of Colorado Hospital Authority

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 24, 2019 on our consideration of the University of Colorado Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Colorado Hospital Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 24, 2019

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, 2019, 2018 and 2017.

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

Joint Operating Agreement and Integration and Affiliation Agreement

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

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

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

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

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

UCHA Financial Highlights

<u>Year Ended June 30, 2019 Compared with Year Ended June 30, 2018</u>

- Inpatient volumes, measured in admissions and patient days, increased over 2018. Volumes include all volumes except those associated with the Center for Dependency, Addiction, and Rehabilitation ("CeDAR") and normal newborns. Admissions increased 1.5% in 2019 compared to 2018. Patient days increased 4.1% in 2019. Medical/surgical admissions increased 1.3% in 2019. Inpatient volume growth was specific to increased medical and surgical services.

- Outpatient volumes, measured by clinic visits, increased 7.0% in 2019. Continued growth in OP clinic visits is due to programmatic growth in service lines as a result of increased capacity and initiatives to improve patient access through centralized scheduling services.

- Net patient service revenue was $2,133,120 and $1,873,879 in 2019 and 2018, respectively. Year over year increases are due to continued growth in patient volume as a result of service line initiatives and efficiencies developed in the patient and procedure scheduling processes. Total operating revenue consists of net patient revenue and other operating revenue.

- Operating income was $380,829 and 308,959 in 2019 and 2018, respectively. The increase is due to continued patient demand for UCHA services coupled with capacity growth from recent expansions.

- According to Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, interest expense is defined as a non-operating expense and is classified as such in UCHA's basic financial statements. Operating income would be $331,455 in 2019, $266,250 in 2018 if interest expense was included as an operating expense.

- Non-operating revenue and expenses were $77,196 and $123,782 in 2019 and 2018, respectively. This amount is primarily generated from investment income and an unrealized (loss) gain on derivative instruments. The income is offset by interest expense of $49,374 and $42,709 for the years ended June 30, 2019 and 2018, respectively. The year-over-year changes were driven by existing market conditions.

- Income before contributions was $458,025 and $432,741 in 2019 and 2018, respectively.

- Contribution revenue of $4,507 was a $1,146 increase over 2018 contribution revenue of $3,361. Beginning in 2018, UCHA entered into an agreement with the University of Colorado School of Medicine to partner in the fundraising process with a portion of monies raised provided to UCHA.

- UCHealth approved the Inpatient Tower III expansion at UCHA. This project will add approximately 100 inpatient rooms upon opening with the ability to grow to a net increase of 211 additional beds in the future. An additional 9 inpatient operating suites will be added in fiscal year 2023 with the ability to grow to 12 operating suites in the future. The project will add 658,585 square feet of expanded hospital space at an approved budget of $388,533 with a projected completion date in fiscal year 2023.

- UCHA became certified as a Level 1 Trauma Center as of October 12, 2018.

- In July 2018, UCHealth completed an annual ratings update with Moody's, Standard & Poor's and Fitch Ratings to rate the member organizations. Moody's maintained UCHA at Aa3 Stable. Standard & Poor's maintained its rating at AA- Stable. Fitch Ratings upgraded UCHA to AA Stable from AA-.

UCHA Financial Highlights (continued)

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

- In July 2018, UCHA issued Series 2018A Revenue Bonds ("Series 2018A") in the amount of $45,915 to fully refund PVHS Series 2005A bonds. Series 2018A were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates. To address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity.

- In July 2018, UCHA issued Series 2018B Revenue Bonds ("Series 2018B") and Series 2018C Revenue Bonds ("Series 2018C") in the amount of $76,170 and $75,265, respectively, to fully refund PVHS Series 2005B and Series 2005C bonds. Series 2018B and 2018C are variable rate bonds that bear interest as determined by the Remarketing Agent each week, and principal is paid according to a mandatory sinking fund redemption schedule. UCHA has a Standby Bond Purchase Agreement with TD Bank to provide liquidity support for Series 2018B and 2018C. The Standby Bond Purchase Agreement will expire on July 26, 2023 unless extended by the bank. UCHealth previously entered a forward-starting floating-to-fixed interest rate swap to coincide with the July 2018 refunding of the Series 2005 bonds. The forward swap hedges the 2018 Series variable rate bonds issued in July 2018 to refund the fixed rate Series 2005 bonds ranging from 5.20% to 5.25%, creating synthetic fixed rate debt. The swap agreement has an initial notional amount of $198,805 and a fixed payor rate of 1.81%, and UCHealth will receive 67% of one-month LIBOR for the entire swap term, which expires in March 2040. Settlements are made monthly starting in September 2018.

- In June 2019, UCHA executed an escrow agreement to effectively defease Series 2009A bonds. $33,447 was paid into the escrow.

Year Ended June 30, 2018 Compared with Year Ended June 30, 2017

- Inpatient Volumes increased 0.8% in 2018 compared to 2017. Patient Days increased 6.0% in 2018 compared to 2017

- Outpatient volumes, measured in clinic visits, increased by 11.0% in 2018 when compared to 2017.

- Net Patient Service revenue of $1,873,879 increased by $250,291, or 15.4%, over 2017. Total operating revenue in 2018 was $1,886,784, which is a $240,746 increase over 2017. Total operating revenue consists of net patient revenue and other operating revenue.

- Operating income was $308,959 during the fiscal year, which is a 21.2% increase over 2017. The increase is due to continued growth in patient demand for UCHA services coupled with capacity growth due to recent expansions.

- Non-operating revenue and expenses in 2018 were $123,782, which is a $52,456 decrease from 2017. This amount is primarily generated from investment income totaling $174,106 and an unrealized gain on derivative instruments of $7,663. The income is offset by interest expense of $42,709. The year-over-year decrease was driven by existing investment market conditions in 2018.

- Income before contributions was $432,741 in 2018, which is an increase of $1,591 over 2017.

UCHA Financial Highlights (continued)

Year Ended June 30, 2018 Compared with Year Ended June 30, 2017 (continued)

- Contribution revenue of $3,361 was a $1,824 increase over prior year contributions of $1,537. 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.

- During fiscal year 2018, UCHA completed construction to build out operating room space in the new patient tower, Anshutz Inpatient Pavilion 2. $12,815 was incurred on this project during the year ended June 30, 2018.

Overview of the Basic Financial Statements

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

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

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

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

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Management's Discussion and Analysis
Years Ended June 30, 2019, 2018 and 2017
($s in thousands)

Financial Analysis and Results of Operations

Table 1
University of Colorado Hospital Authority
Statements of Net Position

	June 30, 2019	June 30, 2018	June 30, 2017
Current assets	$ 1,364,995	$ 931,625	$ 702,567
Capital assets, net of accumulated depreciation	836,173	845,466	864,952
Non-current assets and other assets	2,908,822	2,714,012	2,509,810
Total assets	5,109,990	4,491,103	4,077,329
Deferred amortization on refundings	18,775	5,822	6,241
Deferred amortization related to pension plan	19,212	14,182	16,355
Total deferred outflows of resources	37,987	20,004	22,596
Total assets and deferred outflows of resources	$ 5,147,977	$ 4,511,107	$ 4,099,925
Current liabilities	$ 607,505	$ 411,995	$ 405,827
Long-term liabilities	1,448,282	1,465,251	1,496,522
Total liabilities	2,055,787	1,877,246	1,902,349
Deferred amortization related to pension plan	2,061	5,792	4,719
Total liabilities and deferred inflows of resources	2,057,848	1,883,038	1,907,068
Net position			
Invested in capital assets, net of related debt	177,885	136,646	130,563
Restricted			
Expendable			
Held by trustee for debt service	811	766	11,464
Restricted by donors	10,308	10,819	10,443
Non-expendable			
Permanent endowments	21,451	21,445	21,534
Unrestricted	2,879,674	2,458,393	2,018,853
Total net position	3,090,129	2,628,069	2,192,857
Total liabilities, deferred inflows of resources, and net position	$ 5,147,977	$ 4,511,107	$ 4,099,925

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

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

At June 30, 2018, UCHA's total net position was $2,628,069, which is an increase in total net position of $435,212 or 19.8% from the prior year end.

At June 30, 2018, UCHA's cash and investment position was $2,176,807 and increased $208,053 compared to June 30, 2017. Days cash on hand were 529.8 days and net days in accounts receivable were 46.3 as of June 30, 2018.

($s in thousands)

Revenue and Expenses

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

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

	Fiscal Years Ended June 30,		
	2019	2018	2017
Operating revenue			
Net patient service revenue	$ 2,133,120	$ 1,873,879	$ 1,623,588
Other operating revenue	10,693	12,905	22,450
Total operating revenue	2,143,813	1,886,784	1,646,038
Operating expenses			
Wages, contract labor, and benefits	661,193	605,850	556,330
Supplies	537,305	464,795	385,469
Purchased services and other expenses	486,645	429,152	371,410
Depreciation and amortization	77,841	78,028	77,917
Total operating expenses	1,762,984	1,577,825	1,391,126
Operating income	380,829	308,959	254,912
Non-operating revenues and expenses			
Interest expense	(49,374)	(42,709)	(35,420)
Investment income	171,076	174,106	211,681
Unrealized (loss) gain on derivative instruments	(18,212)	7,663	14,413
(Loss) gain on disposal of capital assets	(210)	41	1,281
Other, net	(26,084)	(15,319)	(15,717)
Total non-operating revenue and expenses	77,196	123,782	176,238
Income before contributions	458,025	432,741	431,150
Contributions restricted for capital assets	-	-	10
Contributions to affiliates	(472)	(890)	-
Contributions restricted, other	4,507	3,361	1,537
Change in net position	462,060	435,212	432,697
Net position, beginning of year	2,628,069	2,192,857	1,760,160
Net position, end of year	$ 3,090,129	$ 2,628,069	$ 2,192,857

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

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

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

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

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, 2019, UCHA was charged $74,000 in hospital provider fees, an increase of $5,128, or 7.4% over 2018, and received $91,286 in disproportionate share revenue as compensation for indigent and uninsured care services, an increase of $4,007, or 4.6% over 2018. The 2010 DSH guidance including Frequently Asked Questions ("FAQs") 33 and 34 required that the Medicare and private insurance payments received on behalf of Medicaid-eligible patients to be subtracted from the costs of care for the Inpatient and Outpatient services to Medicaid-eligible patients, which reduced the hospital-specific DSH payment limit for many hospitals. If the cost of care for those patients, including indigent and uninsured patients, less reimbursement received for those patients exceeded the amount of DSH payment made to the hospital, then a portion of the DSH payment would be recouped. The System carried reserves for estimates of such recoupments as a result of those FAQs. As of December 31, 2018, and in light of recent appellate court decisions, CMS revoked these FAQs for services furnished prior to June 2, 2017. As a result, the reserves carried for 2015 and 2016 are no longer required. Therefore, the Hospital released $47,477 in such reserves, which is included in net patient revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

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

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

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

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

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

Non-operating gain from UCHA's investment portfolio was $136,476 in 2019, a decrease of $11,535 from 2018. Interest and dividend income on the portfolio was $41,179, and realized and unrealized gains on the portfolio were $99,191. Investment expense was $3,894 for the year. Interest income derived from receivables from affiliates for debt was $34,600 in 2018, an increase of $8,505 from 2017.

