

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

University of Utah Hospitals & Clinics
(a Department of the University of Utah)
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Financial Statements and Supplementary Information

Years Ended June 30, 2016 and 2015

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	4
Financial Statements	
Statements of Net Position.....	22
Statements of Revenues, Expenses, and Changes in Net Position	24
Statements of Cash Flows.....	25
Notes to Financial Statements.....	27
Schedules of Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	53
Schedule of Employer Contributions.....	54
Supplementary Information	
Statement of Revenues, Expenses, and Changes in Net Position.....	55



Ernst & Young LLP
Suite 400
178 South Rio Grande Street
Salt Lake City, UT 84101

Tel: +1 801 350 3300
Fax: +1 801 350 3456
ey.com

Report of Independent Auditors

University of Utah Board of Trustees
and Hospital Board

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Utah Hospitals and Clinics (a department of the University of Utah), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University of Utah Hospitals and Clinics' 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Basis for Qualified Opinion

As described in Note 2, the University of Utah Hospitals and Clinics implemented Governmental Accounting Standards Board, Statement No. 68 – *Accounting and Financial Reporting for Pensions* with a cumulative adjustment to beginning net position as of July 1, 2014. This adjustment was made using unaudited information obtained from the plan. We were unable to obtain sufficient appropriate audit evidence about the cumulative adjustment made as of July 1, 2014, because we were not provided an audited beginning net pension liability from the plan. As a result, we were unable to determine whether any adjustments to this amount were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Utah Hospitals and Clinics at June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1, the financial statements of the University of Utah Hospitals and Clinics are intended to present the financial position, the changes in financial position and cash flows, of only that portion of the business-type activities of the University of Utah that are attributable to the transactions of the department. They do not purport to, and do not present fairly the financial position of the University of Utah at June 30, 2016 and 2015, and the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require management’s discussion and analysis on pages 4 – 22, the schedule of proportionate share of the net pension liability on page 53, and the schedule of employee contributions on page 54, 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 supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Utah Hospitals and Clinics' basic financial statements. The supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated September 22, 2016, on our consideration of the University of Utah Hospitals and Clinics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Utah Hospitals and Clinics' internal control over financial reporting and compliance.

Ernst + Young LLP

September 22, 2016

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Year Ended June 30, 2016

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Utah Hospitals and Clinics (UUHC) for the fiscal year ended June 30, 2016, with selected comparative information for prior fiscal years. This discussion has been prepared by management and should be read in conjunction with the Financial Statements as well as the Notes to the Financial Statements, which follow this section.

The financial statements discussed in this section offer short-term and long-term financial information about UUHC's activities including:

Statement of Net Position: This statement includes all of UUHC's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position and provides information about the nature and amounts of investments in resources (assets) and the obligations of UUHC to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure and assessing the liquidity and financial flexibility of UUHC.

Statement of Revenues, Expenses, and Changes in Net Position: This statement accounts for all of the current years' revenues and expenses, measures changes in operations over the past two years, and can be used to determine whether UUHC has been able to recover all of its costs through several revenue sources.

Statement of Cash Flows: The primary purpose of this statement is to answer questions such as where cash came from, what cash was used for, and what was the change in the cash balance during the reporting period.

Organizational Overview

As a department of the University of Utah (University), UUHC operates to support the education of practitioners, provide state-of-the-art clinical care, and respond to the needs of the community through various outreach, advocacy, and service programs. UUHC is the principal clinical teaching site for the University of Utah's School of Medicine.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

UUHC is the only academic medical center in the state of Utah. It is one of only three facilities in the state that the American College of Surgeons has recognized as a Level 1 trauma center and it has also received the National Cancer Institute Comprehensive Cancer Center designation. UUHC is the area's only hospital to offer burn trauma services.

Licensed for 808 beds, UUHC provides a full range of inpatient acute and intensive care, and a full complement of ancillary, support and ambulatory services. The facilities that are housed on the University of Utah campus include:

- University of Utah Hospital (University Hospital), a tertiary care center
- Huntsman Cancer Hospital (HCH), a specialty cancer facility
- University of Utah Orthopaedic Center (UOC), an orthopaedic specialty care center
- University of Utah Neuropsychiatric Institute (UNI), a psychiatric hospital
- John A. Moran Eye Center (MOR), an outpatient vision care center

Ambulatory care is also provided at 11 satellite primary care clinics located throughout and adjacent to the Salt Lake Valley and at a multifunctional outpatient care center in the rapidly expanding south west portion of the valley.

The financial statements for UUHC also include the operations of a managed care organization (Health Plans) that provides a medical services network and the related payments for Medicaid beneficiaries using those services. The Medicaid services are managed under a risk based contract with the State of Utah Department of Health. Health Plans also administers UUHC's employee health self-insurance program and provides various other third party administrative services for other insurance type products.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Financial Highlights

Year Ended June 30, 2016, Compared to Year Ended June 30, 2015	Year Ended June 30, 2015, Compared to Year Ended June 30, 2014
Net patient services revenue totaled \$1,447.7 million in fiscal year 2016, compared to \$1,283.1 million in 2015, an increase of 12.8% from the prior year. Consistent with the prior year, the organization continues to experience increased volumes and acuity. Growth in retail pharmacy revenue also contributed to the increase.	Net patient services revenue totaled \$1,283.1 million compared to \$1,093.6 million for the prior year, an increase of 17.3% from the prior year. Increased patient volumes, acuity improved collections and growth in pharmacy revenue accounted for the increase.
Operating income increased \$12.0 million from the prior year. The operating margin is approximately equal to the prior year at 9.4% compared to 9.8%. Overall growth in revenue combined with cost control continues to result in strong operations.	Operating income increased \$84.0 million from the prior year. A combination of significantly higher revenue and cost control helped create the higher indicator. The higher revenue came as a result of multiple factors including those associated with the improved economy, higher volumes of patients requiring services and a higher average acuity of patients served.
Cash and cash equivalents increased \$85.6 million from the prior year. Days cash on hand increased 11 days, from 89 to 100 days. Cash received from patients and third-party payors increased 13.2% from the prior year, consistent with the increase in net patient services revenue.	Cash and cash equivalents increased \$131.9 million from the prior year due to improved collections resulting from a stronger economy, internal processing changes implemented during the prior years' installation of a new patient medical record system, and increased services and related charges.

Revenue/Volume Information and Trends

Maintaining UUHC's revenues depends upon meeting budgeted inpatient occupancy levels, managing the volume of ancillary services, meeting budgeted outpatient visits and ensuring the appropriate charges for patient services provided are captured and negotiated payments are received. Gross and net charges for services are recorded in the period the health care services are provided, while net patient service revenue reflects what UUHC will actually be paid.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

UUHC has entered into agreements with third-party payors, including government programs and managed care health plans, under which the facility and professionals will be paid. This negotiated reimbursement is based either upon the cost of providing services, a predetermined rate per diagnosis, on fixed per diem rates or as a percent discount from gross charges. Estimates of the ultimate cash collection UUHC will receive from payors are determined based upon the underlying agreements and the average of historical collections.

UUHC holds to the strong belief that medically necessary healthcare services should be accessible to all residents of the community it serves, without regard to race, religion, gender, national origin, physical or mental disability, veteran status or ability to pay. UUHC has established a financial assistance policy to ensure this takes place for those insured and underinsured alike. System wide, discounts of up to 100% of charges are offered on a sliding scale. This is based on income as a percentage of the Federal Poverty Level guidelines, available liquid assets, and charges for services rendered. The gross charges associated with patients who meet UUHC's guidelines to qualify as charity care are not pursued and are not reported as revenue.

Although UUHC incurs shortfalls between its established charges for services and amounts paid by several federal programs, these shortfalls are not included as charity care. Additionally, UUHC provides a number of services that are not self-supporting for which net revenues collected are less than the costs required to provide the services. These negative margin services greatly benefit uninsured and low-income patients as well as the broader community and are provided as a part of the UUHC mission.

UUHC 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 for fiscal years 2016 and 2015 were approximately \$27,520,000 and \$24,995,000 respectively.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Gross charges by major payor financial class for fiscal years 2016, 2015 and 2014 are as follows:

	Years Ended June 30		
	2016	2015	2014
Medicare	33.7%	33.1%	33.1%
Medicaid	12.2	12.5	12.3
Commercial Insurance and Managed Care	46.3	46.3	45.7
Other Government	3.5	4.0	4.1
Self Pay	4.3	4.1	4.8
Total	100.0%	100.0%	100.0%

UUHC's payor mix has stayed relatively stable over the past three years. The percent of self-pay patients presenting without any insurance has not changed significantly from the prior year and the ongoing strength of the Utah economy is expected to help moderate this number.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Financial Statements

Statements of Net Position

A condensed summary of the Statements of Net Position is shown below:

