

Denver Health and Hospital Authority

Independent Auditor's Reports and Financial Statements

December 31, 2012 and 2011

Denver Health and Hospital Authority

Single Audit Report

December 31, 2012

Denver Health and Hospital Authority
December 31, 2012

Contents

Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	10
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards.....	13
Schedule of Findings and Questioned Costs.....	16
Summary Schedule of Prior Audit Findings	18

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Department of Agriculture				
Special Supplemental Nutrition Program for Women, Infants, and Children (N)	State of Colorado Department of Public Health and Environment	PO FLA WIC1011830, PO FLA WIC0800433 PO FLA 1348428, PO ELA 1347900	10.557	\$ <u>12,535,862</u>
Total Department of Agriculture				<u>12,535,862</u>
Department of Justice				
Community-Based Violence Prevention Program	City and County of Denver	201102446	16.123	<u>295,091</u>
Total Department of Justice				<u>295,091</u>
Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	State of Colorado Department of Transportation	69-8083-0-7-401	20.205	<u>15,788</u>
Total Highway Planning and Construction Cluster				<u>15,788</u>
Highway Safety Cluster				
Occupant Protection Incentive Grants	State of Colorado Department of Transportation		20.602	<u>4,919</u>
Total Highway Safety Cluster				<u>4,919</u>
Total Department of Transportation				<u>20,707</u>

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Department of Veterans Affairs				
VA Homeless Providers Grant and Per Diem Program	City and County of Denver	SOCSV-CE01067-03	64.024	132,274
Total Department of Veteran Affairs				132,274
Department of Health and Human Services				
Public Health Emergency Preparedness	State of Colorado Department of Public Health and Environment	EPI0900036, PO FHA EPI00036 PO FJA EPR1231100, PO FJA EPR1341888	93.069	424,775
Maternal and Child Health Federal Consolidated Programs			93.110	1,741
Maternal and Child Health Federal Consolidated Programs	National Association of County and City Health Officials	2011-101401	93.110	2,636
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	State of Colorado Department of Public Health and Environment	PO FHA EPI1010988	93.116	74,970
AIDS Education and Training Centers	University of Colorado Denver	2 H4AHA00064-09-00		2,444
	Colorado Nonprofit Development Center	H4HAHA00058	93.145	44,844
Family Planning-Services	State of Colorado Department of Public Health and Environment	PO FLA FPP1016391, PO FLA PPG 1243678 PO FLA FPP1016392, PO FLA PPG1243679 PO FLA FH5 0800059	93.217	809,315
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)			93.224	11,855,168
Poison Center Support and Enhancement Grant Program			93.253	662,442

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Immunization Cluster				
Immunization Grants	State of Colorado Department of Public Health and Environment	PO FHA IMM 0900136 PO FHA IMM 12000154	93.268	368,628
Prevention and Public Health Fund (Affordable Care Act) - Immunization Program	State of Colorado Department of Public Health and Environment	PO FHA IMM 1239876	93.539	81,126
ARRA - Immunization	State of Colorado Department of Public Health and Environment	OE FHA IMM11000130 OE FHA IMM11000171	93.712	<u>7,518</u>
Total Immunization Cluster				<u>457,272</u>
Centers for Disease Control and Prevention-Investigations and Technical Assistance	Association of State and Territorial Health Officials	16007_3		
	State of Colorado Department of Public Health and Environment	PO FHA EPI 107991, 13 FHA 47698, PO FJA EPR 104982, PO FJA EPR 1120520, PO FJA EPR 13X43426		
	University of Colorado Denver		93.283	421,780
Teenage Pregnancy Prevention Program			93.297	897,083
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures Program			93.501	476,242
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	State of Colorado Department of Public Health and Environment	PO FLA PPG 1350472	93.505	10,439
Affordable Care Act (ACA) Building Epidemiology, Laboratory, and Health Information Systems Capacity	State of Colorado Department of Public Health and Environment	OE FHA EPI 12000053	93.521	6,191
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program			93.527	2,078
Refugee and Entrant Assistance_State Administered Programs	State of Colorado Department of Public Health and Environment	EPI0900118, PO FHA EP I348897	93.566	39,160
Refugee and Entrant Assistance_Discretionary Grants	State of Colorado Department of Public Health and Environment	R08AAC08100	93.576	418,112

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Head Start Cluster				
Head Start	City and County of Denver	201101523, MOEAI-201206257-00		
	Clayton Family Futures		93.600	<u>411,104</u>
Total Head Start Cluster				<u>411,104</u>
Health Care Innovation Awards (HCIA)			93.610	1,047,655
Children's Health Insurance Program	Colorado Association of School Based Health Centers State of Colorado Department of Health Care Policy and Financing	PC-UHA-CCR11000004	93.767	151,350
Medicaid Cluster				
Medical Assistance Program	State of Colorado Department of Health Care Policy and Financing	PC-UHA-CCR11000004	93.778	<u>409,511</u>
Total Medicaid Cluster				<u>409,511</u>
Grants for Training in Primary Care Medicine and Dentistry	University of Colorado Denver	FY12.348.001, FY13.348.002	93.884	52,084
Health Care and Other Facilities			93.887	(42,303)
HIV Emergency Relief Project Grants	Colorado Nonprofit Development Center Western Community Health Resources	H89HA00027	93.914	1,819,606
HIV Care Formula Grants	State of Colorado Department of Public Health and Environment	PO FHA EP I0900241, 6X07HA0056-18	93.917	271,923
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			93.918	750,664
HIV Prevention Activities_Health Department Based	State of Colorado Department of Public Health and Environment	PO FHA EPI12000093, PO FHA EPI1121753, PO FHA EPI1347296, U621CCU 823510-03, PO FHA EPI 1242368	93.940	388,452
Block Grants for Prevention and Treatment of Substance Abuse	Signal Behavioral Health Network		93.959	2,206,977
Preventive Health Services_Sexually Transmitted Diseases Control Grants	State of Colorado Department of Public Health and Environment	H251-CCH 804354	93.977	85,408

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Preventive Health Services_Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants			93.978	(102)
Preventive Health and Health Services Block Grant	State of Colorado Department of Public Health and Environment	PO FAA ADM10012081	93.991	139,725
Maternal and Child Health Services Block Grant to the States	State of Colorado Department of Public Health and Environment	PO FLA PSD0800461, PO FLA PSD1348075, PO FLA PSD1118311, B04MC04248	93.994	<u>1,005,361</u>
Total Department of Health and Human Services				<u>25,304,107</u>
Department of Homeland Security				
Homeland Security Cluster				
Homeland Security Grant Program	Governor's Office of Homeland Security, State of Colorado	9MMRS10NCD, 10MMR11NCD, 98HS781124 8EM771124, 11MMR12NCD	97.067	<u>180,372</u>
Total Department of Homeland Security and Homeland Security Cluster				<u>180,372</u>
Research and Development Cluster				
Department of Defense (Research and Development Cluster)				
Military Medical Research and Development			12.420	27,720
Military Medical Research and Development	Flashback Technologies National Trauma Institute Johns Hopkins University	GM3414 NTI-ICU-08-001 PO# 2000821015	12.420	<u>76,996</u>
Total Department of Defense (Research and Development Cluster)				<u>104,716</u>

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Department of Health and Human Services (Research and Development Cluster)				
Environmental Health	Colorado State University	G-4444-3	93.113	7,293
Oral Diseases and Disorders Research	University of Colorado Denver	US45OF 019259-04, FY12.245.002, FY13.245.002	93.121	132,721
Centers for Research and Demonstration for Health Promotion and Disease Prevention	University of Colorado Denver	FY12.143.003, FY11.143.004	93.135	31,863
Coordinated Service and Access to Research for Women, Infants, Children, and Youth	University of Colorado Denver	5H12HA00070	93.153	17,599
Health Program for Toxic Substances and Disease Registry	Association of Occupational and Environmental Clinics	IU6ITS000118	93.161	148,560
Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects			93.185	330,696
Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	University of Colorado Denver	SU01IP 000310-02-REU, FY12.206.002 DHHA, FY13.206.005 AMD1	93.185	28,882
Research on Healthcare Costs, Quality and Outcomes			93.226	272,116
Research on Healthcare Costs, Quality and Outcomes	University of Colorado Denver	HSA29020071008 TO, FY12.206.005, 1PO1 HS021138-01	93.226	628,183
Mental Health Research Grants			93.242	223,248
Mental Health Research Grants	University of Colorado Denver	FY12.083.001, FY13.083.004	93.242	41,592
Occupational Safety and Health Program	University of Colorado Denver	FY11.347.004, 5T420H009299-06	93.262	12,579
Alcohol Research Programs	University of Washington	PO 591554	93.273	1,961
Drug Abuse and Addiction Research Programs	University of Colorado Denver	FY10.209.001, FY12.098.001, FY12.153.001	93.279	112,848
Mental Health Research Career/Scientist Development Awards			93.281	157,315

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Centers for Disease Control and Prevention-Investigations and Technical Assistance			93.283	22,152
Centers for Disease Control and Prevention-Investigations and Technical Assistance	State of Colorado Department of Public Health and Environment	5U10C1000305	93.283	28,339
National Center for Advancing Translational Sciences	University of Colorado Denver	FY13.220.005	93.350	95,035
Nursing Research	Denver Research Institute		93.361	4,105
National Center for Research Resources			93.389	11,648
National Center for Research Resources	University of Colorado Denver University of Alabama	FY.12.220.001 000319519-011	93.389	79,643
Cancer Biology Research	University of Colorado Denver	10-028NF	93.396	12,073
Cancer Control			93.399	108,434
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Community Transformation Grants and National Dissemination and Support for Community Transformation Grants			93.531	634,776
Health Care Innovation Awards (HCIA)	Dartmouth College		93.610	72,493
ARRA - Trans-NIH Recovery Act Research Support			93.701	30,598
ARRA - Trans-NIH Recovery Act Research Support	University of Colorado Denver	FY12.333.001	93.701	32,586
ARRA - Comparative Effectiveness Research - AHRQ			93.715	149,419
ARRA - Comparative Effectiveness Research - AHRQ	Kaiser Permanente University of Colorado Denver	FY13.560.008, FY12.130.005	93.715	470,730
Prevention Public Health Fund 2012: Viral Hepatitis Prevention			93.736	22,794

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
Cardiovascular Diseases Research			93.837	6,708
	University of Colorado Denver	FY12.578.001, FY12.578.002, FY07.333.001, FY13.333.001		
	University of Colorado Boulder	154600, 154877	93.837	279,786
Lung Diseases Research	University of Colorado Denver	FY12.240.002, FY13.240.001, FY12.575.001, FY13.575.001, FY12.249.001		
	University of Minnesota	P001344009	93.838	236,678
Arthritis, Musculoskeletal and Skin Diseases Research	University of Minnesota	5R01ARO55267-04	93.846	3,782
Diabetes, Digestive, and Kidney Diseases Extramural Research			93.847	31,913
Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Colorado Denver	FY12.352.001, FY12.585.001, FY12.585.002, FY11.031.002	93.847	195,705
Extramural Research Programs in the Neurosciences and Neurological Disorders			93.853	1,465
Extramural Research Programs in the Neurosciences and Neurological Disorders	University of Medicine and Dentistry of New Jersey Yale University	5U01NS044876-08	93.853	24,860
Allergy, Immunology and Transplantation Research			93.855	102,304
Allergy, Immunology and Transplantation Research	George Washington University Institute for Clinical Research University of Colorado Denver	28554-23-CCLS90425F M03-DN-017-0704-2	93.855	589,947
Biomedical Research and Research Training			93.859	57,166
Biomedical Research and Research Training	University of Colorado Denver	FY12.201.001, FY13.201.001	93.859	135,336
Child Health and Human Development Extramural Research	University of Colorado Denver	FY12.590.001, FY13.590.001, 2K.12H.0001271-11, FY12.571.001, FY13.571.001, FY13.367.001	93.865	338,756
Aging Research	University of Colorado Denver	UUMC38536	93.866	23,712
Vision Research	Jaeb Center for Health Research	5U10EY014231-11	93.867	33,252
HIV Prevention Activities_Health Department Based	State of Colorado Department of Public Health and Environment	PO FHA EPI0100248	93.940	427,737

Denver Health and Hospital Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2012

Federal Grantor/Program or Cluster Title	Pass-through Grantor	Pass-through Identifying Number, If Applicable	Federal CFDA Number	Federal Expenditures
HIV Demonstration, Research, Public and Professional Education Projects			93.941	1,452,910
HIV Demonstration, Research, Public and Professional Education Projects	University of Mississippi Medical Center		93.941	1,686
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	State of Colorado Department of Public Health and Environment	1U62PS0000989	93.944	140,724
Family Planning_Service Delivery Improvement Research Grants			93.974	32,950
Preventive Health Services_Sexually Transmitted Diseases Control Grants	State of Colorado Department of Public Health and Environment	PO FHA EPI0900127	93.977	100,672
International Research and Research Training	University of Colorado Denver	FY13.577.001	93.989	26,204
HEN with Intermountain and Collaborating Affinity Partners	Intermountain Healthcare	2-6-11-EH	93.000	100,622
The Respiratory Protection Effectiveness CT (ResPECT)	North Florida Foundation	1122012, 8142012	93.000	363,453
Vaccine Safety Datalink	Kaiser Permanente	200-2002-00732	93.000	79,158
Clinical Research Network for Treatment of ALI and ARDS	University of Colorado Denver	FY13.342.004	93.000	84,817
Pediatric HIV Trials	University of Colorado Denver	FY12.043.006	93.000	<u>32,527</u>
Total Department of Health and Human Services (Research and Development Cluster)				<u>8,827,111</u>
Total Research and Development Cluster				<u>8,931,827</u>
Total Federal Expenditures in 2012				<u>\$ 47,400,240</u>

(N) - Includes noncash federal assistance

See accompanying notes to schedule of expenditures of federal awards.