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

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

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

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

Year ended June 30, 2018 Compared with Year Ended June 30, 2017

Net patient service revenue was $1,873,879 in 2018 compared to $1,623,588 in 2017. 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 $27,117 in 2018, an increase of $2,477 or 9.9% over 2017.

UCHealth 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 2018 were $106,906, an increase of $13,736, or 14.7% over 2017.

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, 2018, UCHA was charged $68,872 in hospital provider fees, an increase of $13,700, or 24.8% over 2017, and received $87,279 in disproportionate share ("DSH") and Medicaid supplemental revenue as compensation for indigent and uninsured care services, an increase of $9,497, or 12.2% over 2017.

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 $135,998 in 2018, which is an increase of $31,377, or 30.0% over 2017, 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 $1,577,825 in 2018. This was an increase of $186,699, or 13.4%, compared to 2017.

($s in thousands)

Year ended June 30, 2018 Compared with Year Ended June 30, 2017 (continued)

Wages, contract labor and benefits expense of $605,850 was a $49,520, or 8.9% increase over the 2017 expense. This includes an 11.1% increase in salaries, a 33.5% decrease in contract labor and a 9.7% increase in benefits.

Medical and non-medical supplies expense of $464,795 increased by $79,326, or 20.6%, in 2018. Purchased services and other expenses of $429,152 increased over 2017 by $57,742, or 15.5%.

In accordance with GASB statement No. 34, UCHealth records interest expense as a non-operating expense. Interest expense in 2018 was $42,709, an increase of $7,289, or 20.6% compared to 2017.

Non-operating gain from UCHA's investment portfolio was $148,011 in 2018, a decrease of $45,387 from 2017. Interest and dividend income on the portfolio was $29,754, and realized and unrealized gains on the portfolio were $94,744. Investment expense was $2,824 for the year. Interest income derived from receivables from affiliates for debt was $26,095 in 2018, an increase of $7,812 from 2017.

Other net non-operating expenses were $15,319 in 2018 due to donations made to the University of Colorado School of Medicine.

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of depreciation and impairment, at June 30, 2019, 2018 and 2017 are summarized in Table 3 and discussed below.

Table 3
University of Colorado Hospital Authority

	2019	2018	2017
Land	$ 48	$ 48	$ 48
Buildings and Improvements	688,733	715,904	725,383
Equipment	87,656	110,861	112,658
Construction in progress	59,736	18,653	26,863
Total	$ 836,173	$ 845,466	$ 864,952

Capital Assets, Net of Depreciation and Impairment

Net capital assets have decreased 1.1% from the prior year.

In 2019 there was one capital addition in excess of $5,000, which was the Anschutz Inpatient Pavilion Tower III with spend of $11,750. In 2018 there was one capital addition in excess of $5,000, which was the Inpatient Operating Room Expansion with spend of $12,815.

($s in thousands)

Capital Assets and Debt Administration (continued)

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 $25,236 in 2019, $24,002 in 2018 and $22,360 in 2017. The 2019 and 2018 capital budget is exclusive of the UCHealth capital allocation. Cash flows related to capital expenditures totaled $58,096 in 2019 compared to $45,559 in 2018 and $46,600 in 2017. Total depreciation expense on capital assets was $77,841, $78,028 and $77,917 in 2019, 2018 and 2017 respectively.

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

	2019	2018	2017
Capital leases	$ 8	$ -	$ 253
2009A Revenue Bonds	-	37,704	39,610
2011B Revenue Bonds	96,330	97,430	98,515
2011C Revenue Bonds	31,300	38,170	44,705
2012A Revenue Bonds	255,170	258,276	261,617
2012B Revenue Bonds	50,000	50,000	50,000
2012C Revenue Bonds	87,510	87,510	87,510
2013A Revenue Bonds	84,490	86,630	88,720
2013B Revenue Bonds	7,970	9,080	10,140
2013C Revenue Bonds	60,605	62,245	63,825
2015D Revenue Bonds	198,210	198,640	199,100
2017A Revenue Bonds	152,075	152,075	152,075
2017B1 Revenue Bonds	57,685	57,685	57,685
2017B2 Revenue Bonds	44,630	51,025	57,125
2017C1C2 Revenue Bonds	286,736	292,908	299,081
2018A Revenue Bonds	45,915	-	-
2018B Revenue Bonds	76,170	-	-
2018C Revenue Bonds	75,265	-	-
Less current portion	(22,519)	(24,045)	(23,553)
Less long-term debt subject to short-term remarketing arrangements	(283,195)	(102,315)	(108,710)
	$ 1,304,355	$ 1,353,018	$ 1,377,698

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

Demand for inpatient beds at the Anschutz Medical Campus is expected to continue in fiscal year 2020. The projected annual population growth rate over the next 20 years for Denver County is 1.3%, while growth in the counties surrounding UCHA is projected to be 2.1% for Adams County and 1.3% for Arapahoe County. The challenge and opportunity for UCHA will be to most effectively manage the utilization of available beds to the best advantage of UCHA, University of Colorado School of Medicine, and the community in the coming year.

Economic Factors and Next Year's Activities, Budgets, 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 2020.

The 2019-2020 budget, as approved by UCHA's Board of Directors, projects operating revenue at $2,230,570 and an operating margin of 11.3%. EBITDA is budgeted at $377,470, with an EBITDA margin of 16.9% and an increase in net position of $405,753.

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, 2019 and 2018
($s in thousands)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 113,986	$ 170,384
Patient accounts receivable, less allowances for uncollectible accounts of $195,652 and $172,976, respectively	257,521	237,614
Receivables from related parties	609,608	333,669
Receivables from affiliates for debt	8,680	8,635
Other receivables	20,608	14,242
Inventories	44,200	40,570
Prepaid expenses	27,197	24,196
Investments designated for liquidity support	283,195	102,315
Total current assets	1,364,995	931,625
Non-current assets		
Restricted investments, bonds	811	766
Restricted investments, other	-	4
Restricted investments and pledges, donors	37,178	36,233
Capital assets, net of accumulated depreciation	836,173	845,466
Long-term investments	1,916,071	1,904,108
Other investments	7,329	7,283
Receivable from affiliates for debt	945,703	763,840
Other assets	1,730	1,778
Total non-current assets	3,744,995	3,559,478
Total assets	5,109,990	4,491,103
Deferred Outflows of Resources		
Deferred amortization on refundings	18,775	5,822
Deferred amortization related to pension plan	19,212	14,182
Total deferred outflows of resources	37,987	20,004
Total assets and deferred outflows of resources	$ 5,147,977	$ 4,511,107

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Net Position
June 30, 2019 and 2018
($s in thousands)

	2019	2018
Liabilities		
Current liabilities		
Current portion of long-term debt	$ 22,519	$ 24,045
Accounts payable and accrued expenses	186,207	131,883
Accounts payable - construction	2,601	1,921
Accrued compensated absences	27,566	26,520
Accrued interest payable	6,621	6,679
Payables to affiliates	11,775	6,161
Fair value of derivative instruments	4,832	2,635
Estimated third-party settlements, net	62,189	109,836
Long-term debt subject to short-term remarketing arrangements	283,195	102,315
Total current liabilities	607,505	411,995
Long-term liabilities		
Long-term debt, less current portion	1,304,355	1,353,018
Fair value of derivative instruments, less current portion	42,314	17,197
Net pension liability	99,039	92,471
Other long-term liabilities	2,574	2,565
Total liabilities	2,055,787	1,877,246
Deferred Inflows of Resources		
Deferred amortization related to pension plan	2,061	5,792
Total deferred inflows of resources	2,061	5,792
Total liabilities and deferred inflows of resources	2,057,848	1,883,038
Net Position		
Invested in capital assets, net of related debt	177,885	136,646
Restricted expendable		
Held by trustee for debt service	811	766
Restricted by donors	10,308	10,819
Restricted non-expendable		
Permanent endowments	21,451	21,445
Unrestricted	2,879,674	2,458,393
Total net position	3,090,129	2,628,069
Total liabilities, deferred inflows of resources, and net position	$ 5,147,977	$ 4,511,107

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, 2019 and 2018

($s in thousands)

	2019	2018
Operating revenue		
Net patient service revenue, net of provision for bad debts of $86,276 and $85,652, respectively	$ 2,133,120	$ 1,873,879
Other operating revenue	10,693	12,905
Total operating revenue	2,143,813	1,886,784
Operating expenses		
Wages, contract labor, and benefits	661,193	605,850
Supplies	537,305	464,795
Purchased services and other expenses	486,645	429,152
Depreciation and amortization	77,841	78,028
Total operating expenses	1,762,984	1,577,825
Operating income	380,829	308,959
Non-operating revenue and expenses		
Interest expense	(49,374)	(42,709)
Investment income	171,076	174,106
Unrealized (loss) gain on derivative instruments	(18,212)	7,663
(Loss) gain on disposal of capital assets	(210)	41
Loss on discontinued operations	(9,246)	-
Other, net	(16,838)	(15,319)
Total non-operating revenue and expenses	77,196	123,782
Income before contributions	458,025	432,741
Contributions to affiliates	(472)	(890)
Contributions restricted, other	4,507	3,361
Change in net position	462,060	435,212
Net position, beginning of year	2,628,069	2,192,857
Net position, end of year	$ 3,090,129	$ 2,628,069