**Condensed Statements of Net Position
(In Millions)**

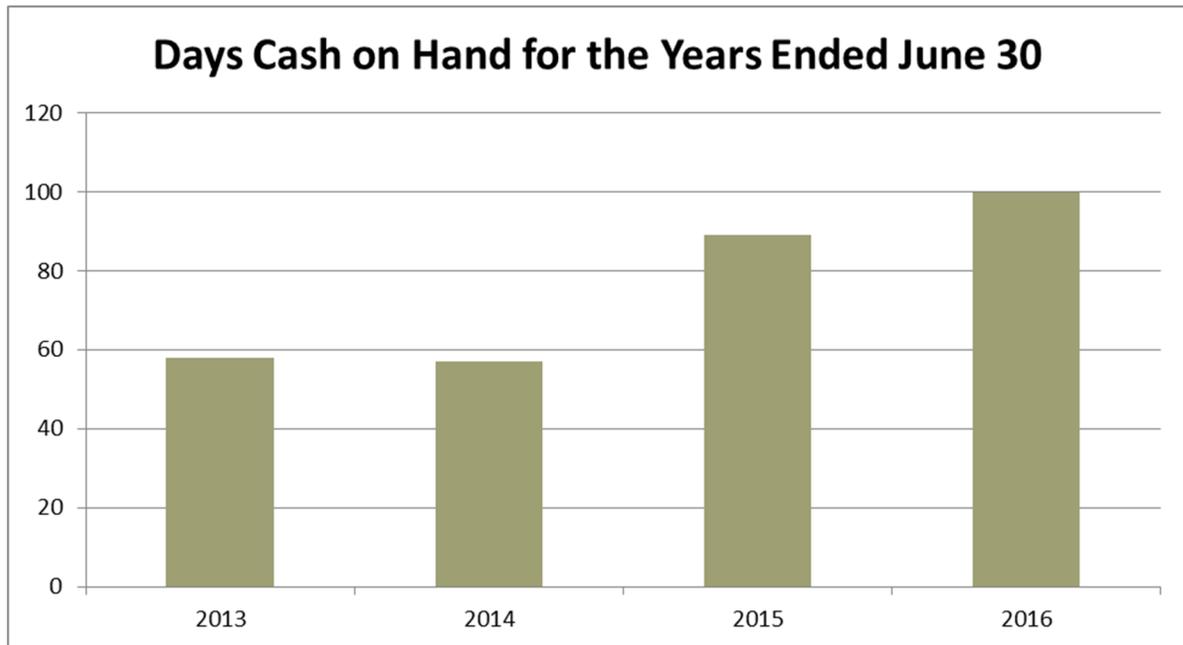
	Year Ended June 30		
	2016	2015	2014
Assets and deferred outflows of resources			
Current assets	\$ 738.3	\$ 578.3	\$ 406.3
Noncurrent investments	1.9	1.9	1.9
Capital assets	677.8	632.9	632.9
Other long-term assets	10.3	8.2	11.6
Deferred outflows from pensions	18.9	5.4	—
Total assets and deferred outflows of resources	\$ 1,447.2	\$ 1,226.7	\$ 1,052.7
Liabilities, deferred inflow of resources and net position			
Current liabilities	\$ 241.7	\$ 226.7	\$ 175.5
Long-term debt including capital leases	427.5	390.8	394.6
Other non-current liabilities	67.5	47.9	10.5
Total liabilities	736.7	665.4	580.6
Deferred inflows from refunding of debt	4.7	3.8	1.8
Deferred inflows from refunding pensions	4.7	3.2	—
Total deferred inflows of resources	9.4	7.0	1.8
Invested in capital assets	299.0	243.5	231.9
Unrestricted amounts	400.4	309.0	236.7
Restricted amounts	1.7	1.8	1.7
Net position	701.1	554.3	470.3
Total liabilities, deferred inflows of resources and net position	\$ 1,447.2	\$ 1,226.7	\$ 1,052.7

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

The ratio of current assets to current liabilities of 3.1 continues to compare favorably with Moody’s freestanding not-for-profit hospitals average of 2.0.

- **Cash and Cash Equivalents**

Unrestricted cash and cash equivalents for fiscal year 2016 were approximately \$396.7 million, an increase of approximately \$85.6 million or 11 days cash on hand from the prior year. Fiscal year 2016 was the second year using Epic as a fully integrated clinical and patient medical records and financial system. During the first year after implementation, many of the initial challenges were addressed and significant improvements were made in the revenue cycle process. During the second year of operations the organization continued to refine its procedures and use of the system by optimizing the collection process, aligning work queues and enhancing training programs. During this same time frame, days in accounts receivable dropped by 1.2 days. In addition, expense control measures contributed to sustained margins and related growth in cash balances from the prior year. UUHC continues to internally designate portions of the cash balances for capital projects and research or academic priorities. Median days cash for credit rated health systems as reported by Moody’s is 218.8 days.



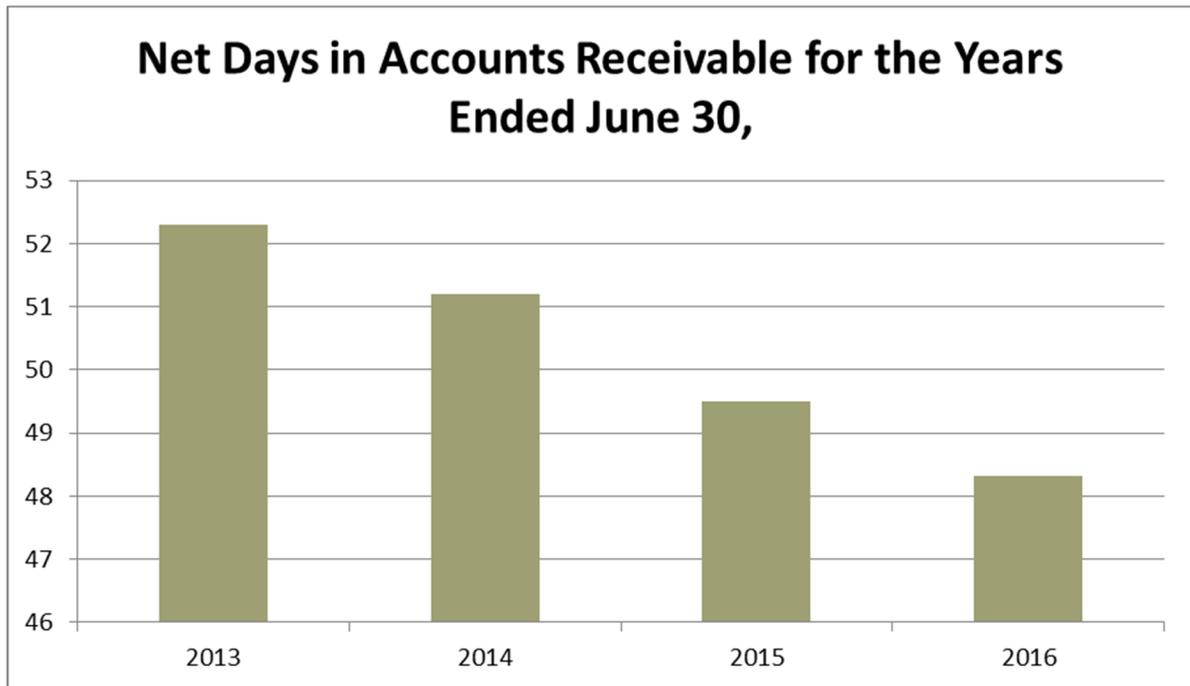
University of Utah Hospitals & Clinics
(a Department of the University of Utah)

- **Restricted Investments**

The increase in restricted investments from the prior year of approximately \$49.8 million is due to proceeds from incremental borrowings that were taken out in fiscal year 2016, but the related capital purchases will not be made until fiscal year 2017.

- **Accounts Receivable – Days Outstanding**

While net accounts receivable increased by approximately \$17.5 million, net days in accounts receivable decreased from the prior year by 1.2 days, from 49.5 to 48.3 days. In spite of significantly higher patient volumes, UUHC continues to see year-upon-year reductions in this important financial measure and is considered “best in class” amongst its Epic compare group. Significant reductions in claims denials and focused training for revenue cycle employees are some of the improvements that contributed to the reduction in days.



University of Utah Hospitals & Clinics
(a Department of the University of Utah)

- **Inventories**

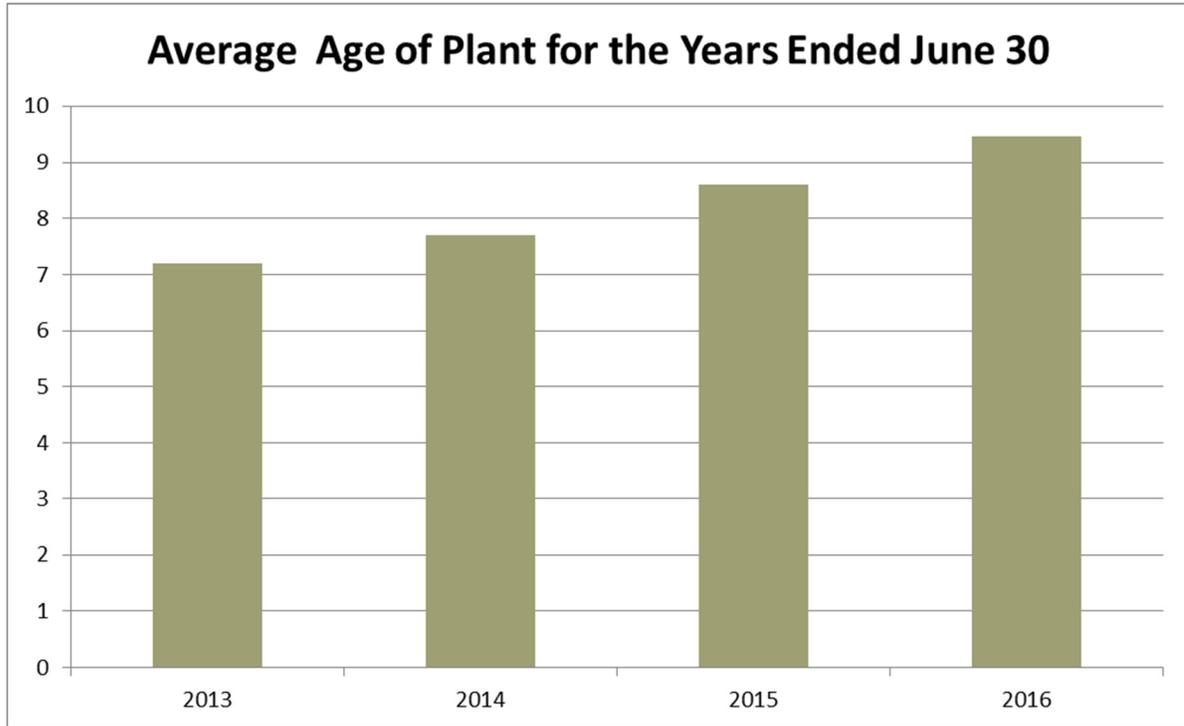
UUHC's inventories increased approximately \$3.2 million during the fiscal year as a result of the overall growth in patient volumes. However, during this same time frame, UUHC also increased its inventory turns from 9.06 in fiscal year 2015 to 9.87 in fiscal year 2016. As a result of this improvement, the inventory on hand was lower by approximately \$1.9 million than would have existed if the prior year's inventory turns had remained consistent in fiscal year 2016.

- **Buildings and Equipment (Plant) – Average Age**

The average age of UUHC's buildings and equipment is 9.5 years at June 30, 2016, as compared to 8.6 years at June 30, 2015. The organization has maintained an appropriate level of renewal and replacement expenditures since its last major capital campaign in fiscal year 2012, but has not embarked on major capital projects since that time. Several new projects are planned for the near future that will reduce the average life. In fiscal year 2017 the organization will open a new multispecialty facility in the northern section of the Salt Lake valley, an area of the valley with a high growth population that does not have easy access to health care. An expansion to the Orthopedic Hospital will be completed in fiscal year 2018 providing additional surgical suites and clinical space. A University Hospital expansion is planned for fiscal year 2019, which will include patient rooms, surgical suites and a remodel of existing clinical space.