Denver Health and Hospital Authority
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Notes to Schedule

1. This schedule includes the federal awards activity of Denver Health and Hospital Authority (the Authority) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Noncash Assistance

The Authority received noncash assistance of \$9,606,784 in the form of food instruments Catalog of Federal Domestic Assistance (CFDA) (CFDA No. 10.557) during the year ended December 31, 2012, which were passed through from the Colorado Department of Public Health and Environment. Distribution of the food instruments is reflected in the Schedule.
3. Of the federal expenditures presented in this schedule, the Authority provided federal awards to subrecipients as follows:

Program	CFDA Number	Amount Provided
Highway Planning and Construction	20.205	\$ 8,873
Maternal and Child Health Federal Consolidated Programs	93.110	1,600
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	15,708
Teenage Pregnancy Prevention Program	93.297	494,812
Preventive Health and Health Services Block Grant	93.991	<u>102,773</u>
Research and Development Cluster		<u>623,766</u>
Military Medical Research and Development	12.420	13,145
Health Program for Toxic Substances and Disease Registry	93.161	6,174
Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	93.185	223,533
Research on Healthcare Costs, Quality and Outcomes	93.226	17,241
Cancer Control	93.399	8,272
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531	194,928
ARRA - Trans-NIH Recovery Act Research Support	93.701	12,681
ARRA - Comparative Effectiveness Research - AHRQ	93.715	3,807
Lung Diseases Research	93.838	75,670
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	35,850
HIV Demonstration, Research, Public and Professional Education Projects	93.941	<u>40,250</u>
		<u>631,551</u>
Total		<u>\$ 1,255,317</u>

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

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

We have audited the financial statements of Denver Health and Hospital Authority (the Authority) and its discretely presented component unit, as of and for the year ended December 31, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
Denver Health and Hospital Authority

Compliance

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

Other Matters

We noted certain matters that we reported to the Authority's management in a separate letter dated March 28, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
March 28, 2013

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance with OMB
Circular A-133 and Schedule of Expenditures of Federal Awards**

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

Compliance

We have audited the compliance of Denver Health and Hospital Authority's (the Authority) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Authority based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

Opinion

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Denver Health and Hospital Authority (the Authority) and its discretely presented component unit, as of and for the year ended December 31, 2012, and have issued our report thereon dated March 28, 2013, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional

Board of Directors
Denver Health and Hospital Authority

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matters

Restricted Purpose

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
March 28, 2013

Denver Health and Hospital Authority
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued:
 Unmodified Qualified Adverse Disclaimer

2. Internal control over financial reporting:
 Significant deficiency(ies) identified? Yes None reported
 Material weakness(es) identified? Yes No

3. Noncompliance material to financial statements noted? Yes No

Federal Awards

4. Internal control over major programs:
 Significant deficiency(ies) identified? Yes None reported
 Material weakness(es) identified? Yes No

5. Type of auditor's report issued on compliance for major programs:
 Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No

7. Identification of major programs:

CFDA Number	Cluster/Program
Various	Research and Development Cluster
10.557	Women, Infants, and Children Program (WIC)

8. Dollar threshold used to distinguish between type A and type B programs: \$1,422,007

9. Auditee qualified as low risk auditee? Yes No

Denver Health and Hospital Authority
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

Section II – Financial Statement Findings

Reference Number	Finding
	No reportable matters.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No reportable matters.

Denver Health and Hospital Authority
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Reference Number	Summary of Finding	Status
11-01	<p>Research and Development Cluster CFDA No. 93.701, ARRA - trans-NIH Recovery Act Research Support National Institutes of Health, Budget Period: 9/01/09 - 8/31/11 Federal Award No. 3U01CA116903-05SI</p> <p><i>Special Tests and Provisions:</i> The contract tested did not document the Federal award number, CFDA number, or the amount of ARRA funds and did not require the subrecipient to provide appropriate identification of ARRA funds in their SEFA and SF-SAC. We recommend that the Authority immediately communicate such information to subrecipients and implement a policy to ensure all future ARRA subrecipient contacts, if any, include all ARRA requirements at the time of the award.</p>	Implemented

Denver Health and Hospital Authority

December 31, 2012 and 2011

Contents

Independent Auditor’s Report on Financial Statements and Supplementary Information	1
Management’s Discussion and Analysis (Unaudited).....	5
Financial Statements	
Statements of Net Position.....	22
Balance Sheets – Denver Health Medical Plan, Inc.....	23
Statements of Revenues, Expenses and Change in Net Position	24
Statements of Revenues, Expenses and Change in Net Assets – Denver Health Medical Plan, Inc.	25
Statements of Cash Flows.....	27
Notes to Financial Statements.....	29
Required Supplementary Information	
Other Postemployment Benefits	66
Supplementary Information	
Consolidating Schedule – Statements of Net Position Information.....	67
Consolidating Schedule – Revenues and Expenses Information	71
Budget to Actual Information – Year Ended December 31, 2012.....	73
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.....	74

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying basic financial statements of Denver Health and Hospital Authority (the Authority) and its discretely presented component unit as of December 31, 2012 and 2011 and for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Denver Health Medical Plan, Inc., a component unit included in the financial statements as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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.

Board of Directors
Denver Health and Hospital Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Denver Health and Hospital Authority and its discretely presented component unit as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the financial statements, in 2012 the Authority adopted new accounting guidance in accordance with GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The consolidating statements of net position, consolidating revenues and expenses information and the budget to actual information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
Denver Health and Hospital Authority

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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* and should be considered in assessing the results of our audit.

BKD, LLP

Denver, Colorado
March 28, 2013

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Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

This discussion and analysis of the financial performance of Denver Health and Hospital Authority (the Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2012 and 2011.

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

2012 Highlights

- Net patient service revenue increased \$20.1 million, or 6.1%, and exceeded budget by \$10.6 million, or 3.1%, despite decreases in admissions and census days over the prior year. Price increases in certain outpatient and radiology services, along with an improved mix of payors drove this increase. Price increases have no effect on net patient service revenue for services provided to the indigent, or those payors who pay on a fixed fee schedule, such as Medicare or Medicaid.
- The Authority's prepaid provider contract with the State of Colorado Health Care Policy and Finance (HCPF) for managed care Medicaid, Denver Health Medicaid Choice (Medicaid Choice) suffered a 7.7% rate reduction in April 2012, which caused 2012 revenue to drop by \$2.7 million compared to 2011. At the same time, membership in this initiative increased 6%, and external claims costs incurred increased 6.9% over the prior year. The rate reduction, along with the increased membership, caused the Authority's net funds available for care at the Authority to decrease by \$5.0 million. Rates are increasing by 0.7% for January through June 2013, at which time new rates are calculated.
- The Authority recorded decreases in the 2011-2012 Provider fee revenue, based on changes implemented by the Provider Fee Oversight Board. This impacts Medicaid disproportionate share hospital (DSH) and other safety net reimbursement line items. The Provider fee is a statewide tax approved by the Colorado General Assembly in April 2009 on hospitals that is matched with federal funding. This reduction was primarily to the Supplemental Medicaid Outpatient Hospital revenue, and to State Teaching Hospital Funds. These changes and the resulting reduction were the result of Centers for Medicare and Medicaid (CMS) retroactive review of the payment methodology dating to July 1, 2011. Added to funding this year was a Hospital Quality Incentive payment of \$2.1 million. In total, all Medicaid DSH and other safety net revenue decreased by \$3.2 million compared to 2011 and was \$8.2 million less than budgeted in 2012.
- Grant revenue was \$2.0 million, or 3.5%, lower than the prior year, primarily due to certain capital expenditure/construction grants completed in the prior year. The Authority has obtained federal and local grants to remodel the Lowry Clinic in east Denver. This project began in late 2012, but the majority of the construction will be in 2013 and completed in 2014. The Authority also obtained a Federal Centers for Medicaid and Medicare Innovation Grant totaling \$19.8 million. This is a three year grant, which started in late 2012, with the majority of the expenditures to be incurred in the next two years.
- Poison and drug center contract revenue decreased by \$1.3 million compared to 2011, and was \$4.7 million less than budgeted. This is related to lower than budgeted Researched Abuse Diversion and Addiction Related Surveillance (RADARS) subscribers, as well as downsizing of a

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

major contract. However, this decrease in revenue was managed by decreasing salary and other related expenses, which resulted in net income for the Poison Center of \$1.1 million for 2012, which was the target for the year.

- The Authority continued to progress in its implementation of a full Electronic Health Record (EHR) and the first phase of the new system was put into operation in January 2013. During 2012, the Authority received \$9.6 million in Meaningful Use funds, which is included in other operating revenue. Other operating revenue was at budget for the year, and was \$11.9 million higher than the prior year.
- Expenses for 2012 increased 5.1%, or \$35.8 million, over the prior year, primarily in the area of personnel costs. Salaries and benefits increased by \$21.1 million over 2011. This was due to normal wage increases and a slight growth in full-time equivalent (FTE) staffing count. Although only \$314,000 or less than 0.1% over budget, the Authority did not fully achieve its goal of flexing staff in correspondence with the decreased admissions and census days, and is devoting significant efforts to implementing improvements in staff productivity. Benefit expense was reduced in 2012 by \$3.4 million due to a premium rebate from the Denver Health Medical Plan, Inc. (the Plan). The Plan's rebate was mandated by State regulations related to minimum loss ratios. The Plan is a related party Health Maintenance Organization that provides health insurance for the Authority's employees, and its financial statements are discretely presented in the accompanying financial statements.
- Contracted services and nonmedical supplies includes the Provider fee expense related to the safety net revenue discussed above. This expense was \$22.8 million in 2012 and \$23.8 million in 2011. The decrease corresponded to some degree to the revenue decrease. In total, contracted services and nonmedical supplies was less than budget by \$1.9 million in 2012, but \$4.7 million more than the prior year.
- Depreciation expense increased over the prior year and was over budget by \$1.7 million due to planned demolitions of space related to new construction projects, which caused accelerated depreciation. In addition, certain fully depreciated equipment was disposed of, which reduced both fixed assets and accumulated depreciation.
- Net nonoperating revenues increased significantly over the prior year due to a fluctuation in the unrealized market value of investments, which changed from a \$2.1 million loss in 2011 to an increase in fair value of \$3.1 million in 2012. Also contributing was the Plan's distribution of \$4.0 million, which was \$1.0 million higher than the prior year.
- No new debt, other than a capital lease obligation, was issued in 2012, and interest expense decreased by \$288,000 in line with principal payments made.
- Capital contributions in both 2011 and 2010 included amounts contributed by the City and County of Denver of \$1.3 million in each year for Montbello Clinic construction, which concluded in October 2011. In 2012, capital contributions included \$375,000 from the Denver Health and Hospitals Foundation for a family garden outside the main hospital Pavilion, as well as \$250,000 from the City and County of Denver for new heating and air conditioning in our Public Health Facilities. As with prior years, the remainder was also from the City and County of Denver for debt service related to the Park Hill Clinic.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

- The Authority's net position increased by approximately \$6.7 million in 2012, which is \$6.5 million less of an increase than the prior year. This change is primarily driven by the decrease in Safety Net Reimbursement and the decrease in DH Medicaid Choice capitation revenue, which is not offset by a corresponding decrease in expenses.

Overview of the Basic Financial Statements

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

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

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

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

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Financial Analysis and Results of Operations

Changes to net position over time may serve as a useful indicator of the Authority's financial position. At December 31, 2012, the Authority's net position increased by \$6.7 million over 2011, or 1.6%. The Authority had zero dollars of restricted net position at December 31, 2011 and \$930,000 at December 31, 2012. The restricted net position at December 31, 2012 relates to a profit distribution from the Plan received in 2012, which was designated for certain expenditures related to patient care. The balance at December 31, 2012 represents the unspent portion. The following table summarizes total assets, deferred outflows of resources, total liabilities, and net position at December 31:

	Net Position		
	2012	2011	2010
Current and noncurrent assets	\$ 382,998,085	\$ 367,082,399	\$ 366,489,785
Capital assets	409,259,304	422,658,419	405,803,554
Total assets	792,257,389	789,740,818	772,293,339
Accumulated change in fair value of hedging activities	17,945,433	18,726,827	9,227,591
Total assets and deferred outflows of resources	\$ 810,202,822	\$ 808,467,645	\$ 781,520,930
Current liabilities	\$ 104,899,351	\$ 106,798,715	\$ 97,260,867
Other long-term liabilities	25,649,519	24,086,769	15,447,287
Long-term debt outstanding	249,188,360	253,806,279	258,272,482
Total liabilities	\$ 379,737,230	\$ 384,691,763	\$ 370,980,636
Net investment in capital assets	\$ 155,285,431	\$ 187,746,105	\$ 204,421,393
Restricted expendable	929,729	-	2,503,274
Unrestricted	274,250,432	236,029,777	203,615,627
Total net position	\$ 430,465,592	\$ 423,775,882	\$ 410,540,294

Assets and Liabilities

Cash and Unrestricted Investments

At December 31, 2012, the Authority's cash and unrestricted investments increased by \$11.6 million, or 7.2%, compared to December 31, 2011. During 2012, the Authority's cash provided by operating activities decreased by \$16.2 million compared to the prior year. Although cash receipts from patient services increased by \$32.2 million, this increase was offset by decreases in safety net revenue receipts of \$20.6 million, and decreased Medicaid Choice capitation receipts of \$3.3 million. Cash payments for operational expenses increased by \$37.0 million. This caused cash provided by operating activities to decrease from \$57.1 million in 2011 to \$40.9 million in 2012.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Patient Accounts Receivable

Patient accounts receivable (AR), net of contractual allowances decreased by \$3.6 million in 2012, or 5.8%. During 2012, cash collections for patient services increased by 9.9% over the prior year, while net patient service revenue increased by 6.1%. Cash collections rose during 2012 compared to the prior year for commercial insurance, Medicaid, and Medicare as well as physician billing. Improved revenue of all processes and an increase in surgical procedural volumes were the primary drivers of the patient cash collections increase. Reserving methods are unchanged from the prior year, and are based on analysis of historical collections as a percentage of billed charges by payor.