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Cash Flows
Years Ended June 30, 2019 and 2018
($s in thousands)

	2019	2018
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 2,057,132	$ 1,820,805
Cash payments to suppliers for goods and services	(1,008,121)	(916,020)
Cash payments to employees/UCDHSC/other on behalf of employees	(648,117)	(578,193)
Cash received from or on behalf of affiliates	(276,496)	(201,799)
Other receipts	10,365	7,479
Net cash provided by operating activities	134,763	132,272
Cash flows from capital and related financing activities		
Proceeds from intercompany bonds	(45)	6,598
Principal repayments under capital lease obligations	(3)	(253)
Principal repayments of long-term debt	(59,725)	(23,300)
Payments of interest on long-term debt	(55,352)	(49,062)
Capital expenditures	(58,096)	(45,559)
Receipt of contributions	4,507	3,361
Proceeds from sale of capital assets	153	5
Net cash used in capital and related financing activities	(168,561)	(108,210)
Cash flows from investing activities		
Investment income	128,475	87,065
Distributions from joint ventures	277	93
Proceeds from sale and maturities of investments	112,421	1,443,811
Purchases of investments	(263,773)	(1,561,480)
Net cash used in investing activities	(22,600)	(30,511)
Net decrease in cash and cash equivalents	(56,398)	(6,449)
Cash and cash equivalents, beginning of year	170,384	176,833
Cash and cash equivalents, end of year	$ 113,986	$ 170,384
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 380,829	$ 308,959
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	77,841	78,028
Provision for bad debts	86,276	85,652
Increase in patient accounts receivable	(106,183)	(121,160)
Increase in other receivables and receivables from related parties and affiliates	(276,673)	(207,372)
Increase in inventories	(3,468)	(7,715)
Increase in prepaid expenses and other assets	(3,152)	(6,073)
Increase in accounts payable and accrued expenses	28,078	8,140
Decrease in estimated third-party settlements	(47,647)	(10,904)
Change in net pension liability and pension-related deferred inflows and outflows of resources	(2,193)	2,808
Increase in accrued compensated absences and other long-term liabilities	1,055	1,909
Total adjustments	(246,066)	(176,687)
Net cash provided by operating activities	$ 134,763	$ 132,272

(Continued on the following page)

See accompanying notes to the basic financial statements.

Statements of Cash Flows
Years Ended June 30, 2019 and 2018
($s in thousands)

(Continued from the previous page)

	2019	2018
Non-cash transactions		
Donated pharmaceuticals	$ 8,434	$ 6,662
Capital leases executed	$ 10	$ -
Construction in progress accrued	$ 2,601	$ 1,921
Unrealized loss	$ 24,348	$ 94,744
Asset transfer from affiliate, net of accumulated depreciation	$ -	$ 5,031
Unrealized (loss) gain on derivative instruments	$ (18,212)	$ 7,663

See accompanying notes to the basic financial statements.

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

Statements of Fiduciary Net Position
June 30, 2019 and 2018
($s in thousands)

	2019	2018
Assets		
Investments	$ 907,416	$ 822,545
Net Position		
Held in trust for pension benefits	$ 907,416	$ 822,545

Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2019 and 2018
($s in thousands)

	2019	2018
Additions		
Contributions	$ 91,812	$ 79,213
Investment income		
Increase in fair value of investments	17,698	33,816
Interest	1,984	1,317
Dividends and other	20,375	21,262
Investment income	40,057	56,395
Total additions	131,869	135,608
Deductions		
Benefits	42,823	20,914
Administrative expenses	4,175	2,251
Total deductions	46,998	23,165
Change in net position	84,871	112,443
Net position, beginning of year	822,545	710,102
Net position, end of year	$ 907,416	$ 822,545

See accompanying notes to the basic financial statements.

(1) Organization and Mission

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

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

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

(b) Use of Estimates in Preparation of Financial Statements

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

(c) Net Position

UCHA's net position is classified as follows:

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

(2) Summary of Significant Accounting Policies (continued)

(c) Net Position (continued)

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

(d) Cash and Cash Equivalents

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

(e) Investments and Restricted Investments

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

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

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

(f) Inventories

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

(g) Capital Assets

Capital assets are recorded at cost or, if donated, at acquisition value at the date of receipt. 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.

(2) Summary of Significant Accounting Policies (continued)

(g) Capital Assets (continued)

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

(h) Compensated Absences

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

(i) Deferred Amortization on Refundings

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

(j) Financial Instruments

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

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

(2) Summary of Significant Accounting Policies (continued)

(k) Endowments

UCHA's endowments consist of individual funds restricted by donors for a variety of purposes. The State of Colorado's Uniform Prudent Management of Institutional Funds Act requires preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this, UCHA classifies as non-expendable restricted net position the original value of the gifts donated to the permanent endowment. The appreciation on donor-restricted endowment funds is classified as expendable restricted net position until those amounts are appropriated for expenditure by UCHA. UCHA may spend the net appreciation on the endowment funds based on the individual endowment fund agreements, and considers factors such as duration and preservation of the fund, purposes of the fund, general economic conditions, possible effects of inflation and deflation, expected total return from investment income, and other resources of the Foundation when determining the amounts to authorize and spend in an individual year. The amount of net appreciation on endowments that was available for expenditure at June 30, 2019 and 2018 was $3,042 and $3,012, 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 investment income and restricted contributions and is reported as non-operating revenue. Operating expenses are all expenses incurred to provide healthcare services. Non-operating expenses include interest expense, fundraising activities, and gain or loss on discontinued operations and disposal of capital assets.

(m) Net Patient Service Revenue

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

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

(2) Summary of Significant Accounting Policies (continued)

(n) Risk Management

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

(o) Income Taxes

UCHA is a political subdivision and body corporate of the State of Colorado and, as such, the income generated by UCHA in the exercise of its essential government function is exempt from federal income tax under Section 115 of the Code. UCHA also has a determination letter from the IRS, which states that it is exempt under Section 501(a) as an organization described in Section 501(c)(3) of the Code. UCHA has recognized a tax liability of $2,107 and $2,179 at June 30, 2019 and 2018, respectively, for unrelated business income taxes.

(p) Pension Plans

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

(q) Discontinued Operations

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

(r) New Accounting Pronouncements

In 2017, the GASB issued Statement No. 83, Certain Asset Retirement Obligations, which establishes the definition of asset retirement obligations and guidelines for the recognition and disclosure of liabilities associated with the retirement of a tangible capital asset. The requirements of this statement are effective for UCHA for the year ending June 30, 2019, and do not have a material impact to UCHA's basic financial statements.

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

In 2018, the GASB issued Statement No. 84, Fiduciary Activities, which established criteria for identifying fiduciary activities of governments and how those activities should be reported. The requirements of this statement will be effective for UCHA for the year ending June, 30, 2020. UCHA is in the process of evaluating the impact of this statement to UCHA's basic financial statements.

In 2017, the GASB issued Statement No. 87, Leases, which improves the accounting and financial reporting for leases by governments for the financial statement users. GASB Statement No. 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement will be effective for UCHA for the year ending June 30, 2021. 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. 88, Certain Disclosures Related to Debt, Including direct Borrowings and Direct Placements, which provides guidance for additional disclosures in notes to government financial statements. The requirements of this statement are effective for UCHA for the year ending June 30, 2019, and do not have a material impact to UCHA's basic financial statements.

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

($s in thousands)

(2) Summary of Significant Accounting Policies (continued)

(r) New Accounting Pronouncements (continued)

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

(3) Net Patient Service Revenue

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

	2019	2018
Gross charges	$ 8,959,464	$ 7,834,571
Third-party contractual allowances	(6,627,045)	(5,786,368)
Indigent and charity care	(78,304)	(61,296)
Provision for bad debt	(86,276)	(85,652)
Self-pay packages and other discounts	(126,005)	(106,906)
Reimbursement under the Colorado Provider Fee Program, net of pass-through payments	91,286	79,530
Net patient service revenue	$ 2,133,120	$ 1,873,879

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 2019 and 2018 was $690,792 and $590,540, respectively.

(3) Net Patient Service Revenue (continued)

(a) Medicare

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

(b) Medicaid

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

(c) Other Payors

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

(d) Self-Pay

UCHA maintains a self-pay discount program in which self-pay patients automatically receive a 50% discount on total charges. This program reduces uninsured patients' liabilities to a level more equivalent to insured patients. Discounts for this program were $126,005 and $106,906 in 2019 and 2018, respectively.

(3) Net Patient Service Revenue (continued)

(e) Disproportionate Share Hospital and Charity Care Policy

In 2010, the State of Colorado modified the CICP Safety Net Provider Program with the Colorado Health Care Affordability Act (the "Act"). The Act authorizes the Department of Health Care Policy and Financing to collect a fee from hospital providers to generate additional federal Medicaid matching funds to increase payments to hospitals and expand coverage under public healthcare programs. For the years ended June 30, 2019 and 2018, UCHA was charged $74,000 and $68,872, respectively, in hospital provider fees and received $91,286 and $87,729, respectively, in disproportionate share and Medicaid supplemental payments as compensation for indigent and underinsured care services provided, respectively. The 2010 DSH guidance including Frequently Asked Questions ("FAQs") 33 and 34 required that the Medicare and private insurance payments received on behalf of Medicaid-eligible patients to be subtracted from the costs of care for the Inpatient and Outpatient services to Medicaid-eligible patients, which reduced the hospital-specific DSH payment limit for many hospitals. If the cost of care for those patients, including indigent and uninsured patients, less reimbursement received for those patients exceeded the amount of DSH payment made to the hospital, then a portion of the DSH payment would be recouped. UCHA carried reserves for estimates of such recoupments as a result of those FAQs. As of December 31, 2018, and in light of recent appellate court decisions, CMS revoked these FAQs for services furnished prior to June 2, 2017. As a result, the reserves carried for 2015 and 2016 are no longer required. Therefore, UCHA released $47,477 in such reserves, which is included in net patient revenue in the accompanying Statement of Revenues, Expenses and Changes in Net Position.

Based on an analysis of the direct and indirect costs of the procedures performed, the cost of charity care services provided was $31,434 and $27,117 for the years ended June 30, 2019 and 2018, 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 $143,897 and $135,998 in total benefits to the community for uninsured and underinsured patients in 2019 and 2018, respectively.