The organization's current average age of plant of 9.5 still compares favorably to the national average of 11.3 years, as indicated by the most recent Moody's freestanding not-for-profit hospital median report.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)



- **Deferred Outflows of Resources**

The deferred outflows of resources related to pension reflects the difference between the increase in the pension liability and the impact of that increase on the income statement. This deferred resource increased as a result of a difference between the expected rate of return of 7.52% and the actual rate of return of 1.92%.

- **Long-term Debt, including Capital Leases**

During fiscal year 2016 UUHC entered into three new capital leases for a total of \$43.0 million. The proceeds from the leases were for the purchase of an airplane, financing of general medical equipment and borrowing for equipment that will be used in an upcoming expansion to the University Hospital. UUHC also entered into new notes payable totaling \$27.0 million. Proceeds from these borrowings financed the build out of shelled space and the remodel of existing space in the University Hospital and the purchase of land in the southern Salt Lake valley.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

In March 2016, the University issued approximately \$8.4 million General Revenue bonds on behalf of UUHC to finance an expansion to the existing University Orthopaedic Hospital.

	Years Ended June 30		
	2016	2015	2014
Long-term debt, including capital leases	\$ 466.8	\$ 424.1	\$ 422.8
Net assets (less restricted assets)	699.4	552.5	468.6
Total capitalization	\$ 1,166.2	\$ 976.6	\$ 891.4
Ratio of long-term debt to capitalization	40.0%	43.4%	47.4%

- **Other Non-current Liabilities**

Net pension liability increased by approximately \$12.6 million from the prior year as the result of a decrease in market performance. Rates of return decreased from 7.52% to 1.92% from calendar year 2014 to calendar year 2015.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Revenues, Expenses and Changes in Net Position

The following table summarizes net operating revenues, operating expenses and operating income for the fiscal years ended June 30, 2016, 2015 and 2014.

Statement of Revenues, Expenses and Changes in Net Position
(in thousands)

	Year Ended June 30		
	2016	2015	2014
Operating revenues			
Net patient services revenue	\$ 1,447,686	\$ 1,283,105	\$ 1,093,658
Premium revenue	162,834	152,197	137,556
Other revenue	63,871	53,833	51,262
Total operating revenues	1,674,391	1,489,135	1,282,476
Operating expenses			
Salaries, wages and benefits	625,521	566,580	526,160
Supplies	383,415	319,350	270,707
Purchased services	204,307	175,426	168,071
Claims expense	137,132	121,211	111,554
Other operating	103,714	98,519	79,404
Depreciation	62,630	62,410	64,977
Total expenses	1,516,719	1,343,496	1,220,873
Operating income	157,672	145,639	61,603
Nonoperating expenses, net	(6,688)	(4,613)	(6,607)
Income before contributions and transfers	150,984	141,026	54,996
Capital contributions, net of expenditures	304	1,462	439
Net transfers to related entities	(4,506)	(22,951)	(34,478)
Increase in net position	146,782	119,537	20,957
Net position – beginning of year, as restated	554,295	434,758	449,315
Net position – end of year	\$ 701,077	\$ 554,295	\$ 470,272

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Revenues

- **Net Patient Services Revenue**

Net patient services revenue increased approximately \$164.6 million (12.8%) from the prior year as a result of increased patient volumes and a significant increase in the acuity of the patients. Market information for tertiary competitors in the Salt Lake valley indicates that UUHC has increased market share more than any other system. Inpatient discharges increased 6.5% from fiscal year 2015 while outpatient clinic visits increased by 11.7% from the prior fiscal year. The overall Case Mix Index, an indication of the acuity of inpatients admitted to the hospitals, increased 2.6% from the prior year. Approximately \$25.7 million was due to growth in the retail pharmacy which was impacted by both higher volumes as well as an increase in specialty drugs. Bad debt decreased from the prior year as a percentage of charges by approximately 0.6%. This resulted in an increase in net patient services revenue of approximately \$16.9 million. This decline in bad debt is attributed to the overall improvement in the Utah economy as well as the availability of insurance for previously uninsured patients.

	Years Ended June 30		
	2016	2015	Increase/ (Decrease)
	(in thousands)		
Gross charges	\$ 2,796,115	\$ 2,466,498	13.4%
Contractual deductions	\$ (1,303,160)	\$ (1,129,152)	15.4%
As a percent of gross charges	46.6%	45.8%	
Bad debt	\$ (45,269)	\$ (54,241)	(16.5)%
As a percent of gross charges	1.6%	2.2%	
Net patient service revenue	\$ 1,447,686	\$ 1,283,105	12.8%
As a percent of gross charges	51.8%	52.0%	

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Operating Expenses

• **Year Ended June 30, 2016 Compared to Year Ended June 30, 2015**

Salaries, Wages and Benefits as a percent of total operating revenue declined from 38.0% to 37.3%, a savings of \$11.5 million. UUHC continues to focus on labor efficiencies and managing to appropriate benchmarks. In addition as volumes grew during the year, various types of fixed costs and support services did not increase with the volumes.

Inflation for Medical Supplies nationally was 2.49% during fiscal year 2016. During this time UUHC was able to reduce its expense by over 5% on a volume adjusted basis. Expenses have been reduced as a result of aggressive use of benchmarking tools to get best in class pricing, focus on standardization, and compliance with group purchasing organization and state contracts. UUHC monitors its supply expenditures by monitoring its supply intensity score, which takes into account the acuity of its patients in determining the weighting to be applied to each discharge. Based on this statistic provided by the University Hospital Consortium (UHC), UUHC's supply expense is in the 17th percentile and lowest quartile as compared to the UHC average.

	Years Ended June 30		
	2016	2015	Increase/ (Decrease)
Selected operating expenses (excluding claims and depreciation)	(in thousands)		
Salaries, wages and benefits	\$ 625,521	\$ 566,580	10.4%
Supplies	383,415	319,350	20.1%
Purchased services	204,307	175,426	16.5%
Other operating	103,714	98,519	5.3%
Total	\$ 1,316,957	\$ 1,159,875	13.5%
Per CMI adjusted discharge ⁽¹⁾	(in dollars)		
Salaries, wages and benefits	\$ 4,271	\$ 4,430	(3.5)%
Medical supply expense	1,153	1,225	(5.9)%
Drug expense	1,465	1,272	15.2%
Purchased services and other operating	2,103	2,142	(1.8)%
Total per CMI adjusted discharge ⁽¹⁾	\$ 8,992	\$ 9,069	(0.8)%

⁽¹⁾ CMI Adjusted discharge represents actual discharges adjusted to include outpatient services and the severity of illness being treated by multiplying actual discharges by the sum of total gross charges divided by gross inpatient charges times the case mix index. Total excludes Claims and Depreciation Expense.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Drug expense increased 15.2% on a per CMI adjusted discharge basis. Inflationary increases of over 10% and a significant increase in the cost of specialty drugs continues to drive higher drug costs.

- **Year Ended June 30, 2016 Compared to Year Ended June 30, 2015**

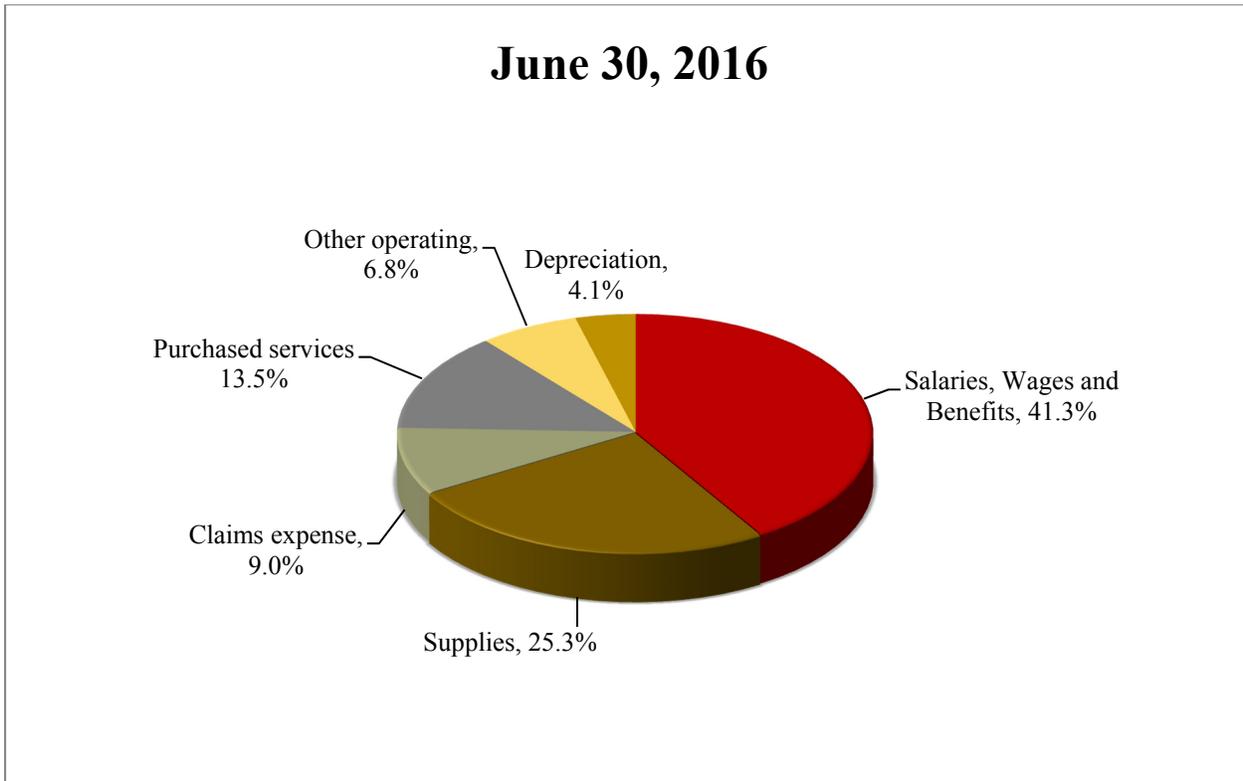
In response to ongoing changes tied to healthcare reform, UUHC continues to drive efficiency and cost controls that have resulted in lower healthcare costs.