Due from Governmental Entities

In 2012, due from governmental entities increased by \$18.3 million over 2011. \$1.3 million of this increase is due to the timing of restricted grant payments compared to expenditures. The remainder is due to the increase in receivable for safety net revenue. In December of 2011, the State remitted payment to the Authority for the January, February, and March 2012 revenue, but the State was unable to pre-pay the same months for 2013 in 2012. This change in the timing of payments caused the receivable to increase accordingly.

Other Receivables

Other receivables decreased by \$1.8 million from the 2011 balance, primarily due to the timing of payments from the State for Denver Health Medicaid Choice encounter billings. In December 2012, the State caught up certain obstetrical delivery related payments, reducing the receivable compared to the prior year.

Notes Receivable

Notes receivable of \$29.0 million is comprised of amounts due from a third-party equity investor related to the financing of construction of Pavilion M. The amount is an interest only receivable through mid-2017; therefore there is no change in the receivable from year to year.

Estimated Third-party Payor Settlement Receivables

Estimated third-party payor settlement receivables are comprised of receivables for Medicare cost report settlements for prior years and accrual of outstationing revenue to reimburse for certain enrollment based services provided by the Authority. Payments typically take more than one year to settle, which accounts for the significant balance. This receivable balance decreased from the prior year by \$5.3 million, due to the receipt of payments on 2011, 2010 and 2007 outstationing totaling more than \$6.0 million.

Restricted Investments

Restricted investments decreased by \$3.7 million in 2012 compared to the prior year. All capital expenditures for bond funded projects are now complete, and the decrease is due to the annual debt service.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Capital Assets

Capital assets net of depreciation decreased \$13.4 million over the prior year. Depreciation expense for the year accounted for \$45.2 million of the decrease. This was offset by additions to construction in progress of \$27.0 million, which included \$2.1 million for improvements to leased office space for eHealth Services, \$7.5 million for EHR systems, other software related improvements of \$3.8 million, improvements to the Acoma Street parking garage of \$1.1 million, and the remodel of the Perioperative and Surgical Intensive Care Units of \$1.4 million, plus various other projects. Listed below is a summary of capital assets, net of accumulated depreciation at December 31, 2012 and 2011:

	December 31,	
	2012	2011
Land	\$ 25,915,903	\$ 25,789,541
Buildings and improvements	316,987,131	332,374,352
Equipment and software	46,327,434	54,099,127
Construction in process	20,028,836	10,395,399
Total	\$409,259,304	\$422,658,419

Long-term Investments

Long-term investments increased \$23.3 million over the prior year. A portion of this change is related to the decrease in cash and cash equivalents. Unrestricted cash and cash equivalents decreased by \$11.7 million. During 2012, due to changes in the market, the Authority's unrealized gain increased by \$3.1 million. The largest increases in long-term investments were in the categories of municipal and corporate bonds.

Liabilities for Estimated Third-party Settlements

Liabilities for estimated third-party settlements decreased in total by \$4.5 million. The majority of this decrease was driven by the 2012 payment of \$6.0 million of a prior year liability for settlement of a Medicare billing issue.

Other Liabilities

Accounts payable and accrued expenses decreased \$2.8 million, or 6.6%. This liability balance includes the Provider fee payable to Colorado HCPF, which decreased by \$2.1 million from 2012 related to a slight reduction in the fee due to recalculation, and the timing of the payments. The remainder of the decrease is due to a decrease in construction payables and normal timing differences.

Accrued salaries, wages and employee benefits payable increased \$3.5 million, or 19.4%. The majority of this increase is due to the timing of the pay dates between years. Contributing to the increase is normal wage increases and a slight rise in the FTE count.

Accrued compensated absences increased by \$1.7 million, or 7.4%, due to normal wage increases, as well as an increase in the number of hours earned but not used.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Accrued claims liability represents the Incurred But Not Reported claims liability (IBNR) for DH Medicaid Choice. The increase over the prior year of \$70,000 is related to the increase in the number of eligible members, as incurred costs per member per month have continued to decrease.

Postemployment benefit liability represents the actuarially estimated cost of the Authority's provision of postretirement health benefits for certain employees hired in 2001 or after. The cost and liability increases each year as more employees become eligible for the benefit. The liability is funded at the time of an employee's retirement by paying a third-party administrator.

Bonds, notes and leases payable decreased by \$4.3 million due to the normal debt service on prior year debt. No new debt, other than a capital lease obligation, was issued in 2012.

Deferred Revenue

Deferred revenue increased \$1.4 million or 78% over the prior year. This increase is comprised almost entirely of grant funded revenue received in advance of the designated expenditure.

Total Assets, Liabilities and Net Position

Overall, current and noncurrent assets, not including capital assets, increased \$15.9 million from December 31, 2011 to December 31, 2012, primarily due to an increase in safety net receivables.

Total liabilities as of December 31, 2012 decreased \$4.9 million compared to December 31, 2011 due to the payment of a prior year accrued billing settlement of \$6.0 million and the payment of debt service of \$4.3 million, offset by increases in accrued wages and compensated absences.

The Authority's net position increased from the prior year by \$6.7 million, which was comprised of operating income of \$5.5 million, nonoperating net revenues of \$525,000, and contributed capital of \$703,000.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

The following table compares 2012, 2011 and 2010 revenues and expenses and shows the resulting increase in net position:

	Changes in Net Position		
	2012	2011	2010
Operating revenues			
Net patient service revenue	\$ 352,831,995	\$ 332,700,434	\$ 289,957,235
Capitation earned net of reinsurance	122,970,708	125,643,318	103,424,160
Medicaid disproportionate share and other safety net reimbursement	112,254,391	115,434,512	131,118,516
City of Denver payment for hospital services	27,977,304	28,477,302	27,977,301
Federal and state grants	55,990,106	58,016,896	59,773,343
City of Denver purchased services	18,746,252	18,178,776	18,340,198
Poison and drug center contracts	21,639,182	22,984,087	21,113,148
Other operating revenue	31,461,595	19,535,379	18,181,149
Total operating revenues	<u>743,871,533</u>	<u>720,970,704</u>	<u>669,885,050</u>
Operating expenses			
Salaries and benefits	444,199,653	423,047,977	400,983,097
Contracted services and nonmedical supplies	142,219,965	137,522,726	123,001,739
Medical supplies and pharmaceuticals	70,917,203	66,854,927	65,775,829
Managed care outside provider claims	35,332,315	33,052,207	32,314,222
Depreciation and amortization	45,740,728	42,154,436	39,649,067
Total operating expenses	<u>738,409,864</u>	<u>702,632,273</u>	<u>661,723,954</u>
Operating income	<u>5,461,669</u>	<u>18,338,431</u>	<u>8,161,096</u>
Nonoperating revenues (expenses)			
Increase in equity in joint venture	20,896	182,697	415,408
Distribution from discretely presented component unit	4,000,000	3,000,000	2,000,000
Interest income	4,488,636	4,148,090	3,951,213
Interest expense	(11,413,726)	(11,701,853)	(11,081,670)
Net increase (decrease) in fair value of investments	3,143,408	(2,097,011)	118,261
Gain (loss) on disposition of capital assets	286,125	(129,995)	(3,575)
Total nonoperating revenues (expenses)	<u>525,339</u>	<u>(6,598,072)</u>	<u>(4,600,363)</u>
Income before capital contributions	5,987,008	11,740,359	3,560,733
Contributions restricted for capital assets	<u>702,702</u>	<u>1,495,229</u>	<u>2,989,871</u>
Increase in net position	6,689,710	13,235,588	6,550,604
Net position, at beginning of year	<u>423,775,882</u>	<u>410,540,294</u>	<u>403,989,690</u>
Net position, at end of year	<u>\$ 430,465,592</u>	<u>\$ 423,775,882</u>	<u>\$ 410,540,294</u>

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Revenues and Expenses

Gross Patient Service Revenue

Gross patient service revenue increased \$140.7 million, or 9.2%, for the year ended December 31, 2012, compared with the year ended December 31, 2011, as shown in the following table:

	Gross Patient Revenue		Dollar Change	Percentage Change
	2012	2011		
Inpatient revenue	\$ 742,520,948	\$ 713,755,967	\$ 28,764,981	4.0%
Outpatient revenue	684,868,453	599,988,714	84,879,739	14.1%
Physician billing	160,290,684	145,829,874	14,460,810	9.9%
Ambulance	76,670,221	64,108,908	12,561,313	19.6%
	<u>\$ 1,664,350,306</u>	<u>\$ 1,523,683,463</u>	<u>\$ 140,666,843</u>	<u>9.2%</u>

Inpatient charges increased by 4.0%, or \$28.8 million over 2011, primarily due to price increases in the areas of radiology, laboratory and other ancillary services. Inpatient census days were 1.3% above 2011 while admissions were 3.1% below 2011. Length of stay increased due to a drop in the number of deliveries in 2012, and an increase in the number of adolescent and adult psychiatric inpatient stays. Psychiatric stays typically have a longer length of stay, with deliveries having the shortest length of stay.

Outpatient charges increased by \$84.9 million, or 14.1%, due in part to price increases for certain radiologic procedures, as well as a significant increase in outpatient surgeries as indicated by the increase in operating room hours of 22.5% over 2011. Outpatient encounters increased by 3.0% over the prior year and were also 3% above the budget. Emergency outpatient visits increased 7.3% over the prior year, and were 4.1% above budget.

Physician billing revenue increased \$14.5 million, or 9.9%, due to volume increases, as well as continued increased charge capture and documentation efforts.

Ambulance revenue increased 19.6% or \$12.6 million primarily because transports were 6.1% higher than 2011. In addition, advanced life support as a percentage of trip volume increased from 3.6% over the prior year. Initiatives related to charge capture and claim documentation were completed in 2012, allowing for more visits to be billed as well.

Indigent Care, Charity Care and Community Service

The Authority, as part of its mission, provides healthcare services to City and County of Denver residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local and private programs in which such patients are enrolled.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the state Colorado Indigent Care Program (CICP) program and an internal charity program as required by Denver Health Bureau of Primary Health Care Section 330 Grant for primary care. The level of charity care provided during the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Charges forgone, based on established rates	\$ 363,637,250	\$ 348,798,739
	2012	2011
Uncompensated care		
Contractual adjustments	\$ 758,613,283	\$ 623,695,653
Provision for bad debts	66,297,070	92,845,319
Charity care	363,637,250	348,798,739
	\$ 1,188,547,603	\$ 1,065,339,711

The Authority estimates the level of uncompensated care by payor classification based on established rates.

Net Patient Service Revenue

Net patient service revenue increased by \$20.1 million, or 6.1%, in line with the 9.2% increase in billed charges, offset by the uncompensated portion of those charge increases. Net patient service revenue, as a percentage of gross charges, was 21.20% in 2012, compared to 21.84% in 2011. The decrease in net revenue as a percentage of billed charges is primarily driven by the increase in billed charges for Denver Health Medicaid Choice and other capitated initiative membership, which increased by 6.8% in 2012.

For the year ended December 31, 2011, net patient service revenue increased by \$42.7 million, or 14.8%, from the prior year primarily because inpatient census days were 4.0% above 2010, operating room hours were 9.8% higher than 2010 and outpatient visits were 5% higher than 2010. An additional factor was an increase in billed charges for certain emergency and trauma services that resulted in a greater percentage of net revenue from commercial payors. Charity care increased by \$60.9 million over 2010. This increase is primarily due to the price increases implemented in 2011.

Capitation Earned Net of Reinsurance

Capitation earned net of reinsurance for Denver Health Medicaid Choice decreased by 2.1%, or \$2.7 million, due to the decrease in capitation rates effective April 2012, as well as State recoupments of capitation for reconciliations of prior years. Membership for this initiative increased by 6% over the prior year. For the year ended December 31, 2012, this revenue is below budget by \$7.6 million, or 5.8%. Although a slight increase in these capitation rates is expected for January through June 2013, rates will be changing in July 2013, at which time another rate cut could be forthcoming.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

For the year ended December 31, 2011, capitation earned net of reinsurance increased \$22.2 million, or 21.5%, for the year ended, compared with the year ended December 31, 2010 due to increases in the 2011 capitation rates received from HCPF, as well as increased membership.

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

Medicaid DSH revenue, as well as other safety net reimbursement decreased from 2011 by \$3.2 million or 2.8%. Due to recalculation of Provider fee revenue by the Provider Fee Oversight Board for the period July 1, 2011 to June 30, 2012, the Authority recorded reductions in outpatient hospital revenue and state teaching hospital revenue. Some of this reduction was offset by new funding received for a hospital quality incentive payment, as well as a small decrease in the Authority's Provide fee payment.