(4) Restricted and Unrestricted Pledges

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

The balance of contributions receivable at June 30, 2019 was $2,695 (unrestricted) and $160 (restricted). The balance of contributions receivable at June 30, 2018 was $1,400 (unrestricted) and $160 (restricted).

The total current portion of unrestricted contributions receivable of $2,695 and $1,400 as of June 30, 2019 and 2018, respectively, is classified as other receivables. The total current portion of restricted contributions receivable was $160 and $160 as of June 30, 2019 and 2018, respectively. All restricted contributions are current for the years ended June 30, 2019 and 2018.

(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, 2019 and 2018, UCHA's unrestricted cash deposits had a book balance of $113,986 and $170,384, respectively, and a bank balance of $159,604 and $167,028, respectively. UCHA's receivables and investments restricted by donors included cash deposits that had a book and bank balance of $29,287 and $30,780 at June 30, 2019 and 2018, 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.

($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, 2019 and 2018 reflect UCHA's share of the cash and investments held at the Health System level.

	June 30, 2019		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	$ 113,986	$ -	$ 113,986
Assets limited as to use	-	37,989	37,989
Investments designated for liquidity support	-	283,195	283,195
Long-term investments	-	1,916,071	1,916,071
	$ 113,986	$ 2,237,255	$ 2,351,241

	June 30, 2018		
	Deposits	Investments	Total
Enterprise fund			
Cash and cash equivalents	$ 170,384	$ -	$ 170,384
Assets limited as to use	-	37,003	37,003
Investments designated for liquidity support	-	102,315	102,315
Long-term investments	-	1,904,108	1,904,108
	$ 170,384	$ 2,043,426	$ 2,213,810

($s in thousands)

(5) Deposits and Investments (continued)

Enterprise fund investments consist of the following:

	June 30, 2019	June 30, 2018
Restricted by trustee under bond agreement	$ 811	$ 766
Restricted investments, other	-	4
Restricted by donor	37,178	36,233
Designated for liquidity support	283,195	102,315
Long-term investments	1,916,071	1,904,108
Total investments	$ 2,237,255	$ 2,043,426

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

	June 30, 2019	June 30, 2018
Cash equivalents	$ 66,788	$ 32,430
U.S. Treasury bills	130,197	166,286
U.S. government agency, pool, and mortgage-backed securities	169,861	53,468
Asset-backed securities	63,347	28,244
Mutual bond funds	317,445	415,160
Treasury inflation protected securities ("TIPS")	111,481	104,310
Corporate bonds	193,219	101,593
Equity securities	1,209,723	1,146,425
Interest and dividends receivable	3,722	2,258
Miscellaneous investment payable	(28,528)	(6,748)
Total investments	$ 2,237,255	$ 2,043,426

($s in thousands)

(5) Deposits and Investments (continued)

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

	June 30, 2019	June 30, 2018
Cash equivalents	$ 31,397	$ 5,003
U.S. Treasury bills	28,747	47,779
U.S. government agency, pool, and mortgage-backed securities	25,639	10,650
Asset-backed securities	6,270	1,774
TIPS	28,992	24,871
Corporate bonds	14,467	8,568
Alternative investments	118,063	124,283
Private real estate	50,590	38,532
Mutual bond funds	141,341	94,287
Other mutual funds	469,827	466,467
Interest and dividends receivable	(684)	370
Miscellaneous investment payable	(7,233)	(39)
Total investments	$ 907,416	$ 822,545

(a) Credit Risk

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

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

($s in thousands)

(5) Deposits and Investments (continued)

(a) Credit Risk (continued)

The following is a summary of enterprise fund investments at June 30, 2019 and 2018. The ratings are presented as the lower of Standard & Poor's or Moody's rating using the S&P scale.

	2019		2018	
	2019 Fair Value	Average Rating	2018 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	$ 169,861	AA+	$ 53,468	AA+
Asset-backed securities	$ 63,347	AA+	$ 28,244	AAA
Mutual bond funds	$ 317,445	BBB+	$ 415,160	BBB
TIPS	$ 111,481	AA+	$ 104,310	AA+
Corporate bonds				
Financials	$ 52,419	BBB+	$ 32,541	A-
Industrials	82,214	BBB+	36,635	BBB+
Municipal taxable	4,505	AA	1,154	AA-
Other corporate bonds	1,180	BBB+	583	AA-
Other global corporate bonds	27,959	A-	18,618	A
Private placements	24,942	BBB+	12,062	A-
Total corporate bonds	$ 193,219		$ 101,593	

($s in thousands)

(5) Deposits and Investments (continued)

(a) Credit Risk (continued)

The following is a summary of pension trust fund investments at June 30, 2019 and 2018, with average credit ratings based on the lower of Standard & Poor's or Moody's rating using the S&P scale:

	2019		2018	
	2019 Fair Value	Average Rating	2018 Fair Value	Average Rating
U.S. government agency, pool, and mortgage-backed securities	$ 25,639	AA+	$ 10,650	AAA
Asset-backed securities	$ 6,270	AAA	$ 1,774	AAA
Mutual bond funds	$ 141,341	BBB	$ 94,287	BBB
TIPS	$ 28,992	AAA	$ 24,871	AAA
Corporate bonds				
Private placements	$ 2,197	A	$ 1,740	A+
Other	12,270	A-	6,828	A-
Total corporate bonds	$ 14,467		$ 8,568	

($s in thousands)

(5) Deposits and Investments (continued)

(b) Interest Rate Risk

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

As of June 30, 2019 and 2018, the enterprise fund held the following investments. Modified duration is in years.

	2019		2018	
	2019 Fair Value	Modified Duration	2018 Fair Value	Modified Duration
U.S. Treasury bills	$ 130,197	7.21	$ 166,286	5.08
U.S. government agency, pool, and mortgage-backed securities	$ 169,861	4.61	$ 53,468	4.26
Asset-backed securities	$ 63,347	4.07	$ 28,244	5.10
Mutual bond funds	$ 317,445	3.60	$ 415,160	4.23
TIPS	$ 111,481	7.57	$ 104,310	5.63
Corporate bonds				
Financials	$ 52,419	4.01	$ 32,541	2.26
Industrials	82,214	5.07	36,635	3.24
Municipal taxable	4,505	4.49	1,154	6.91
Other corporate bonds	1,180	6.71	583	1.70
Other global corporate bonds	27,959	4.15	18,618	2.40
Private placements	24,942	3.75	12,062	2.52
Total corporate bonds	$ 193,219		$ 101,593	

($s in thousands)

(5) Deposits and Investments (continued)

(b) Interest Rate Risk (continued)

As of June 30, 2019 and 2018, the pension trust fund held the following investments. Modified duration is in years.

	2019		2018	
	2019 Fair Value	Modified Duration	2018 Fair Value	Modified Duration
U.S. Treasury bills	$ 28,747	5.12	$ 47,779	7.44
U.S. government agency, pool, and mortgage-backed securities	$ 25,639	4.02	$ 10,650	4.33
Asset-backed securities	$ 6,270	2.12	$ 1,774	3.44
Mutual bond funds	$ 141,341	5.98	$ 94,287	5.68
TIPS	$ 28,992	7.54	$ 24,871	5.01
Corporate bonds				
Private placements	$ 2,197	1.97	$ 1,740	2.05
Other	12,270	4.01	6,828	2.55
Total corporate bonds	$ 14,467		$ 8,568	

($s in thousands)

(5) Deposits and Investments (continued)

(c) Foreign Currency Risk

UCHA's enterprise and pension trust fund investment policies manage exposure to foreign currency risk by limiting the allocation percentage of international mutual funds to 5-15% of the total fair value for the enterprise fund and 16-28% of the total fair value for the pension trust fund. All of UCHA's investments exposed to foreign currency risk are held in international mutual funds. UCHA's enterprise and pension trust fund investments are exposed to foreign currency risk as illustrated in the following table as of June 30, 2019 and 2018.

	Enterprise Fund Fair Value		Pension Trust Fund Fair Value	
Currency	2019	2018	2019	2018
Argentine Peso	$ 918	$ -	$ 825	$ -
Australian Dollar	9,773	9,700	6,158	5,380
Brazilian Real	7,356	7,004	3,851	3,320
Canadian Dollar	11,847	11,444	10,200	8,407
Chilean Peso	(445)	289	(416)	188
Chinese Yuan Reminbi	14,310	8,396	9,733	3,891
Colombian Peso	192	112	164	81
Czech Koruna	340	475	270	349
Danish Krone	3,558	2,919	3,167	2,472
Egyptian Pound	(40)	51	(43)	20
Euro	55,620	45,620	35,629	33,232
Hong Kong Dollar	17,791	15,386	15,472	14,170
Hungarian Forint	535	219	264	157
Indian Rupee	10,925	5,623	7,543	4,324
Indonesian Rupiah	3,379	1,539	2,392	1,134
Israel New Shekel	575	395	503	308
Japanese Yen	39,120	38,479	29,564	29,922
Kenyan Schilling	407	429	324	325
Kuwaiti Dinar	30	-	-	-
Malyasian Ringgit	1,154	1,137	474	390
Mexican Peso	2,474	3,211	1,477	1,230
Moroccan Dirham	62	-	55	
New Zealand Dollar	1,437	(948)	1,274	(648)
Norwegian Krone	4,656	3,578	1,143	1,088
Pakistani Rupee	113	31	7	13
Preu Newsol	40	1	28	-
Phillipines Peso	441	334	382	260
Polish Zloty	931	410	826	269
Qatari Riyal	236	218	184	141
Rmoznizn Leu	353	-	314	-
Russian Ruble	6,090	3,977	2,264	1,377
Saudi Riyal	(1,992)	842	(1,800)	596
Singapore Dollars	2,129	849	2,624	1,418
South African Rand	7,685	4,762	3,278	2,963
South Korean Won	11,571	10,524	6,316	7,271
Swedish Krona	2,277	2,273	1,804	1,868
Swiss Franc	14,796	11,567	10,288	9,210
Taiwan New Dollar	12,081	9,065	8,173	7,157
Thailand Baht	1,747	1,583	1,509	1,452
Turkish Lira	494	1,406	292	1,240
United Arab Emirates Dirham	(1,736)	411	(1,594)	282
United Kingdom Pound Sterling	32,271	28,455	20,830	20,783
Vietnam Dong	23	-	24	-
	$ 275,524	$ 231,766	$ 185,772	$ 166,040

(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, 2019 and confirmed that no more than 5% of total investments are held in any one issuer.