Year Ended June 30, 2016 Compared to Year Ended June 30, 2015	Year Ended June 30, 2015 Compared to Year Ended June 30, 2014
<i>Salaries, Wages and Benefits</i> decreased 3.5% on a volume adjusted basis from the prior year. UUHC continues to monitor labor costs and utilizes various labor management tools to control costs. In addition to staffing at appropriate levels based on volumes, the organization has maintained their fixed labor costs on a level basis thus gaining efficiencies in spite of increased patient volumes.	<i>Salaries, Wages and Benefits</i> decreased 0.7% on a volume adjusted basis from the prior year. UUHC continues to monitor labor costs and utilizes various labor management tools to control costs. In addition to staffing at appropriate levels based on volumes, the organization has maintained their fixed labor costs on a level basis thus gaining efficiencies in spite of increased patient volumes.
<i>Supplies, including drugs</i> , increased 4.8% from the prior year on a per volume basis. A 10.0% drug cost inflation drove the overall increase in the supply category.	<i>Supplies, including drugs</i> , increased 3.1% from the prior year on a per volume basis. A 14.0% drug cost inflation drove the overall increase in the supply category.
<i>Purchased Services</i> increased \$28.9 million from the prior year as result of higher professional fees (\$17.5 million) and increased lab fees (\$4.2 million), which were driven by increased patient volumes.	<i>Purchased Services</i> increased as a result of higher lab charges and other professional fees which were driven by increased patient volumes.
<i>Claims expense</i> increased \$15.9 million between 2015 and 2016 as the enrollment in the Medicaid and Medicare advantage plans program increased. In addition, UUHC started an individual exchange plan that also contributed to the increase in claims expense.	<i>Claims expense</i> increased \$9.0 million between 2014 and 2015 as the enrollment in the Medicaid program increased. In addition UUHC started a Medicare advantage plan that also contributed to the increase in claims expense.

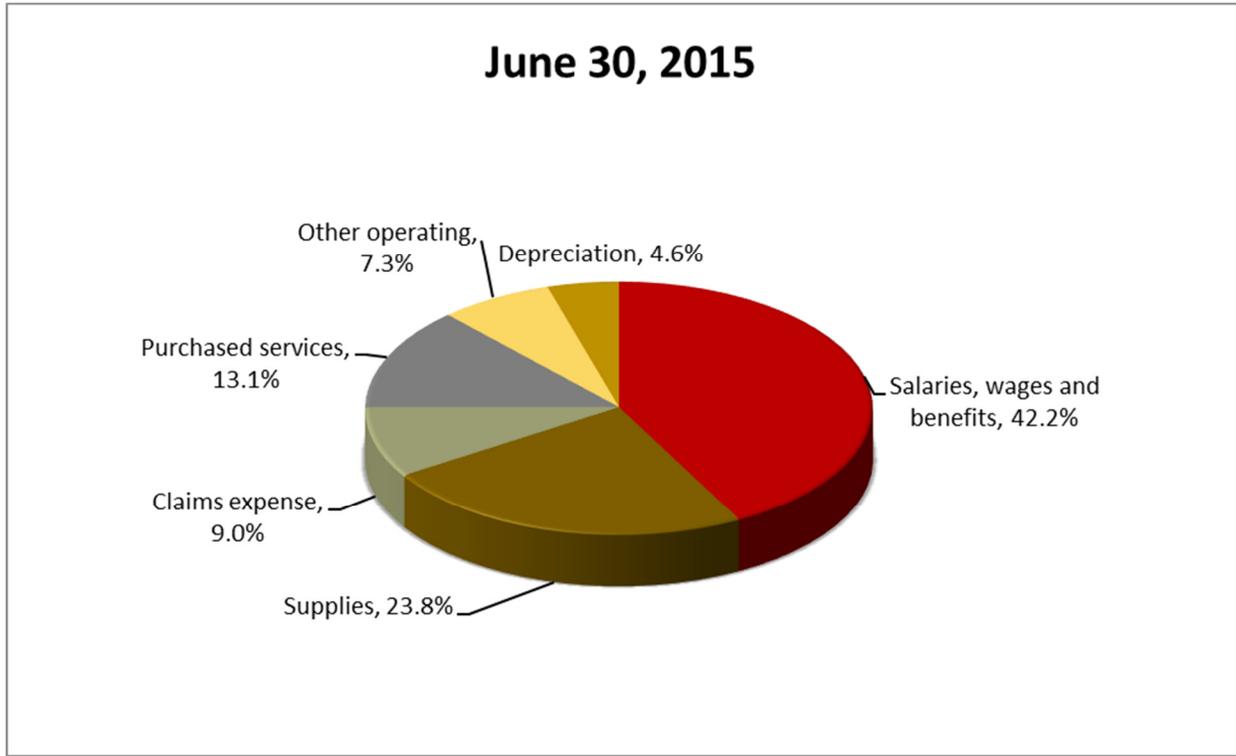
University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Year Ended June 30, 2016 Compared to Year Ended June 30, 2015	Year Ended June 30, 2015 Compared to Year Ended June 30, 2014
<p><i>Other Operating</i> expense increased from the prior year by approximately \$5.2 million. A focused growth on outreach activities has contributed most significantly to this increase. Outreach to healthcare providers in areas outside the Salt Lake valley has resulted in steadily increasing referrals from these outlying areas.</p>	<p><i>Other Operating</i> expense increased from the prior year by approximately \$19.1 million. Malpractice expense increases of \$4.7 million, winding down costs related to previous medical records software of \$5.2 million, and contributions to unrelated entities of \$5.0 million were the largest contributing factors.</p>

The following charts show the breakdown of operating expenses by type, as a percentage of total operating expense for fiscal years 2016 and 2015.



University of Utah Hospitals & Clinics
(a Department of the University of Utah)



Condensed Statements of Cash Flows

	Years Ended June 30,		
	2016	2015	2014
	(In Millions)		
Cash provided by (used in)			
Operating activities	\$ 196.7	\$ 232.4	\$ 135.4
Noncapital financing activities	0.2	(18.3)	(27.6)
Capital and related financing activities	(62.8)	(65.1)	(82.2)
Investing activities	(48.5)	(17.1)	(9.0)
Net increase in cash	85.6	131.9	16.6
Cash, beginning of year	311.1	179.2	162.6
Cash, end of year	\$ 396.7	\$ 311.1	\$ 179.2

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Year Ended June 30, 2016, Compared to Year Ended June 30, 2015

Year Ended June 30, 2016 Compared to Year Ended June 30, 2015	Year Ended June 30, 2015 Compared to Year Ended June 30, 2014
<i>Net cash provided by operating activities</i> decreased by \$35.7 million. Cash collections exceeded the prior year by \$166.6 million, but the cost of supplies increased at a higher rate.	<i>Net cash provided by operating activities</i> increased by \$97.0 million due to improved margins as well as focused improvements in revenue cycle processes.
<i>Net cash used in noncapital financing activities</i> decreased by \$18.6 million due to transfers received from University of Utah Health Sciences as a contribution to offset the cost of the new multi-specialty clinic currently under construction.	<i>Net cash used in noncapital financing activities</i> decreased by \$9.3 million due to lower transfers to the University of Utah Health Sciences.
<i>Net cash used in capital and related financing activities</i> was \$2.2 million lower than the prior year	<i>Net cash used in capital and related financing activities</i> declined by approximately \$17.1 million as the result of an \$8.4 million increase in proceeds from long-term obligations and a \$8 million reduction in capital interest paid.
<i>Net cash used in investing activities</i> increased by \$31.4 million due to additional purchases of investments from the proceeds of unexpended debt financings.	<i>Net cash used in investing activities</i> increased by \$8.1 million due to additional purchases of investments.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Net Position
(In Thousands)

	June 30	
	2016	2015
Assets and deferred outflows of resources		
Current assets:		
Cash and cash equivalents	\$ 396,720	\$ 311,087
Restricted investments	80,640	30,842
Accounts receivable:		
Patients (net of allowance for uncollectible accounts of \$9,408 in 2016 and \$18,316 in 2015)	191,633	174,115
Other	16,139	14,416
Due from Medicare and Medicaid	4,476	2,913
Other	8,303	7,630
Inventories	40,433	37,263
Total current assets	738,344	578,266
Noncurrent investments:		
Restricted purpose and endowment funds	1,920	1,949
Capital assets:		
Depreciable capital assets, net of accumulated depreciation	611,078	616,355
Construction in progress	66,676	16,559
	677,754	632,914
Other assets:		
Debt service reserve funds	7,982	7,826
Other	2,326	441
	1,428,326	1,221,396
Deferred outflows of resources:		
Deferred outflows related to pension	18,860	5,386
Total assets and deferred outflows of resources	\$ 1,447,186	\$ 1,226,782

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Net Position (continued)
(In Thousands)

	June 30	
	2016	2015
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Accounts payable	\$ 66,275	\$ 62,658
Salaries, wages and related liabilities	71,739	64,969
Current portion of long-term debt	13,144	11,593
Current portion of capital lease obligations	26,206	21,667
Medical claims payable	20,900	25,659
Deferred revenue	27,385	24,245
Accrued interest payable	5,224	5,916
Current portion of malpractice claims liability	4,501	5,050
Due to Medicare and Medicaid	6,334	4,929
Total current liabilities	<u>241,708</u>	<u>226,686</u>
Noncurrent liabilities:		
Long-term debt, less current portion	253,861	232,372
Long-term capital lease obligations, less current portion	173,623	158,460
Net pension liability	48,150	35,512
Malpractice claims liability, less current portion	19,313	12,399
Total noncurrent liabilities	<u>494,947</u>	<u>438,743</u>
Total liabilities	736,655	665,429
Deferred inflows of resources:		
Deferred inflows related to refunding of debt	4,748	3,842
Deferred inflows related to pensions	4,706	3,216
Total Deferred Inflows	<u>9,454</u>	<u>7,058</u>
Net position:		
Net investment in capital assets	298,995	243,499
Unrestricted amounts	400,397	309,030
Restricted amounts – nonexpendable	1,685	1,766
Total net position	<u>701,077</u>	<u>554,295</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,447,186</u>	<u>\$ 1,226,782</u>