For the year ended December 31, 2011, Medicaid DSH and other safety net reimbursement decreased \$15.7 million, or 12.0%. This decrease was comprised of a \$2.3 million decrease in Provider fee revenue due to changes in the calculation. In addition, in 2010 the Authority received Physician Certification revenue of \$8.8 million, which was comprised of amounts for 2010 and prior years. The 2011 revenue for Physician Certification was \$1.5 million, as it was for a single year. Health Care Services Fund revenue also decreased by \$3.0 million, and outstationing revenue decreased by \$2.3 million.

Medicaid DSH, other safety net revenue and expense, and primary care funds for 2012 and 2011 are as follows:

	2012	2011
Colorado Indigent Care Program revenue	\$ 87,686,009	\$ 79,852,233
State teaching hospital revenue	1,552,951	6,556,738
Supplemental Medicaid base rate revenue	9,041,710	12,718,746
Supplemental Medicaid outpatient hospital revenue	184,153	5,463,368
Supplemental Medicaid psychiatric revenue	882,000	656,250
Supplemental Medicaid high level neonatal intensive care unit	241,875	-
Hospital quality incentive payment	2,138,924	-
Outstationing revenue	3,673,246	3,213,237
Healthcare services fund	-	2,351,000
Primary care funds	5,191,150	2,818,610
Physician certification revenue	1,662,373	1,534,330
Other safety net revenue	-	270,000
	<u>112,254,391</u>	<u>115,434,512</u>
Provider fee expense	<u>(22,775,812)</u>	<u>(23,769,249)</u>
Net revenue after provider fee expense	<u>\$ 89,478,579</u>	<u>\$ 91,665,263</u>

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

City and County of Denver Payment for Hospital Services

For the years ended December 31, 2012, 2011 and 2010, as part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the City paid \$27.9 million, \$28.5 million and \$27.9 million, respectively, to the Authority to cover a portion of the cost of treating the medically indigent.

Grant Revenue

Federal, state and other grant revenue decreased by \$2.0 million, or 3.5%, and were \$1.7 million below budget. The Authority had fewer grants for capital projects in 2012, with some delays occurring for the Lowry Clinic remodel grant. Most of the expenditures on this grant will be construction related, and occur in 2013 through 2014. In mid-2012, the Authority was awarded a three year, \$19.8 million grant from the Centers for Medicaid and Medicare Innovation for health interventions related to high risk patients with chronic conditions. Spending on this cost reimbursable federal grant will increase in 2013 and 2014, which will likewise increase the associated grant revenue.

For the year ended December 31, 2011, federal, state and other grant revenue decreased \$1.7 million, or 2.9% compared with the year ended December 31, 2010, primarily due to programs funded by American Recovery and Reinvestment Act (ARRA) for the construction of the Montbello Clinic in 2010 and 2011. These construction expenditures were decreased in 2011 as the projects were completed.

City and County of Denver Purchased Services

As part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the Authority receives payments from the City to provide services, including, but not limited to, care for the city prisoners, public health, and to operate Denver C.A.R.E.S., which is a 100-bed nonmedical detoxification center. Revenue for these costs totaled \$18.7 million in 2012, which is comparable to the prior year.

The City purchased services decreased \$161,000, or 0.9%, for the year ended December 31, 2011 compared with the year ended December 31, 2010.

Poison and Drug Center Contracts

The Rocky Mountain Poison and Drug Center (RMPDC) is a certified regional poison center, recognized by the American Association of Poison Control Centers and serves as a regional drug information center. Poison and drug center contract revenue for the year ended December 31, 2012 was \$1.3 million or 5.9% less than the prior year, and \$4.7 million, or 17.7%, less than budget. This is related to lower than budgeted RADARS subscribers, as well as a downsizing of certain industry related contracts. In reaction to these reductions, the RMPDC has successfully decreased salary and related expenses. Despite the downturn in the revenue, the success in correspondingly reducing expenses resulted in a net income for this fund of \$1.1 million for 2012.

For the year ended December 31, 2011, this revenue increased \$1.9 million, or 8.9%, compared with the year ended December 31, 2010, primarily due to increased and expanded contract services.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

Other Operating Revenue

Other operating revenue includes sources such as reimbursement for medical staff, reimbursement of guard services for out of Denver County prisoners, Nurseline revenue, and emergency medical services (EMS) education revenue, along with a variety of other smaller sources. This revenue increased by \$11.9 million, or 61%, compared to 2011, primarily due to the receipt of Meaningful Use payments related to EHR implementation of \$9.6 million.

Operating Expenses

Year ended December 31, 2012 compared with year ended December 31, 2011

Operating expenses increased \$35.8 million, or 5.1%, for the year ended December 31, 2012, compared with the prior year.

- Salaries and benefits increased \$21.1 million, or 5.1%, and exceeded budget for the year by \$314,000 or less than 1/10th of a percent. During 2012, the Authority benefitted from the Plan reduction of health insurance expense which saved the Authority approximately \$3.4 million. Without that savings, the Authority would have been over budget in this expense category by \$3.1 million. This negative variance is primarily because the Authority did not fully achieve its goal of flexing staff in correspondence with the decreased admissions and census days, and is devoting significant efforts to implementing improvements in staff productivity.
- Contracted services and nonmedical supplies rose \$4.7 million or 3.4% over the prior year. This expense category includes, among other things, costs for agency nursing, contracted physician services, and other contracted labor. These components increased 11.0%, or \$2.6 million from the prior year, with the highest increases occurring in other contract labor in the second half of the year related to outsourcing of certain information systems functions. In total however, this expense category was \$1.9 million less than budget, a positive variance of 1.3%.
- Medical supplies and pharmaceuticals increased from the prior year by \$4.0 million, or 6.1%, and is over budget by 1.1%. The increase is expected with the trend in pharmaceutical and medical supply costs and the increase in surgery activity year over year.
- Managed Care outside provider claims represents the costs incurred for medical care and pharmaceutical obtained by Denver Health Medicaid Choice members outside of the Authority's system of care. These claims are primarily paid on the Medicaid fee schedule, and include urgent or emergent care, as well as some other services such as home durable medical equipment, and other services allowed to be obtained out of network. Membership in this initiative increased 6% over 2011, and accordingly this cost increased \$2.2 million, or 6.9% over the prior year. However, this line item was virtually at budget.
- Depreciation and amortization expense was \$3.6 million or 8.5% higher than the prior year, and \$1.7 million above budget. During 2012, the Authority inventoried fixed assets costs that were scheduled to be demolished by year-end for new construction or remodeling, and accelerated the depreciation in anticipation of removing the capitalized costs at the point of demolition. This increased depreciation expense throughout 2012. Depreciation will return to normal budgeted levels in 2013.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

Year ended December 31, 2011 compared with year ended December 31, 2010

Operating expenses increased \$40.9 million, or 6.2%, for the year ended December 31, 2011, compared with the prior year.

- Salaries and benefits increased \$22.1 million, or 5.5%, due to range progression increases for the Authority staff in 2011 and a slight increase in FTE count. Range progression increases are given upon completion of a successful annual evaluation.
- Contracted services and nonmedical supplies increased \$14.5 million, or 11.8%, in part due to an increase in Provider fee assessment expense of \$6.5 million. Agency nursing costs and other contract labor increased slightly by \$3.0 million from the prior year. Also increasing was nonmedical supplies due to the opening of the Montbello Clinic and Pavilion M, which necessitated noncapital supplies for operation. Expenditures for grant funded activities increased \$900,000 over the prior year, as the Authority found external funding for mission driven initiatives.
- Medical supplies and pharmaceuticals increased \$1.1 million, or 1.6%, due to volume increases as mentioned above, as well as an increase in pharmaceutical expenditures.
- Managed Care outside provider claims increased by \$738,000, or 2.3%, due to the increase in members. Member months were 5.4% above 2010.
- Depreciation and amortization increased by \$2.5 million, or 6.3%, due to completion of the Montbello Clinic, Pavilion M, and various information systems infrastructure and bond related projects during the year.

Nonoperating Net Expenses

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

The change in fair value of investments was the largest factor in the 2012 nonoperating revenue change. Changes in the fair value were higher by \$5.2 million than the prior year, totaling an increase in fair value of \$3.1 million, compared to the 2011 decrease in fair value of \$2.1 million. In addition, in 2012 the Authority received \$4.0 in distribution from the Plan, compared to \$3.0 million in 2011. Interest expense decreased somewhat in accordance with scheduled principal pay down on debt.

Total net nonoperating expenses increased \$2.0 million, or 43.4%, for the year ended December 31, 2011, compared with the year ended December 31, 2010. The increase in net nonoperating expense resulted from an increase in interest expense of \$620,000, or 5.6%, which is due to the 2010 Bonds and Pavilion M note payable incurring interest for an entire calendar year. Also increasing the net nonoperating expense is the decrease in the market value of investments of \$2.1 million, which is due to the continued volatility of the market. Offsetting these increases in expense, the Plan distribution to the Authority increased by \$1.0 million in 2011 due the positive financial results of that entity in 2011.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Capital Contributions

Capital contributions for 2012 totaled \$703,000, and included \$328,000 from the Denver Health and Hospitals Foundation to create the Strear Family Garden outside the main hospital pavilion. The City and County of Denver contributed the remainder for public health capital improvements, as well as toward the debt service for the Park Hill Clinic.

Capital contributions in 2011 included \$1.3 million towards the construction of the Montbello Clinic from the City and County of Denver, as well as contributions related to the remodel of Denver C.A.R.E.S. In 2011 capital contributions decreased \$1.5 million compared to the prior year, as 2010 included contributions toward a pediatric area remodel funded by Teammates 4 Kids, and other Denver C.A.R.E.S City contributions.

Budgetary Highlights

During the course of the year, the Authority revised its 2012 budget among budget categories, keeping constant the net income budgeted for the obligated group. While keeping operating expenses to within \$639,000 of budget, or less than 1% variance, our operating revenues were \$11.7 million, or 1.5%, less than budget. This failure to achieve the targeted operating revenue relates to the failure to meet budget in admissions and census days, the reduction in our safety net revenue due to the Provider fee recalculation, and the Denver Health Medicaid Choice capitation rate reduction. Although operating revenue increased compared to the prior year by \$22.9 million, this was not enough to compensate for the increase in operating expenses of \$35.7 million.

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, are \$409.2 million at December 31, 2012, compared with \$422.7 million at December 31, 2011, a decrease of \$13.4 million, or 3.2%. Depreciation expense for the year accounted for \$45.2 million of the decrease. This was offset by additions to construction in progress of \$27.0 million, which included \$2.1 million for improvements to leased office space for eHealth Services, \$7.5 million for EHR systems, other software related improvements of \$3.8 million, improvements to the Acoma Street parking garage of \$1.1 million, and the remodel of the Perioperative and Surgical Intensive Care Units of \$1.4 million, plus various other projects.

Prior to 2012, ongoing capital requirements were funded primarily from the 2007 bond issue, as well as operations. The Montbello Clinic temporary construction in 2010 was funded through an ARRA grant. Pavilion M is funded by the issuance of 2010 Bonds passed through an equity investor and Community Development Entities (CDEs), with associated notes payable to the CDEs. These construction projects are complete as of December 31, 2012.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

Long-term Debt

Long-term debt at December 31, 2012, net of current portion, is approximately \$249.1 million compared with \$253.8 million and \$258.3 million at December 31, 2011 and 2010, respectively. Below is a listing of the Authority's outstanding long-term debt, net of current portion at December 31, 2012, 2011 and 2010:

	2012	2011	2010
2007 A and B Revenue Bonds	\$175,879,013	\$179,314,139	\$182,542,072
2009 Revenue Bonds	3,985,000	4,555,000	5,120,000
2010 Healthcare Recovery Zone Facility			
Revenue Bonds	27,233,260	27,694,199	28,140,140
Pavilion M notes payable	37,607,050	37,607,050	37,607,050
Other notes payable	4,395,181	4,590,181	4,775,181
Capital lease obligation	88,856	45,710	88,039
	<u>\$249,188,360</u>	<u>\$253,806,279</u>	<u>\$258,272,482</u>
Total	<u>\$249,188,360</u>	<u>\$253,806,279</u>	<u>\$258,272,482</u>

No new debt, other than a capital lease obligation, was issued in 2012. Debt decreased by \$4.6 million in 2012 and by \$4.4 million in 2011 due to normal principal payments during the year. Other notes payable consists of a Housing & Urban Development (HUD) loan of which \$3.2 million of the proceeds were utilized to build the Park Hill Clinic. Also included in other long-term debt, is a Community Development Block Grant (C.D.B.G.) loan of \$1.2 million. Both loans are between the Authority and the City and County of Denver, Colorado.

The Authority's 2010, 2009, 2007A and 2007B bond series ratings are BBB by Standard and Poor's and BBB+ by Fitch at December 31, 2012 and 2011, respectively.

Economic Factors and Next Year's Budget

The Authority's budget for 2013 targets a consolidated operating margin of \$14.0 million, or 2.0%. The budget includes an increase in inpatient census of 5.2%, and an increase in DH Medicaid Choice membership of 4%. Salary and benefits expense is expected to increase \$26.0 million due to market survey, normal pay increases and a slight increase in FTE. Included in the budget for 2013 is \$6.0 million in federal EHR incentive funding related to the implementation of EHR.