Additionally, UCHA's enterprise and pension trust fund investment policies state that within each investment manager, no more than 10% of the equity or fixed income portfolio based on market value should be invested in the securities of any one issuer other than fixed income pools of investments, such as U.S. governments or U.S. government agencies. Except for U.S. Treasuries, no more than 10% of the fixed income portfolio based on market value shall be invested in securities of any one issuer at the time of purchase. At June 30, 2019, the fixed income and equity investment managers were in compliance with the stated diversification policy.

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

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

During the years ended June 30, 2019 and 2018, UCHA was party to four swap agreements as follows:

- *A floating-to-fixed swap agreement having an original notional value of $71,235 and current notional amount of $60,605, 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, 2019 and 2018, this swap had an approximate fair value of $(10,707) and $(7,879), respectively.

(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 $84,490, 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, 2019 and 2018 the floating-to-fixed rate swap had an approximate fair value of $(17,851) and $(13,377), respectively.

- In February 2017, concurrent with the issuance of the UCHA Series 2017A Bonds, 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 semiannually each May and November. The swap agreement carries a 10-year term. At June 30, 2019 and 2018, this swap had an approximate fair value of $608 and $1,423, respectively.

- In April 2019, UCHA entered into a floating-to-fixed swap agreement having a notional amount of $195,195. The notional amount will be reduced 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, starting in May 2019. At June 30, 2019, this swap had an approximate fair value of $(19,197).

In fiscal year 2019 the swaps produced an annual net cash outflow of $2,645. In fiscal year 2018, the swaps produced an annual cash inflow of $1,297. 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.

(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.

($s in thousands)

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

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	$ 130,197	$ 129,869	$ 328	$ -
U.S. government agency, pool, and mortgage-backed securities	169,861	169,861	-	-
Asset-backed securities	63,347	-	62,155	1,192
Mutual bond funds	317,445	135,721	181,724	-
TIPS	111,481	56,300	55,181	-
Corporate bonds	193,219	-	193,219	-
Equity securities	1,209,723	1,001,374	205,396	2,953
Total investments by fair value level	$ 2,195,273	$ 1,493,125	$ 698,003	$ 4,145
Derivative instruments				
Interest rate swaps	$ (47,146)	$ -	$ (47,146)	$ -

($s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2018, the enterprise fund held the following financial instruments, by level, within the fair value hierarchy.

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. Treasury bills	$ 166,286	$ 166,286	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	53,468	-	53,468	-
Asset-backed securities	28,244	-	27,429	815
Mutual bond funds	415,160	124,837	290,323	-
TIPS	104,310	32,094	72,216	-
Corporate bonds	101,593	-	101,593	-
Equity securities	1,146,425	914,576	230,567	1,282
Total investments by fair value level	$ 2,015,486	$ 1,237,793	$ 775,596	$ 2,097
Derivative instruments				
Interest rate swaps	$ (19,832)	$ -	$ (19,832)	$ -

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

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
U.S. Treasury bills	$ 28,747	$ 28,747	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	25,639	-	25,639	-
Asset-backed securities	6,270	-	6,270	-
TIPS	28,992	-	28,992	-
Corporate bonds	14,467	-	14,467	-
Alternative investments	118,063	29,209	523	88,331
Private real estate	50,590	-	-	50,590
Mutual bond funds	141,341	28,212	113,129	-
Other Mutual Funds	469,827	337,332	132,495	-
Total investments	$ 883,936	$ 423,500	$ 321,515	$ 138,921

($s in thousands)

(7) Fair Value Measurement (continued)

(a) Fair Value Hierarchy (continued)

As of June 30, 2018, the pension trust fund held the following financial instruments, by level, within the fair value hierarchy.

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
U.S. Treasury bills	$ 47,779	$ 47,779	$ -	$ -
U.S. government agency, pool, and mortgage-backed securities	10,650	-	10,650	-
Asset-backed securities	1,774	-	1,640	134
TIPS	24,871	-	24,871	-
Corporate bonds	8,568	-	8,568	-
Alternative investments	124,283	24,381	27,554	72,348
Private real estate	38,532	-	-	38,532
Mutual bond funds	94,287	24,816	69,471	-
Equity Securities	466,467	295,090	171,377	-
Total investments	$ 817,211	$ 392,066	$ 314,131	$ 111,014

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

($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, 2019	June 30, 2018
Enterprise fund investments		
Total investments by fair value level	$ 2,195,273	$ 2,015,486
Cash equivalents	66,788	32,430
Interest and dividends receivable	3,722	2,258
Miscellaneous investment payable	(28,528)	(6,748)
Total enterprise fund investments	$ 2,237,255	$ 2,043,426
Pension trust fund investments		
Total investments by fair value level	$ 883,936	$ 817,211
Cash equivalents	31,397	5,003
Interest and dividends receivable	(684)	370
Miscellaneous investment payable	(7,233)	(39)
Total pension trust fund investments	$ 907,416	$ 822,545

($s in thousands)

(8) Capital Assets

Capital assets consist of the following at June 30, 2017, 2018, and 2019:

	June 30, 2017	Additions	Transfers	Disposals	June 30, 2018	Additions	Transfers	Disposals	June 30, 2019
Capital assets, not being depreciated									
Land	$ 48	$ -	$ -	$ -	$ 48	$ -	$ -	$ -	$ 48
Construction in progress	26,863	42,390	(50,600)	-	18,653	57,913	(16,830)	-	59,736
Total capital assets, not being depreciated	26,911	42,390	(50,600)	-	18,701	57,913	(16,830)	-	59,784
Capital assets, being depreciated									
Buildings and improvements	992,636	-	23,489	(242)	1,015,883	78	4,150	(16,950)	1,003,161
Fixed and moveable equipment	346,117	1,544	35,600	(24,019)	359,242	897	12,569	(32,330)	340,378
Total capital assets, being depreciated	1,338,753	1,544	59,089	(24,261)	1,375,125	975	16,719	(49,280)	1,343,539
Accumulated depreciation and impairment									
Buildings and improvements	267,254	30,820	2,200	(295)	299,979	31,296	(10)	(16,837)	314,428
Fixed and moveable equipment	233,458	37,675	1,258	(24,010)	248,381	36,541	(30)	(32,170)	252,722
Total accumulated depreciation and impairment	500,712	68,495	3,458	(24,305)	548,360	67,837	(40)	(49,007)	567,150
Total capital assets, net	$ 864,952	$ (24,561)	$ 5,031	$ 44	$ 845,466	$ (8,949)	$ (71)	$ (273)	$ 836,173

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,	
	2019	2018
Medicare	26%	28%
Medicaid, including Colorado Access	16%	19%
Managed care	39%	36%
Commercial	3%	4%
Self-pay and medically indigent	7%	6%
Other	9%	7%

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

($s in thousands)

(10) Long-Term Debt and Leases

Long-term debt consists of the following:

Type	Description	June 30, 2019	June 30, 2018
Direct Borrowing	Capital leases, long-term, due in installments through 2021	$ 7	$ -
Other Bonds	Revenue Bonds, Series 2018A, due in installments through fiscal year 2031	45,915	-
Other Bonds	Revenue Bonds, Series 2018B, due in installments through fiscal year 2036	76,170	-
Other Bonds	Revenue Bonds, Series 2018C, due in installments through fiscal year 2040	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	44,630	51,025
Other Bonds	Revenue Bonds, Series 2017C1C2, due in installments through fiscal year 2048 (inclusive of unamortized premium of $10,646 and $16,818 at June 30, 2019 and 2018, respectively)	286,736	292,908
Direct Placement	Revenue Bonds, Series 2015D, due in installments through fiscal year 2042	198,210	198,640
Direct Placement	Revenue Bonds, Series 2013A, due in installments through fiscal year 2034	84,490	86,630
Direct Placement	Revenue Bonds, Series 2013B, due in installments through fiscal year 2025	7,970	9,080
Direct Placement	Revenue Bonds, Series 2013C, due in installments through fiscal year 2032	60,605	62,245
Other Bonds	Revenue Bonds, Series 2012A, due in installments through fiscal year 2043 (inclusive of unamortized premium of $15,690 and $16,593 and net of unamortized discounts of $650 and $687 at June 30, 2019 and 2018, respectively)	255,171	258,276
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	96,330	97,430
Direct Placement	Revenue Bonds, Series 2011C, due in installments through fiscal year 2023	31,300	38,170
Other Bonds	Revenue Bonds, Series 2009A, due in increasing annual installments through fiscal year 2030 net of unamortized bond discount of $0 and $96 at June 30, 2019 and 2018, respectively	-	37,704
	Total long-term debt	1,610,069	1,479,378
	Less long-term debt subject to short-term remarketing arrangements	(283,195)	(102,315)
	Less current portion	(22,519)	(24,045)
		$ 1,304,355	$ 1,353,018

($s in thousands)

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

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

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

($s in thousands)

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

Changes in long-term debt for the years ended June 30, 2018 are as follows:

2018	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	$ 253	$ -	$ -	$ (253)	$ -	$ -
Series 2009A	Other Bonds	08/06/09	39,610	-	14	(1,920)	37,704	2,120
Series 2011B	Direct Placement	11/09/11	98,515	-	-	(1,085)	97,430	1,100
Series 2011C	Direct Placement	11/16/11	44,705	-	-	(6,535)	38,170	6,870
Series 2012A	Other Bonds	10/01/12	261,617	-	(871)	(2,470)	258,276	2,240
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	88,720	-	-	(2,090)	86,630	2,140
Series 2013B	Direct Placement	11/18/13	10,140	-	-	(1,060)	9,080	1,110
Series 2013C	Direct Placement	11/18/13	63,825	-	-	(1,580)	62,245	1,640
Series 2015D	Direct Placement	09/01/15	199,100	-	-	(460)	198,640	430
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	57,125	-	-	(6,100)	51,025	6,395
Series 2017C1C2	Other Bonds	02/16/17	299,081	-	(6,173)	-	292,908	-
Total			$ 1,509,961	$ -	$ (7,030)	$ (23,553)	$ 1,479,378	$ 24,045

($s in thousands)

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

Annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 22,519	$ 45,933	$ 68,452
2021	23,894	41,794	65,688
2022	25,245	41,142	66,387
2023	34,950	35,673	70,623
2024	36,500	34,747	71,247
2025-2029	203,660	156,257	359,917
2030-2034	259,250	124,855	384,105
2035-2039	299,095	87,454	386,549
2040-2044	352,645	50,202	402,847
2045-2049	326,625	9,807	336,432
Total long-term debt payments	1,584,383	$ 627,864	$ 2,212,247
Unamortized net premium and discount	25,686		
Total carrying amount of long-term debt	$ 1,610,069		

Monthly lease payments are required for the capital lease agreement, which includes principal and interest. During fiscal year 2019, UCHA assumed new capital equipment agreements totaling $10 and paid down $3 in principal on its medical equipment lease. The medical equipment lease matured in 2018 and was secured by the capital assets under the capital lease agreement.