See accompanying notes.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Revenues, Expenses, and Changes in Net Position
(In Thousands)

	Year Ended June 30	
	2016	2015
Operating revenues		
Net patient services	\$ 1,447,686	\$ 1,283,105
Premiums	162,834	152,197
Other	63,871	53,833
	1,674,391	1,489,135
 Operating expenses		
Salaries, wages and benefits	625,521	566,580
Supplies	383,415	319,350
Purchased services	204,307	175,426
Claims expense	137,132	121,211
Other operating	103,714	98,519
Depreciation	62,630	62,410
	1,516,719	1,343,496
 Operating income	 157,672	 145,639
 Nonoperating revenues (expenses):		
State appropriations	4,727	4,595
Other nonoperating income	–	12
Interest expense	(13,966)	(10,691)
Interest income	1,245	1,081
Unrealized gains, net	1,306	390
Total nonoperating expenses, net	(6,688)	(4,613)
 Income before contributions and transfers	 150,984	 141,026
 Capital contributions received, net of capital expenditures	 304	 1,462
Transfers to related entities, including the University of Utah Health Sciences	 (34,528)	 (28,967)
Transfers from related entities, including the University of Utah Health Sciences	 30,022	 6,016
Increase in net position	146,782	119,537
Net position – beginning of year	554,295	434,758
Net position – end of year	\$ 701,077	\$ 554,295

See accompanying notes.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2016	2015
Operating activities		
Cash received from patients and third-party payors	\$ 1,430,010	\$ 1,263,458
Cash received from housestaff reimbursements – affiliated hospitals	21,609	21,609
Cash received from other operating activities, including health plans	224,982	208,891
Cash paid to employees for services	(639,706)	(586,104)
Cash paid to suppliers and others	(698,235)	(564,573)
Cash paid to providers for medical claims	(141,891)	(110,873)
Net cash provided by operating activities	196,769	232,408
Noncapital financing activities		
Contributions to related entities, including the University of Utah Health Sciences	(34,528)	(28,967)
Contributions from related entities, including the University of Utah Health Sciences	30,022	6,016
State appropriations received	4,727	4,595
Other long term investments	–	12
Net cash provided by (used in) noncapital financing activities	221	(18,344)
Capital and related financing activities		
Principal payments on long-term obligations	(35,157)	(27,258)
Proceeds from long-term obligations	79,991	38,350
Capital interest paid	(14,694)	(12,945)
Unrestricted funds received	348	1,432
Restricted funds received	60	144
Restricted funds expended	(104)	(114)
Construction and purchase of capital assets	(93,277)	(64,673)
Net cash used in capital and related financing activities	(62,833)	(65,064)
Investing activities		
Proceeds from maturity of investments	14,936	17,791
Purchases of investments	(64,705)	(35,955)
Interest income	1,245	1,081
Net cash used in investing activities	(48,524)	(17,083)
Net increase in cash and cash equivalents	85,633	131,917
Cash and cash equivalents – beginning of year	311,087	179,170
Cash and cash equivalents – end of year	\$ 396,720	\$ 311,087
Noncash investing, capital and financing activities		
Noncash capital expenditures in accounts payable	\$ 14,705	\$ –

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statements of Cash Flows (continued)
(In Thousands)

	Year Ended June 30	
	2016	2015
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 157,672	\$ 145,639
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	62,630	62,410
Loss on disposition of property	512	2,277
Changes in operating assets and liabilities:		
Patient accounts receivable	(17,518)	(20,795)
Other accounts receivable	(1,723)	2,861
Due from Medicare and Medicaid	(1,563)	23
Inventories	(3,170)	(4,030)
Prepaid and Other assets	(2,558)	33
Deferred outflows related to pensions	(13,474)	(5,386)
Deferred inflows related to pensions	1,490	3,216
Net pension liability	12,638	(2)
Accounts payable	(11,088)	9,181
Salaries, wages and related liabilities	6,770	4,257
Medical claims payable	(4,759)	10,338
Due to Medicare and Medicaid	1,405	1,125
Malpractice claims liability	6,365	2,859
Other liabilities	3,140	18,402
Net cash provided by operating activities	\$ 196,769	\$ 232,408
 Noncash investing, capital and financing activities		
Noncash capital expenditures in accounts payable	\$ 14,705	\$ —

See accompanying notes.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements

Year Ended June 30, 2016 and 2015

1. Hospital

Basis of Presentation

The University of Utah Hospitals & Clinics (UUHC) is a department of the University of Utah (the University) and is not subject to federal or state income taxes under provisions of Sections 115 and 501(c)(3) of the Internal Revenue Code. UUHC uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Reporting Entity

UUHC financial statements includes substantially all of the healthcare provider activities for patient care associated with the University other than the physician services and research activities provided by the faculties of the University's College of Medicine. The financial statements also include the operations of a managed care organization (Health Plans) that provides a medical services network and the related payments for Medicaid beneficiaries using those services. The Medicaid services are managed under a risk based contract with the State of Utah Department of Health. Health Plans also administers UUHC's employee health self-insurance program and provides various other third party administrative services for other insurance type products. The financial statements of the University of Utah Hospitals and Clinics are intended to present the financial position, the changes in financial position and cash flows, of only that portion of the business-type activities of the University of Utah that are attributable to the transactions of the department. They do not purport to, and do not present fairly the financial position of the University of Utah at June 30, 2016 and 2015, and the changes in its financial position or its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. All significant interdepartmental transactions have been eliminated in preparation of these financial statements.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies

Restatements and Reclassifications

Certain reclassifications were made to the 2015 financial statement presentation to conform to the 2016 presentation.

As required by the Governmental Accounting Standards Board, GASB Statement No. 68 was implemented as of July 1, 2014. Accordingly net pension liability and deferred outflows of resources related to pensions were recorded in the Statements of Net Position. The cumulative effect of the restatement is reflected as a reduction of beginning net position of approximately \$35,514,000 as of July 1, 2014. This adjustment comprises a beginning net pension liability of approximately \$39,795,000 offset by beginning deferred outflows of resources of approximately \$4,281,000 for contributions made to the Utah Retirement Systems' Pension Plan (URS) after the plan's measurement date of December 31, 2013.

Cash and Cash Equivalents

Cash and cash equivalents consists of deposits held in the University cash management pool. The University cash management pool consists of cash and short-term investments with an original maturity of three months or less as of the date of purchase. The cash balances are invested in short term investments that conform to the provisions of the Utah Money Management Act.

Investments

Investments are carried at fair value. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The difference between cost and fair value at June 30, 2016 and 2015, is not significant. UUHC invests in the Public Treasurers' Investment Fund (PTIF), which is not registered with the SEC as an investment company. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah and participants share proportionally in unrealized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses of the PTIF, net of administration fees, are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. The fair value of UUHC's investment in PTIF is calculated by multiplying the pool's fair value per share factor as published by the Utah Treasurer's Office and our pool balance

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

UUHC follows the requirements of the Utah Money Management Act (the Act) in handling its depository transactions, which requires the depositing of funds in a financial institution whose deposits are insured by an agency of the federal government, which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Act also governs the type of securities allowed as appropriate temporary investments for UUHC and the conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories, state certified dealers, or directly with the issuers of allowable securities. Allowable investments under the Act include:

- Negotiable or nonnegotiable deposits of qualified depositories.
- Repurchase agreements with qualified depositories or with primary and secondary reporting dealers, which have been certified by the Utah Money Management Council.
- Commercial paper that is classified as “first tier” by two nationally recognized statistical rating agencies, one of which must be Moody’s Investor Services or Standard & Poors.
- Obligations of the United States Treasury, including bills, notes, and bonds.
- Bonds, notes, and other evidence of indebtedness of political subdivisions of the State.
- Shares or certificates in a money market mutual fund as defined in the Act.
- Utah State Public Treasurer’s Investment Fund.
- Fixed rate corporate obligations and variable rate securities that are rated A or higher by two nationally recognized statistical rating Hospitals.

UUHC categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments that potentially subject UUHC to concentrations of credit risk consist primarily of patient accounts receivable. Combined receivables from Medicare and Medicaid represent 37% and 39% of patient accounts receivable at June 30, 2016 and 2015, respectively. UUHC does not believe there are any other significant concentrations of credit risk at June 30, 2016 and 2015.

Inventories

Inventories, consisting principally of medical supplies, are stated at lower of cost or market using the first-in, first-out method.

Capital Assets

Property is stated at cost at the date of acquisition or at fair value at the date of contribution in the case of gifts. Major replacements and refurbishment costs, which extend the useful lives of equipment and buildings, are capitalized and depreciated over the remaining useful life. Individual purchases over \$2,500 are capitalized. Normal maintenance and repairs are expensed as incurred.

Risk Management

UUHC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of such losses, other than malpractice liability claims, is covered by risk management functions of the University. Based on valuations performed by an independent actuary at June 30, 2016 and 2015, UUHC believes that the recorded estimated malpractice claims liability as of June 30, 2016 and 2015, is adequate to cover any claims incurred through those dates. The interest rate used to discount UUHC's estimated malpractice claims liability was 0.5% in 2016 and 2% in 2015. UUHC maintains a claims-made umbrella malpractice insurance policy in an amount considered adequate by its administration for catastrophic malpractice liabilities in excess of \$5,000,000 per occurrence and \$26,000,000 in aggregate. Settled claims have not exceeded this coverage.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Utah Retirement System (URS) and additions to/reductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. 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.

Medical Claims Payable

Medical claims payable reflect claims payable to providers other than UUHC determined through actuarial estimates of incurred-but-not-reported medical services. The liability for these medical claims is reviewed on a regular basis and reflects management's estimate of claims UUHC expects to pay. Changes in the medical claims liability for fiscal years 2016 and 2015 are as follows (in thousands):

Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
\$ 25,659	\$ 137,132	\$ (141,891)	\$ 20,900

Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
\$ 15,321	\$ 121,211	\$ (110,873)	\$ 25,659

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Net Position

Net position of UUHC is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Unrestricted net position is the amount of the assets, deferred outflows or resources, liabilities and deferred inflows of resources that do not either meet the definition of net investment in capital assets net of related debt or have donor restrictions. Restricted net position represents specific purpose and endowment funds that are donor restricted for capital acquisitions and specific operating activities and consist of restricted assets reduced by liabilities related to those assets. When UUHC has both restricted and unrestricted resources available to finance a particular program, it is UUHC's policy to use restricted resources before unrestricted resources.