The Authority has experienced continued revenue that is below budget, primarily because of decreases in government funding sources due to budgetary pressures or payment methodology changes. To respond to the financial challenges presented, the Authority's strategic planning process, which is underway in 2013, has focused on six core pillars: Patient Safety and Quality, Workforce Engagement, Financial Strength, Community, Unsubsidized Growth, and Patient Experience. From the financial perspective, the growth in unsubsidized care, revenue improvements and cost reductions are areas of key focus. Cost reductions through ongoing analysis to workforce, as it relates to census data, is of utmost importance, and projects begun in 2011 will continue throughout 2013. The Authority continues to utilize the Lean methodology.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2012 and 2011

The implementation of the federal Affordable Care Act is expected to have a significant impact on the financial results of the Authority. The expansion of Medicaid should have a positive impact, while the estimated effect of the planned federal reduction in DSH funding, due to the increase in insured citizens, is less clear. The Authority is currently involved in planning for various financial scenarios related to health reform.

Requests for Information

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

Denver Health and Hospital Authority
Statements of Net Position
December 31, 2012 and 2011

Assets and Deferred Outflows of Resources

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 35,186,579	\$ 46,895,027
Restricted cash and cash equivalents	903,737	1,421,823
Patient accounts receivable, estimated uncollectibles of approximately \$29,243,000 and \$31,147,000 in 2012 and 2011, respectively	59,586,757	63,231,892
Due from other governmental entities	61,635,483	43,314,214
Due from City and County of Denver	1,994,129	2,037,812
Other receivables	8,280,701	10,112,740
Interest receivable	1,178,248	936,901
Due from other funds and invested in discretely presented component unit	1,245,574	875,553
Inventories	10,775,083	10,376,883
Prepaid expenses and other assets	<u>3,413,236</u>	<u>3,292,707</u>
 Total current assets	 <u>184,199,527</u>	 <u>182,495,552</u>
 Noncurrent Assets		
Note receivable	28,961,015	28,961,015
Estimated third-party payor settlements receivable	12,331,401	17,640,947
Equity interest in joint venture	619,000	598,105
Restricted investments	17,145,210	20,827,308
Capital assets, net of accumulated depreciation	409,259,304	422,658,419
Long-term investments	136,822,178	113,505,490
Unamortized bond fees and other long-term assets	<u>2,919,754</u>	<u>3,053,982</u>
 Total noncurrent assets	 <u>608,057,862</u>	 <u>607,245,266</u>
 Total assets	 <u>792,257,389</u>	 <u>789,740,818</u>
 Deferred Outflows of Resources		
Accumulated change in fair value of hedging derivatives	<u>17,945,433</u>	<u>18,726,827</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 810,202,822</u></u>	 <u><u>\$ 808,467,645</u></u>

See notes to financial statements

Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of bonds payable	\$ 4,780,000	\$ 4,555,000
Current maturities of capital leases	95,245	48,188
Current maturities of notes payable	195,000	185,000
Current portion of liability for estimated third-party settlements	2,377,671	8,449,439
Accounts payable and accrued expenses	40,455,621	43,298,349
Accrued salaries, wages and employee benefits	21,776,960	18,235,700
Accrued compensated absences	24,684,632	22,984,590
Deferred revenue	3,253,641	1,826,865
Derivative interest rate swap liability	2,275,581	2,280,584
Accrued claims	5,005,000	4,935,000
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Total current liabilities	104,899,351	106,798,715
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Long-term Liabilities		
Long-term portion of liability for estimated third-party settlements	6,448,237	4,849,526
Long-term portion of compensated absences	437,137	478,016
Bonds payable, less current maturities, net of deferred loss on refunding of \$5,475,475 and \$5,769,683 in 2012 and 2011, respectively	207,097,273	211,563,338
Capital lease obligations, less current maturities	88,856	45,710
Notes payable	42,002,231	42,197,231
Derivative interest rate swap liability	15,669,852	16,446,243
Postemployment benefits	3,094,293	2,312,984
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Total long-term liabilities	274,837,879	277,893,048
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Total liabilities	379,737,230	384,691,763
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	155,285,431	187,746,105
Restricted expendable	929,729	-
Unrestricted	274,250,432	236,029,777
	<hr/>	<hr/>
Total net position	430,465,592	423,775,882
	<hr/>	<hr/>
Total liabilities and net position	\$ 810,202,822	\$ 808,467,645
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Denver Health Medical Plan, Inc.
A Component Unit of Denver Health and Hospital Authority
Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 1,846,961	\$ 2,696,254
Reinsurance recoverable on paid losses	147,569	17,190
Interest receivable	244,305	158,187
Premiums and other receivables	2,288,959	1,322,050
Prepaid expenses	270,589	65,954
	<u>4,798,383</u>	<u>4,259,635</u>
Noncurrent Assets		
Restricted investments	607,709	518,791
Unrestricted investments	42,804,196	36,236,611
	<u>43,411,905</u>	<u>36,755,402</u>
Total current assets	<u>4,798,383</u>	<u>4,259,635</u>
Total noncurrent assets	<u>43,411,905</u>	<u>36,755,402</u>
Total assets	<u>\$ 48,210,288</u>	<u>\$ 41,015,037</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 1,270,521	\$ 1,017,232
Aggregate health policy reserves	894,257	1,003,787
Due to Denver Health and Hospital Authority	745,574	375,553
Unearned premiums	51,387	13,914
Liability for amounts held under uninsured plans	1,310,437	2,857,336
Accrued claims and loss adjustment expenses	8,780,000	9,305,000
	<u>13,052,176</u>	<u>14,572,822</u>
Total current liabilities	<u>13,052,176</u>	<u>14,572,822</u>
Total liabilities	<u>13,052,176</u>	<u>14,572,822</u>
Net Assets		
Unrestricted net assets	<u>35,158,112</u>	<u>26,442,215</u>
Total net assets	<u>35,158,112</u>	<u>26,442,215</u>
Total liabilities and net assets	<u>\$ 48,210,288</u>	<u>\$ 41,015,037</u>

Denver Health and Hospital Authority
Statements of Revenues, Expenses and Change in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue	\$ 352,831,995	\$ 332,700,434
Capitation earned net of reinsurance expense	122,970,708	125,643,318
Medicaid disproportionate share and other safety net reimbursement	112,254,391	115,434,512
City and County of Denver payment for hospital services	27,977,304	28,477,302
Federal, state and other grants	55,990,106	58,016,896
City and County of Denver purchased services	18,746,252	18,178,776
Poison and drug center contracts	21,639,182	22,984,087
Other operating revenue	31,461,595	19,535,379
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Total operating revenues	743,871,533	720,970,704
	<hr/>	<hr/>
Operating Expenses		
Salaries and benefits	444,199,653	423,047,977
Contracted services and nonmedical supplies	142,219,965	137,522,726
Medical supplies and pharmaceuticals	70,917,203	66,854,927
Managed care outside provider claims	35,332,315	33,052,207
Depreciation and amortization	45,740,728	42,154,436
	<hr/>	<hr/>
Total operating expenses	738,409,864	702,632,273
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Operating income	5,461,669	18,338,431
	<hr/>	<hr/>
Nonoperating Revenues (Expenses)		
Increase in equity in joint venture	20,896	182,697
Distribution from discretely presented component unit	4,000,000	3,000,000
Interest income	4,488,636	4,148,090
Interest expense	(11,413,726)	(11,701,853)
Net increase (decrease) in fair value of investments	3,143,408	(2,097,011)
Gain (loss) on disposition of capital assets	286,125	(129,995)
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	525,339	(6,598,072)
	<hr/>	<hr/>
Income before capital contributions	5,987,008	11,740,359
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Contributions Restricted for Capital Assets	702,702	1,495,229
	<hr/>	<hr/>
Increase in net position	6,689,710	13,235,588
	<hr/>	<hr/>
Total Net Position, Beginning of Year	423,775,882	410,540,294
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Total Net Position, End of Year	\$ 430,465,592	\$ 423,775,882
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Denver Health Medical Plan, Inc.
A Component Unit of Denver Health and Hospital Authority
Statements of Revenues, Expenses and Change in Net Assets
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Premiums earned, net of reinsurance, including \$45 million received from Denver Health and Hospital Authority in 2012 and 2011	\$ 101,510,015	\$ 94,686,523
Total operating revenues	<u>101,510,015</u>	<u>94,686,523</u>
Operating Expenses		
Leased employee services from Denver Health and Hospital Authority	4,461,351	4,236,559
Rent and other administrative expenses paid to Denver Health and Hospital Authority	616,587	633,902
Contracted services and nonmedical supplies	4,480,954	3,492,936
Medical claims and capitation paid to Denver Health and Hospital Authority	47,583,899	44,153,346
Medical and pharmacy claims incurred	<u>32,264,278</u>	<u>32,851,652</u>
Total operating expenses	<u>89,407,069</u>	<u>85,368,395</u>
Operating income	12,102,946	9,318,128
Nonoperating Revenues (Expenses)		
Distribution to Denver Health and Hospital Authority	(4,000,000)	(3,000,000)
Investment income	673,137	405,077
Net (decrease) increase in fair value of investments	<u>(60,186)</u>	<u>66,386</u>
Total nonoperating revenues (expenses)	(3,387,049)	(2,528,537)
Increase in net assets	8,715,897	6,789,591
Total Net Assets, Beginning of Year	<u>26,442,215</u>	<u>19,652,624</u>
Total Net Assets, End of Year	<u>\$ 35,158,112</u>	<u>\$ 26,442,215</u>

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Denver Health and Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Collections from patient services	\$ 356,347,009	\$ 324,122,359
Collections from capitation, net of reinsurance	123,071,285	126,390,876
Medicaid disproportionate share reimbursement and upper payment limit reimbursement	95,806,895	116,379,615
City and County of Denver payment for hospital services	27,977,304	28,685,897
Collections from poison and drug center contracts	21,988,424	22,211,612
Collections from federal, state and other grants	56,092,371	57,702,451
City and County of Denver purchased services	18,789,497	16,421,454
Other operating receipts	31,655,372	19,044,025
Payments for salaries and benefits	(438,340,498)	(420,057,801)
Payments to suppliers	(217,309,999)	(201,463,220)
Payments for managed care outside provider claims	(35,162,407)	(32,289,115)
	<u>40,915,253</u>	<u>57,148,153</u>
Cash Flows from Capital and Related Financing Activities		
Distribution from discretely presented component unit	4,000,000	3,000,000
Purchases of capital assets	(29,969,855)	(58,166,571)
Receipt of capital contributions	702,702	649,229
Repayments of bonds payable and other long-term debt	(4,831,697)	(4,652,784)
Proceeds from the sale of capital assets	615,437	-
Cash paid for interest, including \$151,649 capitalized in 2011	(11,414,482)	(11,658,236)
	<u>(40,897,895)</u>	<u>(70,828,362)</u>
Cash Flows from Investing Activities		
Proceeds from sale and maturities of investments	72,699,441	140,406,174
Purchases of investments	(90,498,173)	(159,320,709)
Interest income	5,554,840	3,988,727
	<u>(12,243,892)</u>	<u>(14,925,808)</u>
Net cash used in investing activities	<u>(12,243,892)</u>	<u>(14,925,808)</u>
Net decrease in cash and cash equivalents	(12,226,534)	(28,606,017)
Cash and Cash Equivalents, Beginning of Year	<u>48,316,850</u>	<u>76,922,867</u>
Cash and Cash Equivalents, End of Year	<u>\$ 36,090,316</u>	<u>\$ 48,316,850</u>

Denver Health and Hospital Authority
Statements of Cash Flows (continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 35,186,579	\$ 46,895,027
Restricted cash and cash equivalents	903,737	1,421,823
Total cash and cash equivalents	\$ 36,090,316	\$ 48,316,850
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 5,461,669	\$ 18,338,431
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	45,740,728	42,154,436
Provision for bad debts	66,297,070	92,845,319
Changes in assets and liabilities		
Patient accounts receivable, net	(62,651,935)	(98,340,711)
Due from other governmental entities	(18,321,269)	(1,973,364)
Due from discretely presented component unit	(370,021)	139,253
Due from City and County of Denver	43,683	(1,263,880)
Other receivables	1,832,039	127,467
Inventories	(398,200)	(428,377)
Prepaid expenses and other assets	(120,529)	(789,853)
Accounts payable and accrued expenses	(4,790,401)	2,192,524
Accrued salaries, wages and employee benefits	3,418,682	1,546,064
Accrued compensated absences	2,440,472	1,210,230
Estimated third-party payor settlements	836,489	(837,685)
Deferred revenue	1,426,776	1,365,299
Accrued claims	70,000	863,000
Total adjustments	35,453,584	38,809,722
Net cash provided by operating activities	\$ 40,915,253	\$ 57,148,153
During 2012 and 2011, the Authority Recorded the Following Noncash Transactions		
Net increase (decrease) in fair value of investments	\$ 3,143,408	\$ (2,097,011)
Gain (loss) on disposal of fixed assets	\$ 286,125	\$ (129,995)
Capital asset acquisitions included in accounts payable	\$ 1,968,151	\$ 846,291
Capital lease obligations incurred for capital assets	\$ 181,900	\$ -

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

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

Organization

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

Definition of Reporting Entity

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

The Authority is financially accountable for DHHA Pavilion M, Inc. a blended component unit. The Authority is not a component unit of any other primary governmental entity.

The Authority

The Authority is a fully integrated healthcare delivery system, which employs a single physician group and operates four divisions: the Denver Health Medical Center, the City Fund, the Rocky Mountain Poison and Drug Center (RMPDC), and what is referred to by the Authority as the Restricted Fund. The Restricted Fund consists of a majority of grants the Authority has been awarded where these funds are used as directed by the grantor.