At June 30, 2018, no capital assets were under capital lease arrangements. At June 30, 2019, UCHA maintained capital leases for equipment located in the freestanding emergency department locations totaling $7. Depreciation expense under capital lease arrangements is included within depreciation and amortization in the accompanying statements of net position.

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, 2019 and 2018, 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.

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

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. UCHealth 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. UCHealth 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 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, 2019 and 2018, 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.

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

In February 2017, UCHA issued Series 2017C1 and Series 2017C2 Revenue Bonds (“Series 2017C”) in the amounts of $141,640 and $134,450, respectively, to finance new projects across UCHealth. Series 2017C1 were issued as 3-year put bonds at a premium. Series 2017C1, while subject to a long-term amortization period, are putable in 2020. 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 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. Series 2017C2 were issued as 5-year put bonds at a premium. Both series pay interest monthly and principal is paid according to a mandatory sinking fund redemption schedule. Within the accompanying statements of net position, receivables from affiliates includes a balance for a portion of amounts associated with Series 2017C.

In September 2015, UCHA issued Series 2015D Revenue Bonds (“Series 2015D”) in the amount of $200,180 to fully refund UCHA Series 2011A Revenue Bonds. Series 2015D were issued as variable rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. The direct purchase bonds will expire in April 2021.

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

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

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

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

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

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

In October 2012, UCHA issued Series 2012C Revenue Bonds ("Series 2012C") in the amount of $87,510 to fully refund PVHS Series 2005D and 2005E Revenue Bonds. UCHA can issue debt on behalf of obligated group members, as established under the joint operating agreement creating the Health System. Series 2012C were issued as variable rate bonds with interest paid semi-annually and principal paid according to a mandatory sinking fund redemption schedule. Wells Fargo Bank, N.A. is the holder of the bonds at a variable rate plus predetermined spread. UCHA extended the original direct purchase agreement with Wells Fargo Bank, N.A. on Series 2012C, which will expire April 2021. 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.

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

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

($s in thousands)

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

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 2019 and 2018, the Health System met all of the financial ratio requirements as follows:

	Requirement	June 30, 2019	June 30, 2018
Days cash on hand	90	346	366
Debt to capitalization percent	< 65%	25%	29%
Maximum debt service coverage	1.50	11.53	8.71

Cash paid for interest in 2019 and 2018 was $55,352 and $49,062, respectively. Interest received on the unexpended bond funds in 2019 and 2018 was $5 and $77, respectively.

The fair value of UCHA's long-term debt is based on the most recent trading price as of June 30, 2019. The fair value of the Revenue Bonds at June 30, 2019 and 2018 was approximately $1,615,859 and $1,483,608, 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, 2019 are:

Year Ending June 30,	
2020	$ 12,875
2021	8,827
2022	8,629
2023	6,084
2024	5,373
2025 -2037	44,047
Total minimum obligations	$ 85,835

Rental expense was $16,743 and $9,764 in 2019 and 2018, respectively.

(11) Self-Insurance Trust

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

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

As of June 30, 2019, the Trust had a fund balance of $1,870, which is net of $10,710 in reserves for losses and loss adjustment expenses. At June 30, 2019, plan assets exceed the actuarially determined liability. For 2019 and 2018, UCHA recorded premium and administrative expenses of $817 and $498, respectively. There were no refunds received during 2019 or 2018.

(12) Retirement Plans

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

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

(a) Pension Plans

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

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

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

The annual accrued benefits, paid monthly, of the Basic Pension Plan are calculated at 1.5% times the Average Annual Compensation times years of service (based on hire date). The five most highly compensated calendar years of service after March 26, 1995 are used to calculate the Average Annual Compensation. A small number of UCHA employees are eligible to receive additional benefits based on a combined age and years of credited service equal to or greater than 75 on January 1, 2013 ("Rule of 75"). The Basic Pension Plan offers reduced benefits for early retirement and adjusted benefits for late retirement (after age 65). Most plan participants, except those falling under the Rule of 75, will receive a monthly benefit with no annual cost-of-living adjustment factor, which is an amendment to the plan effective for accruals on or after January 1, 2013. 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 Plan of annuities for retirees periodically when rates are favorable. This plan change reduced the net pension liability by $38,743 and reduced the actuarially computed net periodic pension cost for the Basic Pension Plan by $38,743 for the year ending June 30, 2019.

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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.

UCHA’s portion of the actuarially computed net periodic pension cost for the Basic Pension Plan for 2019 and 2018 was $26,976 and $29,745, respectively. Investment (losses) gains for 2019 and 2018, including interest, dividends, and realized and unrealized gains (losses), were $40,057 and $56,395, respectively. Membership in the Basic Pension Plan consisted of the following at July 1, 2018 and 2017 (dates of the latest actuarial valuations):

	2018	2017
Retirees and beneficiaries receiving benefits	1,509	1,219
Terminated plan members entitled to but not yet receiving benefits	5,600	5,047
Active plan members, includes all participants within the system	21,595	18,581
Total members	28,704	24,847

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 $91,812 and $79,213 for the years ended June 30, 2019 and 2018, respectively. UCHA's contributions, net of reimbursements from the Health System, to the Basic Pension Plan were $29,549 and $26,936 in 2019 and 2018, respectively. UCHA’s average contribution rates were 6.22% and 6.64% of annual payroll for the years ended June 30, 2019 and 2018, respectively.

The Hospital’s net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2018 and 2017, 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.

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

Additional information as of the latest actuarial valuation date follows:

Valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Actuarial assumptions	
i) Discount rate*	7.0%
ii) Projected salary increases*	3.6% to 6.5%
iii) Cost of living adjustments**	2.5%

* Includes inflation at 2.5%.
** Cost of living adjustments apply only to those participants who fall under the Rule of 75.

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

Mortality rates for the 2017 valuation were based on the Sex-distinct RP-2014 mortality tables with base year 2006, without collar or amount adjustments, using the base mortality improvement scale MP-2017 with generational projections.

The actuary is required to use assumptions that represent his or her best estimate of future experience under the Basic Pension Plan and are reasonably related to the experience of the Plan. The actuary will monitor the actuarial experience under the Plan in future years in order to judge the continuing appropriateness of these assumptions. The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 through July 1, 2018. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through July 1, 2012.

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

Asset Class	Target Allocation	Arithmetic Expected Return (10-Year Average)
Domestic equity	20%	7.0
International equity	21%	9.5
Fixed income	26%	4.2
Real estate	10%	7.8
Alternative	20%	8.2
Commodities	3%	5.3
	100%	

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

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

Changes in the net pension liability for the years ended June 30, 2019 and 2018 were as presented on the following page:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2017	825,769	710,102	115,667
Changes for the year			
Service cost	84,811	-	84,811
Interest	56,967	-	56,967
Contributions - employer	-	79,213	(79,213)
Net investment income	-	56,395	(56,395)
Changes in experience	7,291	-	7,291
Changes in assumptions	(8,788)	-	(8,788)
Benefit payments	(20,914)	(20,914)	-
Administrative expense	-	(2,251)	2,251
Net changes	119,367	112,443	6,924
Balances at June 30, 2018	$ 945,136	$ 822,545	$ 122,591
Changes for the year			
Service cost	82,862	-	82,862
Interest	63,593	-	63,593
Contributions - employer	-	91,812	(91,812)
Net investment income	-	40,057	(40,057)
Plan Change	(38,743)	-	(38,743)
Changes in experience	42,206	-	42,206
Changes in assumptions	(1,159)	-	(1,159)
Benefit payments	(42,823)	(42,823)	-
Administrative expense	-	(4,175)	4,175
Net changes	105,936	84,871	21,065
Balances at June 30, 2019	$ 1,051,072	$ 907,416	$ 143,656

UCHA’s portion of the net pension liability as of June 30, 2019 and 2018, totaled $99,039 and $92,471, respectively.

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

The pension plan's fiduciary net position as a percentage of the total pension liability was 86.3% and 87.0% as of June 30, 2019 and 2018, respectively.

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

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Net pension liability	$ 290,825	$ 143,656	$ 22,637

For the years ended June 30, 2019 and 2018, UCHA recognized pension expense of $26,976 and $29,745, respectively. At June 30, 2019 and 2018, 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, 2019		
Differences between expected and actual experience	$ 15,515	$ 213
Changes in assumptions	2,769	1,848
Net difference between projected and actual earnings on pension plan investments	928	-
Total	$ 19,212	$ 2,061
June 30, 2018		
Differences between expected and actual experience	$ 8,313	$ 1,008
Changes in assumptions	5,869	2,054
Net difference between projected and actual earnings on pension plan investments	-	2,730
Total	$ 14,182	$ 5,792

($s in thousands)

(12) Retirement Plans (continued)

(a) Pension Plans (continued)

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

Year Ending June 30,		
2020	$	6,805
2021		2,350
2022		4,153
2023		3,326
2024		517
	$	17,151

UCHA has made all required contributions to the pension plan for the year ended June 30, 2019.

At June 30, 2019 and 2018, UCHA had four and seven state employees, respectively. State employees are participants in a defined benefit pension plan of PERA, a cost-sharing multi-employer pension trust. Benefits are based upon length of service and compensation earned by the employee during the highest three years of service. UCHA has made contributions to PERA in accordance with actuarially determined funding amounts. Pension expense related to state employees was $56 and $62 for 2019 and 2018, respectively. Required contributions during fiscal years 2019 and 2018 were $56 and $62, 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).