Net Patient Services Revenue and Accounts Receivable

Net patient services revenue and accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. The majority of revenue comes from insured patients living in Utah and the surrounding multi-state region with the primary source coming from the Wasatch Front which includes cities and counties surrounding Salt Lake City. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Charity care is excluded from net patient services revenue.

Premium Revenues

Premium revenues of the Health Plans are derived primarily from a Medicaid membership contract with the State of Utah Department of Health. The contract is renegotiated annually with bi-annual rate adjustments. The associated premiums are recognized as revenue in the period in which enrolled members are entitled to receive healthcare services. Premiums received in advance represent amounts received by UUHC prior to the period of coverage and are included in Deferred Revenue on the Statement of Net Position.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

2. Accounting Policies (continued)

Depreciation

Depreciation is computed by using the straight-line method. Estimated useful lives range from 25 to 40 years for building and land improvements; 10 to 20 years for fixed equipment; and 5 to 10 years for major moveable equipment. Equipment and buildings under capital lease are amortized over the estimated useful life of the assets, and such amortization is included with depreciation.

Operating Indicator

Transactions deemed by management to be ongoing, major, or central to the provisions of health care services and other healthcare-related operations are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenue.

Related Party Transfers

UUHC transferred cash to the University of Utah Health Sciences (UHS) to help support the UHS's educational and research mission. Because UUHC receives no direct clinical operating benefit from such activities, these contributions have been reflected as changes in net position in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Net transfers, in the aggregate, during 2016 and 2015, were approximately \$4,506,000 and \$22,951,000, respectively. In the event UUHC requires funds to cover unexpected losses or risks, certain of these transfers may be repurposed internally.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following (in thousands):

	June 30	
	2016	2015
Cash on hand	\$ 142	\$ 140
University cash management pool	396,578	310,947
	<u>\$ 396,720</u>	<u>\$ 311,087</u>

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents (continued)

UUHC has cash pooled with the University. No allocation of earnings from the pool has been distributed to UUHC for 2016 or 2015.

4. Investments

Investments are related to the malpractice reserves and unexpended lease funds included in restricted investments as well as debt service reserve funds.

UUHC categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. As of June 30, 2016 and 2015, UUHC had fair value measurements as shown below (in thousands):

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fiscal Year 2016				
Utah Public Treasurers' Investment Fund	\$ 83,850	\$ –	\$ –	\$ 83,850
US Government Agencies	4,411	–	4,411	–
University of Utah Endowment Fund	1,920	–	1,920	–
Money Market Funds	361	–	361	–
	<u>\$ 90,542</u>	<u>\$ –</u>	<u>\$ 6,692</u>	<u>\$ 83,850</u>
Fiscal Year 2015				
Utah Public Treasurers' Investment Fund	\$ 25,657	\$ –	\$ –	\$ 25,657
US Government Agencies	5,120	–	5,120	–
University of Utah Endowment Fund	1,949	–	1,949	–
Money Market Funds	7,891	–	7,891	–
	<u>\$ 40,617</u>	<u>\$ –</u>	<u>\$ 14,960</u>	<u>\$ 25,657</u>

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

4. Investments (continued)

Debt securities classified in Level 2 of the fair value hierarchy are valued using a third-party pricing service, which provides documentation on an ongoing basis that includes among other things, pricing information with respect to reference data, methodology, inputs summarized by asset class, pricing application and corroborative information. PTIF securities classified in Level 3 are priced using the pool's fair value per share factor, as published by the Utah Treasurer's Office, multiplied by our pool balance.

At June 30, 2016 and 2015, UUHC had debt investments with quality ratings as shown below:

Investment Type	Fair Quality Rating			
	Value	AAA	AA	Unrated
Fiscal Year 2016				
Utah Public Treasurers' Investment Fund	\$ 83,850	\$ —	\$ —	\$ 83,850
US Government Agencies	4,411	—	4,411	—
University of Utah Endowment Fund	1,920	—	—	1,920
Money Market Funds	361	361	—	—
	<u>\$ 90,542</u>	<u>\$ 361</u>	<u>\$ 4,411</u>	<u>\$ 85,770</u>
Fiscal Year 2015				
Utah Public Treasurers' Investment Fund	\$ 25,657	\$ —	\$ —	\$ 25,657
US Government Agencies	5,120	—	5,120	—
University of Utah Endowment Fund	1,949	—	—	1,949
Money Market Funds	7,891	7,891	—	—
	<u>\$ 40,617</u>	<u>\$ 7,891</u>	<u>\$ 5,120</u>	<u>\$ 27,606</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Exposure to both these risks is managed by complying with the Utah Money Management Act.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

5. Capital Assets

Capital assets as of June 30, 2016 and 2015, are as follows (in thousands):

	Balance				Balance
	June 30, 2015	Additions	Retirements	Transfers	June 30, 2016
Depreciable capital assets:					
Land	\$ 11,386	\$ —	\$ —	\$ 505	\$ 11,891
Land improvements	21,798	—	—	276	22,074
Buildings and improvements	695,809	—	—	13,857	709,666
Equipment	425,822	27,271	(8,803)	15,956	460,246
	<u>1,154,815</u>	<u>27,271</u>	<u>(8,803)</u>	<u>30,594</u>	<u>1,203,877</u>
Less accumulated depreciation:					
Land improvements	(12,091)	(593)	—	—	(12,684)
Buildings and improvements	(256,292)	(21,750)	—	—	(278,042)
Equipment	(270,077)	(40,287)	8,291	—	(302,073)
	<u>(538,460)</u>	<u>(62,630)</u>	<u>8,291</u>	<u>—</u>	<u>(592,799)</u>
Construction in progress	16,559	80,711	—	(30,594)	66,676
Capital assets, net	<u>\$ 632,914</u>	<u>\$ 45,352</u>	<u>\$ (512)</u>	<u>\$ —</u>	<u>\$ 677,754</u>

	Balance				Balance
	June 30, 2014	Additions	Retirements	Transfers	June 30, 2015
Depreciable capital assets:					
Land	\$ 9,642	\$ —	\$ —	\$ 1,744	\$ 11,386
Land improvements	21,147	—	—	651	21,798
Buildings and improvements	679,137	—	—	16,672	695,809
Equipment	404,922	33,460	(24,478)	11,918	425,822
	<u>1,114,848</u>	<u>33,460</u>	<u>(24,478)</u>	<u>30,985</u>	<u>1,154,815</u>
Less accumulated depreciation:					
Land improvements	(11,557)	(534)	—	—	(12,091)
Buildings and improvements	(235,221)	(21,071)	—	—	(256,292)
Equipment	(251,473)	(40,805)	22,201	—	(270,077)
	<u>(498,251)</u>	<u>(62,410)</u>	<u>22,201</u>	<u>—</u>	<u>(538,460)</u>
Construction in progress	16,331	31,213	—	(30,985)	16,559
Capital assets, net	<u>\$ 632,928</u>	<u>\$ 2,263</u>	<u>\$ (2,277)</u>	<u>\$ —</u>	<u>\$ 632,914</u>

Interest costs incurred during the construction of major capital additions are capitalized. Capitalized interest for the years ended June 30, 2016 and 2015 was approximately \$353,000 and \$0 respectively.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

6. Net Patient Services

UUHC has agreements with third-party payors that provide for payments to UUHC at amounts different from established rates. Inpatient acute care and outpatient services rendered to Medicare and Medicaid beneficiaries are paid at prospectively determined rates per discharge or service. Medicare reimburses UUHC for cost-reimbursable items at a tentative rate with final settlement determined retroactively after submission of annual cost reports by UUHC and audits thereof by the Medicare administrative contractor.

The estimated final settlements for open years are based on preliminary cost findings after giving consideration to interim payments that have been received on behalf of patients covered under these programs. Laws and regulations governing Medicare and Medicaid are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude final determination of retrospective settlements until the related cost reports have been audited and settled by the intermediaries. As a result, there is a reasonable possibility that the final settlements could change by material amounts in the near term. Cost reports through fiscal year 2014 have been audited and final settled.

Net patient services revenue increased by approximately \$4,669,000 and \$704,000 in 2016 and 2015, respectively, to reflect changes in the estimated Medicare and Medicaid settlements for certain prior years.

A summary of net patient service revenue, exclusive of charity care, is as follows (in thousands):

	Year Ended June 30	
	2016	2015
Patient services revenue (gross charges)	\$ 2,796,115	\$ 2,466,498
Less: Contractual deductions	1,303,160	1,129,152
Bad debt expense	45,269	54,241
Net patient services revenue	<u>\$ 1,447,686</u>	<u>\$ 1,283,105</u>

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans

Substantially all of UUHC’s employees who work 50% or more of full-time hours are automatically enrolled, through the University, in either the Utah Retirement Systems Pension Plan (URS Plans) or in the 401(a) Defined Contribution Retirement Plan (401(a) Plan).

URS Plan

Employees may be enrolled in either the Public Employees Noncontributory Retirement System (Noncontributory System), the Public Employees Contributory Retirement System (Contributory System) or the Tier 2 Public Employees System. The URS Plans are multiple-employer, cost sharing defined benefit pension plans providing retirement, disability and death benefits to plan members and beneficiaries in accordance with retirement statutes. Following is a summary of benefits by system:

System	Final Average Salary	Years of service required and/or age eligible for benefit	Benefit percentage per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 20 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.00% per year all years	Up to 4.0%
Contributory System	Highest 5 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	1.25% per year to June 1975; 2.00% per year July 1975 to present	Up to 4.0%
Tier 2 Public Employee System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.50% per year all years	Up to 2.5%

* With actuarial reductions

** All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

Death benefits equal 75 percent of the highest annual salary with a minimum of \$1,000 and a refund of transferred contributions plus interest. The URS Plans were established and governed by the respective sections of Title 49 of the Utah Code Annotated, 1953 as amended. The URS defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act provides for the administration of the System under the direction of the Utah State Retirement Board whose members are appointed by the Governor. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

UUHC is legally obligated to contribute to the URS Plans for eligible employees (defined by Utah law) as long as there are employees who meet membership participant requirements. UUHC currently pays the full contribution for employees enrolled in the URS Plan. As a condition of participation in the URS System, employers are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. The URS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 560 East 299 South, Salt Lake City, Utah 84102 or visiting the website at www.urs.org. All contributions have been made on their monthly due dates. Contributions to the plans from UUHC were \$9,031,000 and \$9,150,000 for the years ended June 30, 2016 and 2015, respectively.