The Denver Health Medical Center is an acute care hospital licensed for 525 total beds, including 84 intensive care beds, that provides inpatient medical and mental health services, an ambulatory care center, emergency medical services including Level 1 Trauma, eight federally qualified community health centers in Denver that provide outpatient services, and 15 Denver school-based clinics that provide outpatient services to students.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The City Fund is 100% funded by the City (except for depreciation expense) in accordance with an operating agreement between the Authority and the City, which is amended each year. Operations included in the City Fund are the Public Health Department, which assesses community public health needs in areas such as HIV and AIDS treatment and prevention, and provides services related to the medical investigation of disease, medical recommendations to the City for disease control, and provision of disease control, administration of vital records, and maintenance of vital statistics. Also included in the City Fund is prisoner care at the Denver County Jail and the Denver C.A.R.E.S. shelter, which is a 100-bed nonmedical detoxification center, including limited services for residential treatment.

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

DHHA Pavilion M, Inc.

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

In June 2010, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$10.6 million and the total was invested in three Community Development Entities (CDEs). Pavilion M was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to construct the facility. The land upon which the construction sits is leased to Pavilion M by the Authority. The Pavilion M Board of Directors consists of three Authority employees. Pavilion M is presented as a blended component unit. All significant balances and transactions between Pavilion M and the Authority have been eliminated in the basic financial statements.

Denver Health Medical Plan, Inc.

Denver Health Medical Plan, Inc. (the Plan) is a Colorado nonprofit organization formed by the Authority in 1997 as a health maintenance organization to provide comprehensive healthcare services on a prepaid basis to its members. The Plan is governed by a nine-member Board of Directors, which is appointed by the Authority. The majority of the Plan's Board of Directors consists of Board members and executive staff of the Authority. The Plan's members consist of current and former employees of the Authority and their dependents, the City, the Denver Employee Retirement Plan, Child Health Plan Plus participants, and Medicare Choice (dual eligibles) and Medicare Select Low Income Plan. The Authority is able to impose its will on the Plan and is financially accountable for the Plan. Accordingly, the Plan is presented as a discretely presented component unit.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Financial statements for the Plan, prepared on a statutory basis of accounting, can be obtained from the Division of Finance at (303) 602-2005, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 655 Broadway, Denver, Colorado 80203.

Denver Health and Hospitals Foundation

The Denver Health and Hospitals Foundation (the Foundation) is a not-for-profit charity formed for the benefit of the Authority. The Foundation's mission is to support the Authority in its mission to provide quality patient care. Significant areas of support include, but are not limited to, maternal and child health, community health, volunteer functions, trauma prevention and care, among others. Fund-raising efforts for the benefit of the Authority are undertaken by the Foundation, and the Authority is entitled to and has the ability to access resources held by the Foundation to fund its programs; however, the assets held by the Foundation and the annual funding are not significant to the Authority's operations as a whole. Therefore, the Foundation is not presented as a component unit of the Authority. The Authority does provide certain accounting and administrative functions for the Foundation at no cost. During 2012 and 2011, the Foundation paid the Authority \$4.7 million and \$7.5 million, respectively, in pass through grants and donations.

HSS, Inc.

The Authority is an equity owner of HSS, Inc. (HSS). HSS services customers in the healthcare industry, as well as other organizations and governmental agencies. Services provided by HSS include security services and courier services, which are utilized by the Authority. In 2009, the Authority was granted 9.5% of the outstanding shares of stock in HSS at no cost. HSS operates as a public company. The Authority has recorded this as an investment in equity of a joint venture. The change in the value of the Authority's share of net equity has been recorded as nonoperating income. The Authority paid HSS over \$3 million, in each of the years 2012 and 2011, for services rendered for security and transportation.

Relationship with the City and County of Denver

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

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

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

During 2012 and 2011, the Authority recognized revenue from the City for Authority services of approximately \$27,977,000 and \$28,477,000, respectively, as compensation for costs incurred for treatment of medically indigent Denver residents.

The City purchased services revenue includes amounts relating to support services and expenses incurred by the Authority for other City agencies. These costs are reimbursed by the City and amounted to approximately \$18,746,000 and \$18,179,000 in 2012 and 2011, respectively. Revenue is recognized as services are provided.

Basis of Presentation

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and commercial paper.

Patient Accounts Receivable

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

Investments and Restricted Investments

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Restricted investments include assets held in investment accounts restricted for future capital improvements and debt service as specified in the related bond agreement. Interest, dividends, and realized and unrealized gains and losses, based on the specific-identification method, are included in nonoperating revenue and expenses when earned or realized.

Inventories

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

Capital Assets

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

Deferred Financing Costs

Issuance costs of long-term debt are deferred and amortized using the straight-line method, which approximates the effective-interest method, over the contractual term of the related debt, and are included in other noncurrent assets.

Accrued Compensated Absences

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

Deferred Revenue

Deferred revenue consists of RMPDC contract revenue received in advance of performing contract services, and certain grant receipts received in advance of the applicable expenditures.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Accrued Claims

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

Deferred Loss on Refunding

The cost of debt refunding is deferred and amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is netted against long-term debt.

Net Position

The Authority's net position are classified as follows:

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

Restricted Expendable – consists of unspent income from contributions whose use has been restricted for certain expenditures related to patient care.

Unrestricted – consists of the remaining net position and deferred inflows that are available for unrestricted use.

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

Revenues and Expenses

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Net Patient Service Revenue

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

Capitation Earned

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

Managed Care - Outside Provider Claims

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

Federal, State and Other Grants

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

Poison and Drug Center Contracts

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

Income Taxes

The income generated by the Authority, as an instrumentality of the State, is excluded from federal income taxes under Section 115 of the Internal Revenue Code (the Code). However, taxes will be assessed on income derived from business activities not substantially related to the Authority's or Pavilion M's exempt function (unrelated business income). The Authority does receive unrelated income due to the rental of space financed by tax-exempt bonds in an administrative office building.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Electronic Health Records Incentive Program

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

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

In 2012, the Authority completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$9,600,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

Change in Accounting Principle

In 2012, the Authority changed its method of presentation and disclosure of the accumulated change in fair value of hedging derivatives in accordance with GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The change has no effect on prior year change in net position.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 2: Net Patient Service Revenue

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

Medicare. Inpatient acute care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospital outpatient services are reimbursed on a prospective payment system. Outpatient services and procedures that are clinically comparable and use similar resources are grouped into Ambulatory Payment Classifications. Federally Qualified Healthcare (FQHC) facilities are paid based on a cost-reimbursement methodology, which includes a payment limit. The limit is increased each year by the Medicare Economic Index (MEI). The Authority is also reimbursed for certain capital and medical education costs and allowable bad debts at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's classification of patients under the Medicare program and the appropriateness of the admissions are subject to an independent audit by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2007.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services are primarily reimbursed by the Medicaid program based on the costs incurred. The Authority is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through the year ended December 31, 2006. The Authority also provides services under a Medicaid prepaid health plan referred to as the Denver Health Medicaid Choice (Medicaid Choice) program for which it receives capitation for services.

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Indigent Care, Charity Care and Community Service. The Authority, as part of its mission, provides healthcare services to City residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various federal, state, local, and private programs in which such patients are enrolled.

Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the Colorado Disproportionate Share Hospital (DSH) Program. The level of charity care provided during the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Charges foregone, based on established rates	\$ 363,637,250	\$ 348,798,739

Gross patient service revenue and the level of uncompensated care provided, based on the Authority's established rates, during the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Gross patient service revenue	\$ 1,664,350,306	\$ 1,523,683,463
Capitation earned under prepaid health plans	(122,970,708)	(125,643,318)
Contractual adjustments	(758,613,283)	(623,695,653)
Provision for bad debts	(66,297,070)	(92,845,319)
Charity care	(363,637,250)	(348,798,739)
Net patient service revenue	\$ 352,831,995	\$ 332,700,434
Uncompensated care		
Contractual adjustments	\$ 758,613,283	\$ 623,695,653
Provision for bad debts	66,297,070	92,845,319
Charity care	363,637,250	348,798,739
	\$ 1,188,547,603	\$ 1,065,339,711

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

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

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

Under the Program, the State utilizes Provider fee as the local match for federal funding. This results in a corresponding due from other governmental entities included in the statements of net position. The annual payments received through the Program are based on the cost of uncompensated charity care.

In addition, the Authority receives upper payment limit reimbursements (UPL), which is designed to increase the Medicaid reimbursement rate up to the hospital's Medicaid cost not to exceed the Medicare reimbursement rate. These funds are also accessed through certification of public expenditures for uncompensated care. In 2009, the methodology used to calculate the payments was changed, combining the disproportionate share and upper payment limit reimbursements using the Provider fee methodology developed as part of the Colorado Healthcare Affordability Act. The Authority recognizes revenue in the year in which notification of the award amount has been received and approved by the State of Colorado and CMS. On a cash basis, the Authority received safety net reimbursements totaling approximately \$95,807,000 and \$116,380,000 for the years ended December 31, 2012 and 2011, respectively. The Authority records as expense the corresponding Provider fee assessment due the State of Colorado and the Colorado Hospital Association.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the State of Colorado from federal sources. Implementation of this act occurred during April of 2010. The resulting safety net revenue and expense for 2012 and 2011 had the following effect on the financial statements:

	2012	2011
Colorado Indigent Care Program revenue	\$ 87,686,009	\$ 79,852,233
State teaching hospital revenue	1,552,951	6,556,738
Supplemental Medicaid base rate revenue	9,041,710	12,718,746
Supplemental Medicaid outpatient hospital revenue	184,153	5,463,368
Supplemental Medicaid psychiatric revenue	882,000	656,250
Supplemental Medicaid high level neonatal intensive care unit	241,875	-
Hospital quality incentive payment	2,138,924	-
Outstationing revenue	3,673,246	3,213,237
Healthcare services fund	-	2,351,000
Primary care funds	5,191,150	2,818,610
Physician certification revenue	1,662,373	1,534,330
Other safety net revenue	-	270,000
	112,254,391	115,434,512
Provider fee expense, included in contracted services and nonmedical supplies	(22,775,812)	(23,769,249)
	\$ 89,478,579	\$ 91,665,263

At December 31, 2012 and 2011, the Authority had a payable for Provider fee which is recorded on the statement of net position in the amounts of \$9,883,800 and \$12,044,700, respectively.

Note 4: Investments and Restricted Investments

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The Authority uses eligible depositories for all its deposits and investments. All primary bank depository accounts have a cash balance within the FDIC insurance limits. Remaining cash balances are swept daily to a Class I money market account. Any cash balances in other bank accounts are negligible and covered by FDIC insurance.

Cash, cash equivalents and investments at December 31, 2012 and 2011 are as follows:

	2012	2011
Cash and cash equivalents	\$ 35,186,579	\$ 46,895,027
Restricted cash and cash equivalents	903,737	1,421,823
Long-term investments		
Mortgage-backed securities	3,997,484	3,620,787
U.S. government agency notes	37,157,838	33,286,326
Corporate bonds	53,743,518	47,957,613
Corporate asset-backed bonds	341,510	1,587,574
Municipal bonds	41,581,828	27,053,190
	<u>136,822,178</u>	<u>113,505,490</u>
Total cash, cash equivalents and investments, excluding restricted investments	<u>\$ 172,912,494</u>	<u>\$ 161,822,340</u>

Restricted investments at December 31, 2012 and 2011 are as follows:

	2012	2011
Bond proceeds restricted as provided in bond agreements		
Cash equivalents	\$ 918,421	\$ 826,462
Long-term investments	1,503,165	1,537,282
Guaranteed investment contract	14,723,624	18,463,564
	<u>17,145,210</u>	<u>20,827,308</u>

Credit Risk

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The Authority's investments are restricted to the following Standard & Poor's (S&P) or equivalent investment quality ratings or higher, and must be rated by at least two major credit rating agencies at the time of purchase:

Straight-debt securities – a split rating of A- negative outlook/BBB stable outlook

Asset-backed securities – AA

Money market mutual funds – AAA

Commercial paper – A-1, P-1

Local government investment pools – AAAm-G or AAAm

U.S. treasuries and U.S. government agencies – AAA

The following is a summary of the Authority's investments at December 31, 2012 and 2011 with average credit ratings based on S&P ratings or equivalent:

	2012		2011	
	Investments	S & P Rating	Investments	S & P Rating
Cash and cash equivalents				
Cash and cash equivalents	\$ 34,954,347	N/A	\$ 26,893,856	N/A
Restricted cash and cash equivalents	903,737	N/A	1,421,823	N/A
Class I or government money market fund	232,232	AAA	20,001,171	AAA
Total cash and cash equivalents	36,090,316		48,316,850	

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

	2012		2011	
	Investments	S & P Rating	Investments	S & P Rating
Long-term investments				
Mortgage-backed securities	3,997,484	AA+	3,620,787	AA+
U.S. government agency notes	37,157,838	AA+	33,286,326	AAA
Corporate bonds	8,466,572	AA+	4,022,164	AA+
Corporate bonds	1,996,000	AA-	2,013,000	AA-
Corporate bonds	2,033,302	A+	6,553,272	A+
Corporate bonds	9,353,113	A	8,368,600	A
Corporate bonds	22,948,551	A-	18,490,766	A-
Corporate bonds	6,392,270	BBB+	7,521,801	BBB+
Corporate bonds	2,406,700	BBB	-	N/A
Corporate bonds	147,010	N/A	988,010	N/A
Corporate asset-backed bonds	-	N/A	59,836	AAA
Corporate asset-backed bonds	-	N/A	96,365	AA
Corporate asset-backed bonds	341,510	CCC	641,720	CCC
Corporate asset-backed bonds	-	N/A	789,653	N/A
Municipal bonds	1,502,740	AAA	1,455,187	AAA
Municipal bonds	3,560,765	AA+	2,905,802	AA+
Municipal bonds	10,361,238	AA	8,569,728	AA
Municipal bonds	16,276,867	AA-	6,370,038	AA-
Municipal bonds	776,666	A+	3,537,816	A+
Municipal bonds	4,652,837	A	957,214	A
Municipal bonds	1,353,983	A-	798,608	A-
Municipal bonds	1,117,453	BBB+	1,144,559	BBB+
Municipal bonds	1,884,708	N/A	1,314,238	N/A
Municipal bonds	94,571	NR	-	NR
Total long-term investments	136,822,178		113,505,490	
Total cash, cash equivalents and investments, excluding restricted investments	\$ 172,912,494		\$ 161,822,340	