(12) Retirement Plans (continued)

(b) Investment Account

The Investment Account is a qualified, single-employer defined contribution retirement plan under the provisions of Code Section 401(a). Employees are required to contribute 6.2% of their gross compensation (limited to the OASDI wage base), which is equivalent to what their OASDI contributions would be under FICA participation. Employees are always fully vested in this component of the plan. Total compensation subject to the plans for the years ended June 30, 2019 and 2018 was $454,215 and $411,297, respectively. Total employee contributions made under the provisions of this plan were $26,809 and $25,540 for the years ended June 30, 2019 and 2018, respectively. This represents 5.9% 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 $202 and $266 in 2019 and 2018, 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 2019 and 2018 were $9,008 and $8,594, 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 2019 and 2018 $20,373 and $18,444, 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 2019 and 2018 were $137 and $211, respectively. Employee contributions to the Fidelity 457b Plan in 2019 and 2018 were $1,848 and $1,410, 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.

(12) Retirement Plans (continued)

(e) Other Post-Employment Benefit Plan

In addition to the retirement plans mentioned above, UCHA provides a post-retirement medical premium subsidy to employees retiring from UCHA who are covered under the PERA benefit guarantee provision of the state of Colorado legislation creating UCHA. This plan provides a medical premium subsidy of up to $0.112 per month for medical plan coverage (pro-rated for less than 20 years of service) and an employer-funded life insurance benefit of $3. An employer-funded life insurance benefit is provided to all employees who retire from UCHA. The accumulated post-retirement benefit obligation for the medical and life premiums was $3,474 and $3,818 at June 30 2019 and 2018, respectively. Total benefit costs related to this plan were $43 and $169 for the years ended June 30, 2019 and 2018, 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 3.50% and 3.87% at June 30, 2019 and 2018, respectively. UCHealth adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ending June 30, 2013. In conjunction with that adoption, the discount rate assumption changed to a 20-year tax-exempt general obligation municipal bond index.

(13) Related-Party/Affiliate Transactions

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

(a) University of Colorado Health

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

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

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

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

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

(a) University of Colorado Health (continued)

Total current assets at June 30, 2019 and 2018 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 $2,005 and $2,240, respectively, and amounts due for the Series 2017B-2 proceeds related to the refinancing of PVHS Revenue Bonds of $6,675 and $6,395, respectively. At June 30, 2019 and 2018, current assets also included $609,221 and $332,858, respectively, related to transactions between UCHA and its affiliates.

Total non-current assets at June 30, 2019 and 2018 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, 2019 and 2018, the total receivable was $945,703 and $763,840, 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, 2019 and 2018 was $114,627 and $171,421, respectively. UCHA's share of pooled investments at June 30, 2019 and 2018 was $2,187,314 and $2,000,368, 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. As a result of continued growth, UCHA completed shelled space to add additional patient beds and four operating room suites to meet continued strong demand for its inpatient services.

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 $60,633 and $59,100 for these services, which are recorded in purchased services and other expenses in 2019 and 2018, respectively.

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

(a) 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 $1,597 and $1,459 were recognized in other operating revenue for these services during 2019 and 2018, respectively.

UCHA leases certain employees to CRC at full cost and also provides overhead and ancillary services to CRC. Charges of $1,355 and $1,801 were billed to CRC for the cost of these services during 2019 and 2018, respectively, and were recognized in other operating revenue. Amounts due from UCD, including CRC, were $429 and $324 at June 30, 2019 and 2018, respectively, and are included in related-party receivables on the statements of net position. UCHA recorded amounts due to UCD of $1,735 and $1,380 at June 30, 2019 and 2018, 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, 2019 and 2018 was $13,333 and $13,577, respectively. In November 2018, the Regents and UCHealth entered into a Second Amendment to the Multi-Year Academic Support Agreement which provides an additional, non-terminable (absent mutual consent) academic missions support donation to the University of Colorado Foundation for the benefit of the School of Medicine for funding as expenses are actually incurred in future years, plus additional amounts based on a formula set forth in the Second Amendment.

(c) TriWest

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

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

(c) TriWest (continued)

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

UCHA's investment is accounted for under the cost method and is valued at $6,000 at June 30, 2019 and 2018.

(d) CU Medicine

During the years ended June 30, 2019 and 2018, UCHA recognized $111,826 and $94,358, respectively, in contract expense to CU Medicine for contractual reimbursement of faculty administrative services and recruitment support. UCHA also recognized expenses of $25,967 and $35,546 during the years ended June 30, 2019 and 2018, 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 $9,762 and $4,442 at June 30, 2019 and 2018, respectively, for various contract labor and provider support expenses and TriWest pass-through balances.

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

(e) The Children's Hospital

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

The program is defined in an operating agreement that details the cost and revenue sharing between the two hospitals. UCHA has recorded a related-party payable to CHCO at June 30, 2019 and 2018, of $31,348 and $18,518, respectively.

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

(f) VEBA Trust

On July 1, 2010, UCHA entered into an agreement with CU Medicine and the Regents to begin a self-insurance trust known as the Colorado Health and Welfare Trust (the "VEBA Trust") for the benefit of eligible employees of the University, CU Medicine, and UCHA and their eligible dependents. The VEBA Trust is managed by a third-party administrator and provides healthcare coverage for eligible employees of the three organizations. The VEBA Trust functions as a retrospectively rated contract in which the initial premium is adjusted based on actual experience. For the years ended June 30, 2019 and 2018, UCHA expensed initial premiums of $74,981 and $68,487, respectively, into the healthcare flexible spending plans.

(g) Other Related Parties

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

(14) Commitments and Contingencies

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

UCHA has entered into contracts for the completion of expansion projects it is currently undertaking. As of June 30, 2019, UCHA has entered into contracts totaling $262,449 for its current large projects, including planning costs for a Tower III hospital expansion and the Sterile Processing Department expansion. The total budget for these projects is $393,733. UCHA has incurred $12,084 in related costs during the year ended June 30, 2019 on these projects.

UCHA is a joint obligor for PVHS and the Health System under the joint operating agreement. In addition to the debt included on the accompanying statements of net position, UCHA is contingently liable for outstanding PVHS debt with a carrying amount of $0 and $214,262 at June 30, 2019 and 2018, respectively.

(15) Subsequent Events

In October 2019, UCHA plans to issue Series 2019A Revenue Bonds ("Series 2019A") in the amount of $100,000 to finance the construction of the Greeley Hospital and Highlands Ranch Hospital. Series 2019A will be issued as variable-rate bonds with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule. The bonds, while subject to long-term amortization periods, may be put at the option of the bondholders in connection with weekly remarketing dates to address this possibility, management has taken steps to provide various sources of liquidity in the event any bonds would be put, including maintaining unrestricted assets as a source of self-liquidity. In August 2019, UCHealth entered a forward-starting floating-to-fixed interest rate swap to coincide with the October 2019 issuance of the Series 2019A bonds. The forward swap will hedge the 2019A Series variable rate bonds issued in October 2019. The swap agreement has an initial notional amount of $100,000 and a fixed payor rate of 1.104%, and UCHealth will receive 70% of one-month LIBOR for the entire swap term, which expires November 2049. Settlements are to be made monthly starting in December 2019.

In October 2019, UCHA plans to issue Series 2019B Revenue Bonds ("Series 2019B") and Series 2019D Revenue Bonds ("Series 2019D") in the amount of $50,000 and $50,000 respectively to finance the construction of the Greeley Hospital and Highlands Ranch Hospital. Series 2019B and 2019D will be issued as direct purchase fixed rate bonds at a rate of 1.67% with interest paid semi-annually and principal paid at maturity in October 2029. Wells Fargo Bank, N.A. will be the holder of the 2019B Series bonds, which will expire October 2029, and JPMorgan Chase Bank, N.A. will be the holder of the 2019D Series bonds, which will expire October 2029. In September 2019, UCHA entered into Forward Fixed Rate Lock Letters with Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A. to lock the 1.67% annual fixed interest rate.

In October 2019, UCHA plans to issue Series 2019C Revenue Bonds ("Series 2019C") in the amount of $120,720 to fully refund the Series 2017C-1 bonds. Series 2019C will be issued as 5 year put bonds at a premium, with interest paid monthly and principal paid according to a mandatory sinking fund redemption schedule.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF COLORADO HOSPITAL AUTHORITY

June 30, 2019 and 2018
($s in thousands)

Schedule of Changes in Net Pension Liability and Related Ratios

	2019	2018	2017	2016	2015	2014	2013
Total pension liability							
Service cost	$ 82,862	$ 84,811	$ 63,156	$ 57,110	$ 49,411	$ 50,305	$ 38,706
Interest	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	42,206	7,291	2,020	4,388	15,584	-	(9,722)
Changes in assumptions	(1,159)	(8,788)	-	(6,213)	37,858	-	20,164
Benefits payments	(42,823)	(20,914)	(19,464)	(14,047)	(12,188)	(9,821)	(8,363)
Other	-	-	-	714	(713)	-	-
Net change in total pension liability	105,936	119,367	96,239	86,527	137,534	70,202	66,241
Total pension liability - beginning	945,136	825,769	729,530	643,003	505,469	435,267	369,026
Total pension liability - ending (a)	$ 1,051,072	$ 945,136	$ 825,769	$ 729,530	$ 643,003	$ 505,469	$ 435,267
Plan fiduciary net position							
Contributions - employer	$ 91,812	$ 79,213	$ 74,356	$ 68,000	$ 66,184	$ 56,311	$ 45,310
Net investment (loss) income	40,057	56,395	78,610	(476)	12,212	56,354	31,947
Benefits payments	(42,823)	(20,914)	(19,464)	(14,047)	(12,188)	(9,821)	(8,363)
Administrative expense	(4,175)	(2,251)	(1,746)	(1,464)	(1,453)	(794)	(543)
Net change in plan fiduciary net position	84,871	112,443	131,756	52,013	64,755	102,050	68,351
Plan fiduciary net position - beginning	822,545	710,102	578,346	526,333	461,578	359,528	291,177
Plan fiduciary net position - ending (b)	$ 907,416	$ 822,545	$ 710,102	$ 578,346	$ 526,333	$ 461,578	$ 359,528
UC Health's net pension liability - ending (a) - (b)	$ 143,656	$ 122,591	$ 115,667	$ 151,184	$ 116,670	$ 43,891	$ 75,739
Plan fiduciary net position as a percentage of total pension liability	86.3%	87.0%	86.0%	79.3%	81.9%	91.3%	82.6%
Covered employee payroll	$ 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	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.