Contribution rates as of June 30 are as follows (in thousands):

	2016	2015	2014
Contribution rate:			
Contributory plan	23.70%	23.70%	21.97%
Noncontributory plan	23.69	22.19	21.96
Tier 2	20.02	N/A	N/A

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

UUHC reported a net pension liability of approximately \$48,150,000 and \$35,512,000 at June 30, 2016 and 2015, respectively.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

	Proportionate Share	Net Pension Liability
	<i>(in thousands)</i>	
Fiscal Year 2016		
Noncontributory	1.3535216%	\$ 42,518
Contributory	8.9870126%	5,632
Total net pension liability		\$ 48,150
 Fiscal Year 2015		
Noncontributory	1.3785779%	\$ 34,637
Contributory	7.9765044%	875
Total net pension liability		\$ 35,512

The net pension liability as of June 30, 2016 and 2015, was measured by URS as of December 31, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and 2014, respectively and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability was based upon actual historical employer contributions to the plan from the census data submitted to the plan for the respective pay periods.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

For the years ended June 30, 2016 and 2015 pension expense was approximately \$9,675,000 and \$7,050,000, respectively. At June 30, 2016 and 2015, the reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Fiscal Year 2016		
Differences between expected and actual experience	\$ –	\$ 3,278
Changes in assumptions	–	837
Net difference between projected and actual earnings on pension plan investments	14,419	–
Changes in proportion and differences between contributions and proportionate share of contributions	–	591
Contributions subsequent to the measurement date	4,441	–
Total	\$ 18,860	\$ 4,706
Fiscal Year 2015		
Differences between expected and actual experience	\$ –	\$ 2,066
Changes in assumptions	–	1,150
Net difference between projected and actual earnings on pension plan investments	796	–
Changes in proportion and differences between contributions and proportionate share of contributions	–	–
Contributions subsequent to the measurement date	4,590	–
Total	\$ 5,386	\$ 3,216

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

The Contributions subsequent to the measurement date of \$4,441,000 will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended December 31:	
2016	\$ 2,162
2017	2,162
2018	2,277
2019	3,112
2020	—
	\$ 9,713

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

Inflation	2.75%
Salary increases	3.50% – 10.50% average, including inflation
Investment rate of return	7.50% net of pension plan investment expense including inflation

Mortality rates were developed from actual experience and mortality tables based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries. The actuarial assumptions by URS used in the January 1, 2015, valuation were based on the results of an actuarial experience study for the five year period from January 1, 2008 to December 31, 2013.

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

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation (%)	Real Return Arithmetic Bases (%)	Long-Term Expected Portfolio Real Rate of Return (%)
Equity securities	40.0	7.06	2.82
Debt securities	20.0	0.80	0.16
Real assets	13.0	5.10	0.66
Private equity	9.0	11.30	1.02
Absolute return	18.0	3.15	0.57
Cash and cash equivalents	0.0	0.00	0.00
Totals	100.0		5.23
			Inflation
			2.75
			7.98

The 7.5% assumed investment rate of return is comprised of an inflation rate of 2.75% and a real return of 4.75% that is net of investment expense.

The discount rate used by URS to measure the total pension liability was 7.5%. The projection of cash flows used by URS to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the proportionate share of the net pension liability as of June 30, 2016 and 2015, respectively, would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate (in thousands):

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Fiscal Year 2016			
Proportionate share of net pension liability	\$ 89,689	\$ 48,150	\$ 13,249
Fiscal Year 2015			
Proportionate share of net pension liability	\$ 76,346	\$ 35,512	\$ 1,259

Under the Internal Revenue Code Section 401(k), UUHC participates, through the URS, in a defined contribution 401(k) plan for all employees enrolled in the URS Noncontributory Plan. The contributions of approximately \$582,000 and \$591,000 for the years ended June 30, 2016 and 2015, respectively, representing 1.5% of covered salaries, are included in noncontributory contributions above, and vest immediately. They may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

7. Retirement Plans (continued)

401(a) Plans

Employees hired prior to January 1, 2001 who were not enrolled in the URS program, are enrolled in a 401(a) defined contribution plan that is administrated by the UUHC Chief Human Resources Officer. The administrator has the authority to amend, modify or terminate the plan. UUHC is required to contribute 14.2% of covered payroll to the plan for the employees covered under this plan.

For employees hired subsequent to December 31, 2000, they are enrolled in a separate 401(a) plan, the Hospital Plan Plus (HPP) Benefit Program. UUHC contributes 6% for employees covered under this plan. In addition, these employees are eligible for a match on employee contributions to a 403(b) Match Plan up to 3% of salary, and fully vested in UUHC's contributions to both plans after six year of service.

Contributions for both 401(a) plans and the 403(b) plan were approximately \$35,503,000 and \$31,087,000 for the years ended June 30, 2016 and 2015, respectively. Plan member contributions were approximately \$19,317,000 and \$16,457,000 for the years ended June 30, 2016 and 2015, respectively.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

8. Long-Term Obligations

Details of long-term obligations are as follows (in thousands):

	Balance			Balance		Amounts
	June 30, 2015	Additions	Reductions	June 30, 2016	Due Within	One Year
Bonds and notes payable:						
Revenue bonds	\$ 199,657	\$ 8,395	\$ (8,947)	\$ 199,105	\$	11,821
Due to Central Treasury	44,308	27,000	(3,408)	67,900		1,323
Total long-term debt	243,965	35,395	(12,355)	267,005		13,144
Other liabilities:						
Net pension liability	35,512	14,127	(1,489)	48,150		-
Capital lease obligation	180,127	43,000	(23,298)	199,829		26,206
Malpractice claims liability	17,449	13,366	(7,001)	23,814		4,501
Total	\$ 477,053	\$ 105,888	\$ (44,143)	\$ 538,798	\$	43,851

	Balance			Balance		Amounts
	June 30, 2014	Additions	Reductions	June 30, 2015	Due Within	One Year
Bonds and notes payable:						
Revenue bonds	\$ 205,963	\$ 64,810	\$ (71,116)	\$ 199,657	\$	8,947
Due to Central Treasury	55,083	-	(10,775)	44,308		2,645
Total long-term debt	261,046	64,810	(81,891)	243,965		11,592
Other liabilities:						
Net pension liability	-	47,642	(12,130)	35,512		-
Capital lease obligation	161,749	38,350	(19,972)	180,127		21,668
Malpractice claims liability	14,590	7,909	(5,050)	17,449		5,050
Total	\$ 437,385	\$ 158,711	\$ (119,043)	\$ 477,053	\$	38,310

The Hospital Revenue Bonds are special obligations of the Board of Regents payable solely out of Hospital Net Revenues, the general purpose of which is for construction and renovation of major capital facilities and the acquisition of capital equipment. Hospital Revenue bonds have been issued to refund other revenue bonds. "Hospital Net Revenues" is defined as all income and revenues derived from operations, including Investment Income, Unrestricted Gifts and net profits from any proprietary activities associated with UUHC operations. Hospital Revenue does not include State appropriations to UUHC. Under the Series 2006, 2009A, 2009B, 2010, 2011 and 2011B Bonds, the University of Utah agreed to certain covenants, including a commitment to

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

8. Long-Term Obligations (continued)

operate UUHC in a manner so as to provide defined net revenues available for debt service of not less than 100% of actual debt service on long-term indebtedness due in each fiscal year, and limitations on the sale or other disposition of Hospital property. As of June 30, 2016, the University of Utah was in compliance with all covenants.

In March 2016, the University of Utah issued \$8,395,000 of Series 2016A bonds on behalf of the Organization. Payments are due each August 1 beginning in 2018 through 2037. These bonds are secured by the revenues of the University of Utah. The proceeds of the Series 2016A bonds will be used to expand the existing orthopaedic facility.

Outstanding issues as of June 30, 2016, are as follows:

	Date Issued	Maturity Serially Through	Interest Rate	Original Issue	Balance at June 30, 2016	Amounts Due Within One Year
Series 2006A	10/26/2006	2032	4.000%–5.250%	\$ 77,145,000	\$ 11,315,000	\$ 940,000
Series 2009A	12/14/2009	2017	4.000%–5.000%	9,135,000	2,240,000	2,240,000
Series 2009B	12/17/2009	2031	4.697%–5.247%	41,785,000	41,785,000	–
Series 2010	07/20/2010	2025	3.000%–5.000%	36,120,000	11,200,000	1,650,000
Series 2011A	05/24/2011	2027	3.600%	20,145,000	15,370,000	1,155,000
Series 2011B	07/20/2011	2032	3.350%–5.000%	66,480,000	14,990,000	2,705,000
Series 2014A-1	04/01/2014	2028	5.000%–6.000%	26,045,000	26,045,000	–
Series 2014B	07/15/2015	2028	5.000%	21,715,000	21,715,000	–
Series 2015B	05/13/2015	2032	3.000%–5.000%	43,095,000	43,095,000	2,500,000
Series 2016A	03/08/2016	2037	3.000%–5.000%	8,395,000	8,395,000	–
Due to University of Utah CP	07/01/2013	2032	Variable	55,082,570	41,662,579	160,000
Due to University of Utah	10/01/2015	2027	2.000%	27,000,000	26,237,519	1,162,937
Total					<u>\$ 264,050,098</u>	<u>\$ 12,512,937</u>

Interest on the Due to the University of Utah CP is variable and is determined by the actual rate charged on the University's outstanding commercial paper. The rate as of June 30, 2016, was approximately 0.45%.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

8. Long-Term Obligations (continued)

Scheduled Maturities of Long-Term Debt

The scheduled maturities of long-term debt for the years subsequent to June 30, 2016, are as follows (in thousands):

	Principal	Interest
2017	\$ 12,513	\$ 10,232
2018	12,721	9,764
2019	20,285	9,042
2020	15,150	8,228
2021	15,855	7,478
2022-2026	108,068	24,815
2027-2031	68,650	5,929
2032-2036	10,173	503
2037	635	13
Total scheduled maturities	264,050	76,004
Bond premiums included in long-term debt	2,955	—
Total long-term debt	\$ 267,005	\$ 76,004