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

The following is a summary of the Authority's restricted investments at December 31, 2012 and 2011 with average credit ratings based on S&P ratings or equivalent:

	2012		2011	
	Investments	S & P Rating	Investments	S & P Rating
Bond proceeds restricted as provided in bond agreements				
Cash equivalents	\$ 918,421	N/A	\$ 826,462	N/A
Long-term investments	1,503,165	AA+	1,537,282	AA+
Guaranteed investment contracts	14,723,624	AA+	14,673,942	AA+
Guaranteed investment contracts	-	A+	3,789,622	A+
	\$ 17,145,210		\$ 20,827,308	

Interest Rate Risk

The Authority's investment policy manages exposure to market value losses arising from rising interest rates in several ways. The maximum maturity for any single security is 31 years. The duration of total assets must be less than five years. As of December 31, 2012, \$4,339,000 or 3.2%, of total long-term investments were in corporate asset-backed and government mortgage-backed bonds, as of December 31, 2011, \$5,208,000, or 4.6%, of total long-term investments were in these types of securities. The following is a summary of the duration, average weighted maturity of the portfolio, and average weighted effective maturity as of December 31, 2012:

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Portfolio Component	Par Value	Duration	Average Weighted Maturity (Years)	Average Weighted Effective Maturity (Years)
Working capital account	\$ 101,363,771	2.26	3.90	2.53
Investment account	60,559,609	2.80	5.98	3.36
Other reserve account	347,690	5.21	7.54	7.54
Medical malpractice reserve account	<u>4,494,768</u>	<u>3.43</u>	<u>11.24</u>	<u>5.83</u>
Total components	<u>\$ 166,765,838</u>	<u>2.49</u>	<u>4.86</u>	<u>2.93</u>

Concentration of Credit Risk

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

Diversification: The investments shall be diversified by:

- i) Limiting investments to avoid over concentration in securities from a specific issuer or business.
- ii) Limiting investments in securities that have higher credit risks.
- iii) Investing in securities with varying maturities.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

- iv). Continuously investing a portion of the portfolio in readily available funds, such as money market accounts, repurchase agreements, local government investment pools, and bank account sweep programs, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- v). No single financial institution will hold more than 10% of the Authority's portfolio value, excluding U.S. government or U.S. government agency securities. As of December 31, 2012, the Authority owned \$9.7 million (6.0% of the portfolio) of Morgan Stanley bonds, \$8.5 million (5% of the portfolio) of General Electric Company bonds, \$7.7 million (4% of the portfolio) of Goldman Sachs bonds, and \$7.0 million (4% of the portfolio) of JP Morgan Chase bonds.
- vi). The following maximum limits, by investment type, are established for the Authority's total investments portfolio, including cash and cash equivalents. It is the intent of the Authority to invest in the following investment categories. The percentage stated is a "not to exceed" limitation. Investments are not required in every investment type. For example, it is permitted to own 80% in agency securities and 20% in repurchase agreements, and own no other securities.

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

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

In the event that an allocation percentage is exceeded, such event is disclosed to the Finance Committee of the Board of Directors and corrected as soon as possible. The portfolio was in compliance with the allocation percentages as of December 31, 2012 and 2011.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 5: Capital Assets

Capital assets, by major category, at December 31, 2012 and 2011 are as follows:

December 31, 2012	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 25,789,541	\$ 132,680	\$ (6,318)	\$ 25,915,903
Construction in progress	10,395,399	27,007,246	(17,373,809)	20,028,836
	<u>36,184,940</u>	<u>27,139,926</u>	<u>(17,380,127)</u>	<u>45,944,739</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated				
Buildings and improvements	490,282,753	9,506,104	(10,870,981)	488,917,876
Equipment and software	222,763,158	12,853,776	(3,359,129)	232,257,805
	<u>713,045,911</u>	<u>22,359,880</u>	<u>(14,230,110)</u>	<u>721,175,681</u>
Total capital assets, being depreciated				
Less accumulated depreciation				
Buildings and improvements	157,908,401	24,829,492	(10,807,148)	171,930,745
Equipment and software	168,664,031	20,359,990	(3,093,650)	185,930,371
	<u>326,572,432</u>	<u>45,189,482</u>	<u>(13,900,798)</u>	<u>357,861,116</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net				
	<u>386,473,479</u>	<u>(22,829,602)</u>	<u>(329,312)</u>	<u>363,314,565</u>
Capital assets, net				
	<u>\$422,658,419</u>	<u>\$ 4,310,324</u>	<u>\$(17,709,439)</u>	<u>\$409,259,304</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

December 31, 2011	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 25,752,541	\$ 37,000	\$ -	\$ 25,789,541
Construction in progress	19,038,737	49,497,228	(58,140,566)	10,395,399
Total capital assets, not being depreciated	<u>44,791,278</u>	<u>49,534,228</u>	<u>(58,140,566)</u>	<u>36,184,940</u>
Capital assets, being depreciated				
Buildings and improvements	443,939,959	46,342,794	-	490,282,753
Equipment and software	210,893,849	21,276,635	(9,407,326)	222,763,158
Total capital assets, being depreciated	<u>654,833,808</u>	<u>67,619,429</u>	<u>(9,407,326)</u>	<u>713,045,911</u>
Less accumulated depreciation				
Buildings and improvements	136,970,335	20,938,066	-	157,908,401
Equipment and software	156,851,197	21,090,165	(9,277,331)	168,664,031
Total accumulated depreciation	<u>293,821,532</u>	<u>42,028,231</u>	<u>(9,277,331)</u>	<u>326,572,432</u>
Total capital assets, being depreciated, net	<u>361,012,276</u>	<u>25,591,198</u>	<u>(129,995)</u>	<u>386,473,479</u>
Capital assets, net	<u>\$405,803,554</u>	<u>\$ 75,125,426</u>	<u>\$(58,270,561)</u>	<u>\$422,658,419</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Note 6: Concentrations of Credit Risk – Patient Accounts Receivable and Due from Other Governmental Entities

The Authority grants credit without collateral to its patients, most of whom are residents of the City and, except for the patient self-pay category, are generally insured under third-party payor agreements. Expected credit losses are provided for in the allowance for estimated uncollectibles. Net patient accounts receivable by payor category at December 31, 2012 and 2011 are as follows:

	2012	2011
Medicare	\$ 13,949,714	\$ 12,445,872
Medicaid	21,164,889	22,736,740
Commercial insurance carriers	22,422,437	25,396,001
Patient self-pay	2,049,717	2,653,279
Total	<u>\$ 59,586,757</u>	<u>\$ 63,231,892</u>

Receivables from the Medicare and Medicaid programs represent a concentrated credit risk for the Authority. Management does not believe that there is a significant risk of loss associated with these programs. Management believes various other payors, subject to differing economic conditions, do not represent significant concentrated credit risks to the Authority.

Receivables due from other government entities at December 31, 2012 and 2011 are as follows:

	2012	2011
Due from other governmental entities	<u>\$ 61,635,483</u>	<u>\$ 43,314,214</u>

Note 7: Long-term Debt and Other Long-term Liabilities

2007 and 2009 Revenue Bonds

In May 2007, the Authority issued \$130,650,000 of Healthcare Revenue Bonds, Series 2007A. The bond agreement provides for the payment of principal at maturity ranging from \$2,355,000 to \$4,230,000 that began in 2008 and continues through 2020 and mandatory sinking fund redemption payments ranging from \$4,445,000 to \$12,930,000 beginning in 2021 through 2036. Interest is payable semiannually at fixed rates ranging from 4.75% to 5.25%. Also in May 2007, the Authority issued \$79,385,000 of Healthcare Revenue Bonds, Series 2007B. The bond agreement provides for mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount and accrued interest to the redemption date. Sinking fund payments ranging from \$1,095,000 to \$9,220,000 began in 2008 and continue until 2033. Interest is payable each quarter and will equal 67% of the three-month LIBOR plus a spread equal to 1.10% (1.24% at

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

December 31, 2012). Payments during 2012 for principal and interest on the bonds were approximately \$3,530,000 and \$9,062,000, respectively.

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

In connection with the Series 2007B Bonds, the Authority entered into an interest rate swap agreement with a counterparty (Interest Rate Swap Agreement) in a notional amount equal to the principal amount of the Series 2007B Bonds. The Interest Rate Swap Agreement provides that the Authority pay the counterparty a fixed rate of 4.688% on the notional amount and the counterparty pay the Authority a floating rate based on 67% of the three-month LIBOR, plus a specified fixed spread. Due to fluctuations in the interest rate market there is a negative fair value of approximately \$(17,945,000) and \$(18,727,000) at December 31, 2012 and 2011, respectively. The fair value and cumulative change in fair value is classified as an other liability and a deferred outflow, respectively, on the balance sheets at December 31, 2012 and 2011. The Authority does not currently have a policy of requiring the counterparty post collateral in the event the Authority becomes exposed to credit risk. The Authority does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place. Together, these agreements negate any interest rate risk and in effect resulted in a fixed rate transaction. The Interest Rate Swap Agreement is subject to additional termination event risk whereby early termination could occur if the counterparty's (a) long-term senior unsecured debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) the long-term senior unsecured debt rating from Fitch is withdrawn, suspended, or falls below BBB- or if the Authority's, (a) debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) debt rating from Fitch is withdrawn, suspended, or falls below BBB-. If the swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the swap's then fair value.

In December 2009, the Authority issued \$6,240,000 of Healthcare Revenue Bonds Series 2009A bearing interest at 6.25%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$7,725,000 of the Authority's Healthcare Revenue Bonds, Series 2007B, to pay the costs of issuance, and to fund an interest rate exchange agreement termination payment. The bond agreement provides for the payment of principal that began in 2010 and continues through 2033 in amounts ranging from \$85,000 to \$640,000. Interest is payable semiannually at a fixed rate of 6.25%. Payments during 2012 for principal and interest on the bonds were approximately \$565,000 and \$320,000, respectively.

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

The 2007 defeasance resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$2.0 million, \$2.7 million and \$4.4 million on the 1998A Bonds, 2001A Bonds and the 2004A Bonds, respectively. These differences, which are reported in the accompanying basic financial statements as a net deferred loss on refunding, is being charged to operations through 2033 using the straight-line method. At December 31, 2012, the unamortized deferred loss on refunding is approximately \$5.5 million.

Total debt considered defeased at December 31, 2012 is \$140.2 million.

In June 2010, the Authority issued \$29,000,000 of Healthcare Recovery Zone Facility Revenue Bonds Series 2010, bearing interest rates from 4.00% to 5.625%. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$10.6 million, in order to facilitate the financing of the construction of Pavilion M. Principal payments began in 2011 and continue through 2040 in amounts ranging from \$440,000 to \$1,890,000. In 2012, principal and interest payments were made of \$460,000 and \$1,540,000, respectively.

In June 2010, Pavilion M received the proceeds of six note payables to three separate Community Development Entities (CDEs) related to New Market Tax Credit financing. The proceeds of this financing were used to build a 74,500 square foot four-story building on the Authority campus to house outpatient and inpatient adolescent psychiatry, a dialysis center, and outpatient surgery. The notes payable have interest only payments through June 2017. Beginning December 2017, principal payments will be made through June 2045, ranging from approximately \$998,000 to \$1,549,000. During 2012, Pavilion M made interest payments of \$455,454.

Debt Covenants

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

Other Long-term Debt

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

On February 8, 2008, the Authority signed a promissory note with the City's Office of Economic Development, as the borrower of \$4,300,000, advanced by the City, pursuant to a Loan Agreement between the Authority and the City dated December 18, 2007, in which the City received funds from the Housing & Urban Development (HUD) in connection with the Northeast Park Hill Urban Redevelopment Plan. Interest is paid quarterly at a variable interest rate on the unpaid principal balance on the first day of January, April, July and October. Beginning July 1, 2009 and on each July 1 thereafter, the Authority will make, in addition to quarterly payments of interest, payments of principal sufficient to repay amounts due under the Section 108 note. The entire unpaid balance of the principal and accrued interest will be due and payable on or before July 1, 2025. As of December 31, 2012 and 2011, the Authority has received \$4,070,181 from the City under this Loan. During 2012, the Authority paid \$185,000 in principal payments to HUD. Interest and

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

HUD fees paid on this loan for 2012 totaled \$16,090. One half of both the principal and interest was reimbursed as a capital contribution by the City.