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

Note to Schedule (continued):

The assumed rates of mortality are updated in 2018 and beyond 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.

June 30, 2019 and 2018
($s in thousands)

Schedule of Contributions
(Last 10 Fiscal Years)

	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Percentage of Covered-Employee Payroll
2019	$ 91,812	$ 91,812	$ -	$ 1,476,241	6.22%
2018	$ 79,213	$ 79,213	$ -	$ 1,193,744	6.64%
2017	$ 74,356	$ 74,356	$ -	$ 1,059,420	7.02%
2016	$ 67,969	$ 68,000	$ (31)	$ 940,375	7.23%
2015	$ 66,184	$ 66,184	$ -	$ 862,612	7.67%
2014	$ 56,311	$ 56,311	$ -	$ 807,135	6.98%
2013	$ 45,310	$ 45,310	$ -	$ 584,097	7.76%
2012	$ 26,398	$ 26,398	$ -	$ 256,158	10.31%
2011	$ 20,101	$ 20,101	$ -	$ 236,621	8.50%
2010	$ 19,182	$ 19,182	$ -	$ 219,877	8.72%

Notes to Schedule

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal, Level Percent of Pay
Amortization method	Straight Line
Asset valuation method	Fair Value
Investment rate of return	7.0%, includes inflation at 2.5%
Projected salary increases	3.3% to 7.5%
Cost of living adjustments	2.5%
Mortality	In the 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, 2019 and 2018
($s in thousands)

Schedule of Pension Plan Investment Returns

Year Ending June 30,	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	5.10%
2018	7.80%
2017	13.10%
2016	-0.90%
2015	2.40%
2014	15.00%
2013	10.60%
2012	-0.60%
2011	21.90%
2010	12.20%

University of Colorado Hospital Authority

Federal Awards Supplemental Information

June 30, 2019

Contents

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
University of Colorado Hospital Authority

We have audited the financial statements of the business-type activities and the fiduciary funds of University of Colorado Hospital Authority (UCHA) as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise UCHA's basic financial statements. We issued our report thereon dated September 24, 2019, which contained unmodified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to September 24, 2019.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

September 24, 2019

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the fiduciary funds of University of Colorado Hospital Authority (UCHA) as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise UCHA's basic financial statements, and have issued our report thereon dated September 24, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic 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 basic 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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 24, 2019

plante moran

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the Board of Directors
University of Colorado Hospital Authority

Report on Compliance for Each Major Federal Program

We have audited University of Colorado Hospital Authority's (UCHA) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the UCHA's major federal program for the year ended June 30, 2019. UCHA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of UCHA's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UCHA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of UCHA's compliance.

Opinion on Each Major Federal Program

In our opinion, UCHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2019.

To the Board of Directors
University of Colorado Hospital Authority

Report on Internal Control Over Compliance

Management of UCHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered UCHA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UCHA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

UCHA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. UCHA's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

September 24, 2019

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services, Public Health Service, Centers for Disease Control and Prevention:				
Pass-through State of Colorado Department of Public Health and Environment Hospital Preparedness Program Ebola Preparedness and Response Activities	93.817	16 FHJA 86668	$ -	$ 349,591
HIV CARE Formula Grant	93.917	07 FHA 00225	-	609,190
Total U.S. Department of Health and Human Services, Public Health Service, Centers for Disease Control and Prevention			-	958,781
U.S. Department of Health and Human Services, Health Resources, and Services Administration - Pass-through City and County of Denver, Denver Mayor's Office of HIV Resources -				
HIV Emergency Relief Project Grants Ryan White Care Act Title I/(MAI):				
Drug Reimbursement Services	93.914	5H89HA 00027-06	-	60,256
Early Intervention Services	93.914	5H89HA 00027-06	-	47,748
Medical Case Management	93.914	5H89HA 00027-06	-	220,861
Primary Care and Mental Health Services	93.914	5H89HA 00027-06	-	679,305
Substance Abuse Services Outpatient	93.914	5H89HA 00027-06	-	59,768
Minority AIDS Initiative (MAI) Award	93.914	5H89HA 00027-06	-	22,500
Total U.S. Department of Health and Human Services, Health Resources, and Services Administration			-	1,090,438
U.S. Department of Transportation - Pass-through Colorado Department of Transportation Office of Transportation Safety Aurora P.A.R.T.Y. Program	20.600	17 NHTSA402.3102	-	30,013
Total U.S. Department of Transportation			-	30,013
Total			**$ -**	**$ 2,079,232**

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of University of Colorado Hospital Authority (UCHA) under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of UCHA, it is not intended to and does not present the financial position, changes in net position, or cash flows of UCHA.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

UCHA has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	None reported

Federal Awards

Internal control over major programs:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	X	Yes		None reported
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?	X	Yes		No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
93.914	Ryan White CARE Act Title I	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Finding
2019-001	**93.914, Department of Health and Human Services, Health Resources and Services Administration, Ryan White CARE Act Title I**

5H89HA00027 - 2019

Pass-through Entity - City and County of Denver

Finding Type - Significant deficiency

Repeat Finding - Yes

Criteria - The grant agreement outlines specific eligibility determinations under common standards of care that the grant recipient must follow, including, but not limited to, maintaining evidence of a client's HIV status, geographic location, and income, and reassessing eligibility every six months.

Condition - Plante & Moran PLLC's testing of participant eligibility identified participants for which UCHA did not have proper documentation of all criteria considered while determining eligibility.

Questioned Costs - None

Identification of How Questioned Costs Were Computed - N/A

Context - During fiscal year 2019, Plante & Moran, PLLC selected 40 participants for eligibility testing. Of the 40, only 33 participants had proper documentation of all criteria considered to support the eligibility determination.

Cause and Effect - Plante & Moran, PLLC reviewed files for 40 participants, of which 33 were found to contain all the required documentation of eligibility, including residence, insurance, and other required measures. As a result, for the remaining seven participants, documentation of the required considerations to determine eligibility were not maintained. The lack of the documentation did not result in any ineligible individuals receiving service.

Recommendation - UCHA has designated a staff person responsible for collecting eligibility documentation. UCHA has a formal process for eligibility screening. The Denver Office of HIV Resources (DOHR), which administers the grant, has deemed UCHA's process to be a strong one. UCHA should continue to provide training on its process to ensure proper collection of eligibility documentation in accordance with DOHR's requirements. UCHA should maintain a checklist of each eligibility consideration for each participant and, for those participants unable to provide certain documentation, retain written consideration of why documentation was unable to be obtained.

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2009-001 (Cont)	**Views of Responsible Officials and Corrective Action Plan** - UCHA has a specific improvement plan to continue addressing the participant eligibility standard audit finding. This standard has four reportable measures, which include maintaining evidence: (1) HIV verification support, (2) proof of income support, (3) proof of residency support, and (4) proof of insurance support. The two standards that are not at 100 percent include: proof of residency support and proof of income support. Clinic management will be required to maintain a checklist that indicates that the eligibility documentation was requested at the following intervals: patients' birthday and half birthday or upon arrival for a scheduled clinic visit. If the proof of residency and proof of income support is not provided to the clinic at these requested intervals, this will be documented on the checklist as "patient was unable to provide residency and income support." UCHA finance administration will monitor for continued improvement of the semiannual residence and eligibility verification process, which includes a twice annual internal audit to review no less than 40 patient records to test for standard compliance. Additionally, Finance administration will conduct monthly meetings with the UCH clinic manager and UCH clinic director to address staffing, training, and other concerns of the Ryan White verification process.

UCHealth
University of Colorado Hospital

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University of Colorado Hospital Authority

September 24, 2019

Summary Schedule of Prior Audit Findings

Prior Year Finding Number:
2018-001

Fiscal Year in Which the Finding Initially Occurred:
2015

Federal Program, CFDA Number and Name:
U.S. Department of Health and Human Services, 93.914, Ryan White CARE Act Title I

Original Finding Description:
During fiscal year 2018, the Denver Office of HIV Resources ("DOHR"), which administers the grant as a pass-through agency, performed a site visit and noted improvements needed related to UCHA's eligibility review and documentation.

Status/Partial Corrective Action (as applicable):
Partially Corrected

Planned Corrective Action: The IDGP currently employs a full time Eligibility Specialist responsible for tracking client eligibility and collecting required documentation. A written standardized eligibility screening process is maintained on the IDGP shared drive for staff to review and reference. This includes 100% review of all patients on their respective birthday and ½ birthday to obtain Proof of Income and Proof of Residency. All patient support team members have been trained on the eligibility process. The clinic has formed a new data working group which meets monthly as an internal auditing mechanism to review data quality and other grant reporting requirements.

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University of Colorado Hospital Authority
September 24, 2019
Corrective Action Plan

Finding Number: 2019-001

Condition: Plante & Moran PLLC's testing of participant eligibility identified participants for which UCHA did not have proper documentation of all criteria required.

Planned Corrective Action:

UCHA has a specific improvement plan to continue addressing the Participant Eligibility Standard audit finding. This Standard has four reportable measures, which include maintaining evidence: (1) HIV Verification support, (2) Proof of Income support, (3) Proof of Residency support, (4) Proof of Insurance support. The two Standards that are not at 100% include: Proof of Residency support and Proof of Income support.

Clinic management will be required to maintain a checklist that indicates that the eligibility documentation was requested at the following intervals: patients' birthday and ½ birthday or upon arrival for a scheduled clinic visit. If the Proof of Residency and Proof of Income support is not provided to the clinic at these requested intervals, this will be documented on the checklist as: "patient was unable to provide residency and income support".

UCHA Finance administration will monitor for continued improvement of the semi-annual residence and eligibility verification process, which includes a twice annual internal audit to review no less than 40 patient records to test for Standard compliance. Additionally, Finance administration will conduct once/month meetings with the UCH Clinic Manager and UCH Clinic Director to address staffing, training, and other concerns of the Ryan White verification process.

Contact person responsible for corrective action: Barbara Carveth

Anticipated Completion Date: June 30, 2020