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

8. Long-Term Obligations (continued)

UUHC has equipment under capital leases with a total cost at June 30, 2016 and 2015, of approximately \$135,831,000 and \$123,737,000, and related accumulated amortization of approximately \$61,944,000 and \$45,357,000 respectively. These equipment leases provide for transfer of title to UUHC upon expiration of lease term for no purchase consideration. It also has a building under capital lease with a total cost at June 30, 2016, of approximately \$81,046,000 and related accumulated amortization of approximately \$10,333,000. Future minimum lease payments under capital lease obligations together with the present value of net minimum lease payments for the years subsequent to June 30, 2016, are as follows (in thousands):

2017	\$ 31,330
2018	24,974
2019	19,048
2020	24,343
2021	23,140
2022–2026	68,417
2027–2031	47,747
Total future minimum lease payments	<u>238,999</u>
Less amount representing interest	39,170
Present value of minimum lease payments	<u>\$ 199,829</u>

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

9. Commitments and Contingencies

UUHC leases building space and equipment from the University (see Note 10) and others under noncancelable operating leases. Future rental obligations under operating leases for the years subsequent to June 30, 2016, are as follows (in thousands):

2017	\$	7,055
2018		3,469
2019		2,782
2020		2,799
2021		2,871
2022–2026		9,638
2027–2031		1,268
2032–2036		1,088
2037–2041		1,202
2042–2045		512
	<u>\$</u>	<u>32,684</u>

Total rent expense under operating lease agreements for the years ended June 30, 2016 and 2015, was approximately \$12,888,000 and \$13,310,000, respectively, of which approximately \$5,004,000 and \$4,679,000 was paid to the University in 2016 and 2015, respectively.

During the normal course of conducting its business, UUHC becomes involved in litigation resulting in potential contingent gains and losses. It is not possible to determine the eventual outcome of presently unresolved litigation. However, management believes it will not have a significant adverse effect on UUHC's financial position or results of operations.

10. Related-Party Transactions

During the years ended June 30, 2016 and 2015, UUHC received various services including professional assistance, risk management, lab services, security, and data processing from departments of the University totaling approximately \$189,948,000 and \$163,388,000 respectively, which are recorded in UUHC's statements of revenues, expenses and changes in net position. Services provided to departments of the University by UUHC for claims processing,

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

10. Related-Party Transactions (continued)

billing, housekeeping, plant operations, repairs and maintenance, laundry, dietary, engineering projects, and other items for the years ended June 30, 2016 and 2015, totaled approximately \$14,916,000 and \$13,995,000, respectively, and are also recorded in UUHC's statements of revenues, expenses and changes in net position as reductions of expenses.

The cost of construction related to the specialty cancer facility, which opened on July 1, 2004, was funded with proceeds of a State of Utah Revenue bond. If UUHC had paid for the capital additions, the depreciation expense that would have been recorded in the accompanying statement of revenue, expenses and changes in net position would be approximately \$2,040,000 and \$2,046,000 for the years ended June 30, 2016 and 2015 respectively.

UUHC entered into a capital lease with the State of Utah related to the 2010 expansion of its cancer facility. Interest payments are made semi-annually, principal payments are made annually. Total payments of approximately \$7,346,000 and \$7,337,000 were made for fiscal years 2016 and 2015, respectively. As of June 30 2016 and 2015, the outstanding liability was \$93,265,000 and \$96,870,000 respectively.

Due to the related nature of these entities, the amounts received and paid may have been different if similar activities had been undertaken with unrelated parties.

11. Charity Care

Consistent with its mission, UUHC provides charity care for unfunded or under-funded patients on an ongoing basis (charity). Charity is provided to any patient who is unable to pay for care. This determination is based on gross annual income not exceeding 150% of the federal poverty level as published in the Federal Registry.

During the years ended June 30, 2016 and 2015, gross charges foregone by providing charity care were approximately \$77,434,000 and \$45,508,000, respectively. The cost to UUHC for providing charity care was approximately \$36,317,000 and \$22,598,000 for fiscal years 2016 and 2015, respectively. The cost of providing services is based on the Medicare cost-to-charge ratio as defined by the Center for Medicare and Medicaid Services.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Notes to Financial Statements (continued)

11. Charity Care (continued)

Although UUHC records charity as separate and distinct from bad debt, without documentation that substantiates the patient's qualification for charity, accounts that would be eligible for charity are recorded as bad debt. As a result UUHC views both charity and bad debt as uncompensated care. The total financial impact to UUHC of uncompensated care, defined as bad debt plus charity care (at cost) was approximately \$81,586,000 in fiscal year 2016 and \$76,838,000 in fiscal year 2015.

In the furtherance of its charitable purpose, UUHC provides a wide variety of benefits to the various communities which it serves. Such benefits include social service programs, free or reduced-fee clinics, health screenings, in-home caregiver services, support counseling for patients and families, pastoral care, crisis intervention, transportation to and from UUHC campuses, the donation of space for use by community groups, health enhancement and wellness programs, unreimbursed costs of medical education, classes on specific conditions, and telephone information services.

12. Subsequent Events

Subsequent events were evaluated through September 22, 2016, the date the financial statements were available to be issued. No subsequent events were considered to have a significant impact on UUHC's financial statements.

Schedules of Required Supplementary Information

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Schedule of Proportionate Share of the Net Pension Liability

For the Fiscal Year Ended December 31, 2015 and 2014*

	Noncontributory System	Contributory System
December 31, 2015		
Proportion of the net pension liability	1.3535216%	8.9870126%
Proportionate share of the net pension liability (in thousands)	\$42,518	\$5,632
Covered employee payroll (in thousands)	\$39,042	\$2,847
Proportionate share of the new pension liability as a percentage of its covered employee payroll	108.90%	197.82%
Plan fiduciary net position as a percentage of the total pension liability	84.50%	92.40%
December 31, 2014		
Proportion of the net pension liability	1.3785779%	7.9765044%
Proportionate share of the net pension liability (in thousands)	\$34,637	\$875
Covered employee payroll (in thousands)	\$39,218	\$2,872
Proportionate share of the new pension liability as a percentage of its covered employee payroll	88.30%	30.50%
Plan fiduciary net position as a percentage of the total pension liability	87.20%	98.70%

*In accordance with GASB 68, 10 years of history is required to be disclosed. The 10 year schedule will be built prospectively.

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Schedule of Employer Contributions

For the fiscal years ended June 30 (dollar amounts in thousands):

Noncontributory System	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 8,547	\$ 8,360	\$ 8,193	\$ 7,692	\$ 7,132	\$ 7,069	\$ 6,482	\$ 6,753	\$ 6,906	\$ 6,959
Contributions recognized by URS Plan	(8,547)	(8,360)	(8,193)	(7,692)	(7,132)	(7,069)	(6,482)	(6,753)	(6,906)	(6,959)
Contribution deficiency	—	—	—	—	—	—	—	—	—	—
Covered employee payroll	38,597	39,218	37,309	41,895	40,022	39,669	41,234	42,958	43,931	44,268
Contributions as a percentage of covered employee payroll	22.14%	21.32%	21.96%	18.36%	17.82%	17.82%	15.72%	15.72%	15.72%	15.72%
Contributory System	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 478	\$ 484	\$ 639	\$ 648	\$ 643	\$ 665	\$ 621	\$ 678	\$ 693	\$ 718
Contributions recognized by URS Plan	(478)	(484)	(639)	(648)	(643)	(665)	(621)	(678)	(693)	(718)
Contribution deficiency	—	—	—	—	—	—	—	—	—	—
Covered employee payroll	2,701	2,872	2,909	3,527	3,606	3,730	3,948	4,310	4,406	4,565
Contributions as a percentage of covered employee payroll	17.70%	16.85%	21.97%	18.37%	17.83%	17.83%	15.73%	15.73%	15.73%	15.73%
Tier 2 System*	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 6	\$ 2	\$ N/A							
Contributions recognized by URS Plan	(6)	(2)	N/A							
Contribution deficiency	—	—	—	—	—	—	—	—	—	—
Covered employee payroll	49	10	N/A							
Contributions as a percentage of covered employee payroll	12.04%	18.33%	N/A							

*2015 was the first year for an employee to be enrolled in the Tier 2 System

Supplementary Information

University of Utah Hospitals & Clinics
(a Department of the University of Utah)

Statement of Revenues, Expenses, and Changes in Net Position
(In Thousands)
(Unaudited)

	Total	Eliminations	Insurance Program	Clinical Program
Operating revenues				
Net patient services	\$ 1,447,686	\$ (88,026)	\$ –	\$ 1,535,712
Premiums	162,834	(104,348)	267,182	–
Other	63,871	(4,118)	25,108	42,881
	<u>1,674,391</u>	<u>(196,492)</u>	<u>292,290</u>	<u>1,578,593</u>
Operating expenses				
Salaries, wages and benefits	625,521	(58,576)	16,461	667,636
Supplies	383,415	(12)	52	383,375
Purchased services	204,307	(2,093)	3,860	202,540
Claims expense	137,132	(121,949)	259,081	–
Other operating	103,714	(13,862)	6,426	111,150
Depreciation	62,630	–	187	62,443
	<u>1,516,719</u>	<u>(196,492)</u>	<u>286,067</u>	<u>1,427,144</u>
Operating income	157,672	–	6,223	151,449
Nonoperating revenues (expenses):				
State appropriations	4,727	–	–	4,727
Interest expense	(13,966)	–	–	(13,966)
Interest income	1,245	–	–	1,245
Unrealized gains, net	1,306	–	–	1,306
Total nonoperating expenses, net	<u>(6,688)</u>	<u>–</u>	<u>–</u>	<u>(6,688)</u>
Income before contributions and transfers	150,984	–	6,223	144,761
Capital contributions received, net of capital expenditures	304	–	–	304
Transfers to related entities, including the University of Utah Health Sciences	(34,528)	–	–	(34,528)
Transfers from related entities, including the University of Utah Health Sciences	30,022	–	–	30,022
Increase in net position	<u>146,782</u>	<u>–</u>	<u>6,223</u>	<u>140,559</u>
Net position – beginning of year	554,295	–	10,997	543,298
Net position – end of year	<u>\$ 701,077</u>	<u>\$ –</u>	<u>\$ 17,220</u>	<u>\$ 683,857</u>

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young
LLP. All Rights Reserved.

ey.com