Year-end Debt Balances

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

	Balance December 31,	
	2012	2011
Revenue Bonds, Series 2007A and B and Series 2009, due in increasing annual installments beginning 2007 through 2034 (net of unamortized bond discount of \$135,512 and \$5,475,475 deferred loss on refunding, as of December 31, 2012)	\$184,169,013	\$187,964,139
Revenue Bonds, Series 2010, due in increasing annual installments beginning 2011 through 2040 (net of unamortized bond discount of \$391,740 as of December 31, 2012)	27,708,260	28,154,199
Pavilion M notes payable to CDEs	37,607,050	37,607,050
Other long-term debt	4,590,181	4,775,181
Capital lease obligations	184,101	93,898
 Total current and long-term debt	 254,258,605	 258,594,467
Less current portion	(5,070,245)	(4,788,188)
Total long-term debt	\$249,188,360	\$253,806,279

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

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

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

December 31, 2012	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments	Ending Balance	Due Within One Year
Series 2007A and B, net deferred loss on refunding	May 2007	\$182,844,139	\$ 299,874	\$(3,530,000)	\$ 179,614,013	\$ 3,735,000
Series 2009	December 2009	5,120,000	-	(565,000)	4,555,000	570,000
Series 2010, net of discount	June 2010	28,154,199	14,061	(460,000)	27,708,260	475,000
Pavilion M notes payable	June 2010	37,607,050	-	-	37,607,050	-
Other long-term debt	September 2007	4,775,181	-	(185,000)	4,590,181	195,000
Capital leases	Various	93,898	181,900	(91,697)	184,101	95,245
Compensated absences liability		23,462,606	1,659,163	-	25,121,769	24,684,632
Postemployment benefits		2,312,984	838,909	(57,600)	3,094,293	-
Total		<u>\$284,370,057</u>	<u>\$ 2,993,907</u>	<u>\$(4,889,297)</u>	<u>\$ 282,474,667</u>	<u>\$ 29,754,877</u>

December 31, 2011	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments	Ending Balance	Due Within One Year
Series 2007A and B, net deferred loss on refunding	May 2007	\$185,877,072	\$ 302,067	\$(3,335,000)	\$ 182,844,139	\$ 3,530,000
Series 2009	December 2009	5,680,000	-	(560,000)	5,120,000	565,000
Series 2010, net of discount	June 2010	28,580,140	14,059	(440,000)	28,154,199	460,000
Pavilion M notes payable	June 2010	37,607,050	-	-	37,607,050	-
Other long-term debt	September 2007	4,950,181	-	(175,000)	4,775,181	185,000
Capital leases	Various	236,682	-	(142,784)	93,898	48,188
Compensated absences liability		23,074,429	388,177	-	23,462,606	22,984,590
Postemployment benefits		1,490,931	836,453	(14,400)	2,312,984	-
Total		<u>\$287,496,485</u>	<u>\$ 1,540,756</u>	<u>\$(4,667,184)</u>	<u>\$ 284,370,057</u>	<u>\$ 27,772,778</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Debt Service Requirements

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

Year Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total
2013	\$ 5,070,245	\$ 11,173,039	\$ 2,275,581	\$ 18,518,865
2014	5,313,856	10,928,141	2,195,890	18,437,887
2015	5,485,000	10,673,661	2,061,416	18,220,077
2016	5,765,000	10,408,951	1,856,451	18,030,402
2017	7,053,505	10,128,528	1,511,690	18,693,723
2018 - 2022	40,944,099	45,795,817	4,580,529	91,320,445
2023 - 2027	50,899,860	36,409,897	2,153,822	89,463,579
2028 - 2032	60,743,076	24,513,635	1,238,593	86,495,304
2033 - 2037	62,387,993	9,582,485	71,461	72,041,939
2038 - 2042	12,742,827	1,121,005	-	13,863,832
2043 - 2045	3,855,871	74,723	-	3,930,594
	<u>260,261,332</u>	<u>\$ 170,809,882</u>	<u>\$ 17,945,433</u>	<u>\$ 449,016,647</u>
Total long-term debt payments				
Unamortized discount on 2007A and 2010B Bonds	(527,252)			
Deferred amount of refunding	<u>(5,475,475)</u>			
Total carrying amount of long-term debt	<u>\$ 254,258,605</u>			

The net swap payments were calculated using rates as of December 31, 2012 and making assumptions regarding interest rate changes between 2012 and 2033. As rates vary, variable rate bond interest payments and net swap payments will vary.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 8: Managed Care Initiatives

Denver Health Medicaid Choice

Effective May 1, 2004, the Authority entered into a prepaid provider contract with HCPF, to provide healthcare to Medicaid members enrolled in the State's Primary Care Provider (PCP) program, and formerly capitated with the Authority through Rocky Mountain Health Maintenance Organization (HMO). This program is known as DH Medicaid Choice, and started with 1,100 members in May 2004. This program is a prepaid provider contract, not an HMO. As of December 31, 2012, there were 51,490 eligible enrollees of Medicaid Choice.

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

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

The cost of healthcare services is accrued in the period in which treatment is provided to a member, based in part on estimates, including an accrual for claims IBNR. The Authority maintains reinsurance coverage for inpatient claims above \$200,000, subject to certain per diem limitations. For services rendered by the Authority, the gross charges are included in patient service revenue prior to contractual adjustments, and are also included in deductions from revenue as contractual adjustments.

For the years ended December 31, 2012 and 2011, net capitation revenue after reinsurance, before administrative fees for this initiative totaled approximately \$122,971,000 and \$125,643,000, respectively.

Pharmacy claims, and costs for non-Authority care, including IBNR accruals for the same periods totaled approximately \$35,332,000 and \$33,052,000, respectively. These amounts are included in Managed Care outside provider claims.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

The Authority establishes liabilities for both reported and unreported medical and hospital expenses related to Medicaid Choice, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ 4,935,000	\$ 4,072,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	36,105,439	33,883,918
Decrease in provision for insured events of prior years	<u>(773,124)</u>	<u>(831,711)</u>
Total incurred claims and claim adjustment expenses	<u>35,332,315</u>	<u>33,052,207</u>
Payments		
Claims and claim adjustment expenses attributable to insured events of the current year	31,157,107	28,781,944
Claims and claim adjustment expenses attributable to insured events of prior year	<u>4,105,208</u>	<u>3,407,263</u>
Total payments	<u>35,262,315</u>	<u>32,189,207</u>
Unpaid claims and claim adjustment expenses, end of year	<u>\$ 5,005,000</u>	<u>\$ 4,935,000</u>

Incurred claims and claim payments directly above do not include billed charges of approximately \$201 million and \$179 million for 2012 and 2011, respectively, for the cost of care provided at the Denver Health Medical Center for Medicaid Choice members.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

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

Denver Health Medical Plan, Inc. (the Plan) is a Colorado HMO whose enrollment includes employees of the Authority, the City, retirees enrolled with the Denver Employees Retirement Plan (DERP), and Child Health Plan Plus participants. In 2006, the Plan became licensed as a Special Needs Medicare Advantage Prescription Drug Plan provided to residents of Denver County, Colorado. At December 31, 2012 and 2011, there were 19,219 and 16,595 members enrolled in the Plan, respectively. Approximately 47.9% of Plan enrollment originates through Authority employee enrollment. The Plan is presented as a discretely presented component unit. There have been no eliminations of 2012 or 2011 financial transactions between the Plan and the Authority on either the Authority's statements of net position or the Authority's statements of revenues, expenses and change in net position.

The Plan recognizes premiums from subscribing groups as revenue in the period to which healthcare coverage relates. Premiums earned include premiums from the Authority for the years ended December 31, 2012 and 2011 of \$44,563,000 and \$44,734,000, respectively. Such premiums are included in the accompanying statements of revenues, expenses and change in net position as premiums earned. Excess risk insurance is maintained by the Plan for inpatient claims in excess of \$150,000 to \$200,000, (depending on product line) per patient per year, subject to certain per diem limits.

A significant portion of healthcare services are provided by the Authority, for which the Authority is reimbursed on a capitated or fee-for-service basis, depending on the healthcare network chosen by the member. For the years ended December 31, 2012 and 2011, respectively, the Plan incurred capitation expense to the Authority totaling \$19,242,000 and \$16,977,000, and fee-for-service claims of \$28,342,000 and \$27,176,000.

During 2012 and 2011, the Plan made a profit distribution to the Authority of \$4.0 million and \$3.0 million, respectively. At December 31, 2012 and 2011, the Plan has a capital contribution from the Authority of \$500,000, which is restricted and invested in a long-term investment held jointly by the Plan and the Colorado Division of Insurance. The Plan has no employees, and is managed by employees leased from the Authority. In addition, the Plan pays the Authority certain other administrative expenses. The amounts paid by the Plan to the Authority for management services and other expenses totaled \$5,078,000 for 2012 and \$4,870,000 for 2011.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

The Plan establishes liabilities for both reported and unreported medical and Authority expenses, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Unpaid claims and claim adjustment expenses, beginning of year	\$ 9,305,000	\$ 7,247,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	82,701,426	78,517,986
Decrease in provision for insured events of prior years	(2,853,249)	(1,512,988)
Total incurred claims and claim adjustment expenses	79,848,177	77,004,998
Payments		
Claims and claim adjustment expenses attributable to insured events of the current year	73,232,835	69,432,214
Claims and claim adjustment expenses attributable to insured events of prior year	7,140,342	5,514,784
Total payments	80,373,177	74,946,998
Unpaid claims and claim adjustment expenses, end of year	\$ 8,780,000	\$ 9,305,000

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Note 9: Operating Lease Commitments

The Authority leases certain property and equipment under noncancelable operating leases. Future minimum lease payments under noncancelable operating leases as of December 31, 2012 are as follows:

Year Ending December 31,	Minimum Operating Lease Payments
2013	\$ 1,865,341
2014	1,469,658
2015	1,360,039
2016	354,223
2017	218,874
Thereafter	377,546
Total	\$ 5,645,681

Rental expense under operating leases totaled approximately \$1,995,000 and \$2,669,000 for the years ended December 31, 2012 and 2011, respectively.

Note 10: Pension and OPEB Plans

Certain employees of the Authority as well as other nonuniformed employees of the City and certain related agencies, including employees leased to the Authority, participate in the Denver Employees Retirement Plan (DERP). DERP is a cost-sharing, multiple-employer defined benefit plan established by the City to provide pension benefits for its employees. DERP is no longer available to Authority employees hired January 1, 2001 or later. As a result, the Authority established an Enhanced Defined Contribution Plan. Authority employees hired prior to January 1, 2001 have the option to elect to drop their DERP participation and join the Enhanced Defined Contribution Plan, which is described in Note 12. Sections 18.401 through 18.430.7 of the City's Revised Municipal Code establish the plan and provide complete information on DERP. DERP issues a publicly available financial report that includes financial statements and required supplementary information. That report is available by contacting DERP at 777 Pearl Street, Denver, Colorado 80203.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

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

For the years ended December 31, 2012 and 2011, the Authority contributed 10.25% and 9.5%, respectively, of the salary of covered employees to DERP. For the years ended December 31, 2012 and 2011, employees contributed 6.25% and 5.5%, respectively, in pretax salary. During 2012, 15.204% of the contribution from the Authority was for pension benefits and 1.296% was for health benefits. During 2011, 13.74% of the contribution from the Authority was for pension benefits and 1.26% was for health benefits.

The health benefits' account was established by City Ordinance in 1991 to provide, beginning January 1, 1992, postemployment healthcare benefits in the form of a premium supplement to retired members, their spouses and dependents, spouses and dependents of deceased active and retired members, and members of the Plan awaiting approval of retirement applications. During 2012 and 2011, the monthly health insurance premium supplement was \$12.50 per year of service for retired participants under the age of 65, and \$6.25 per year of service for retirees aged 65 and older. The health insurance premium supplement can be applied to the payment of medical, dental, and/or vision insurance premiums. The benefit recipient pays any remaining portion of the premiums.

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

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

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2012 and 2011

Employer-made Contributions Based on the Legally Required Rates

Total annual contributions to DERP by the Authority in 2012, 2011 and 2010 were approximately \$8,057,000, \$7,722,000 and \$7,766,000, respectively. This represents 2.2%, 2.3% and 2.4%, IN 2012, 2011 and 2010, respectively, of the Authority's total payroll of all employees. The Authority's total payroll for all employees was approximately \$360,389,000, \$340,562,000 and \$324,199,000 for 2012, 2011 and 2010, respectively.

Total annual contributions to DERP by the Authority for postretirement healthcare benefits were approximately \$633,000, \$652,000 and \$695,000 for 2012, 2011 and 2010, respectively. This represents 0.18%, 0.19% and 0.21% of the Authority's total payroll for 2012, 2011 and 2010, respectively.

Note 11: Deferred Compensation Plan

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

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

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

Note 12: Defined Contribution Plan and Enhanced Defined Contribution Plan

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Because employees hired subsequent to January 1, 2001 are not eligible to participate in DERP, the Enhanced Defined Contribution Plan was established as a benefit to these Authority employees. Authority employees hired prior to January 1, 2001 may exercise an option to drop DERP participation and join the Enhanced Defined Contribution Plan. For the Enhanced Defined Contribution Plan, the Authority has elected to contribute 6.0% of base compensation up to the maximum compensation allowable by the Internal Revenue Service.

Total annual contributions to the Defined Contribution Plan and the Enhanced Defined Contribution Plan by the Authority in 2012, 2011 and 2010 were \$25,655,000, \$23,920,000 and \$22,036,000, respectively. Employee contributions in 2012, 2011 and 2010 were \$20,722,000, \$19,567,000 and \$18,365,000, respectively.

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

Note 13: Healthcare Premium Supplement Plan

The Denver Health and Hospital Authority Healthcare Premium Supplement Plan (the Supplement Plan) was established in January 1, 2001 and is administered by the Authority as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Any employee of the Authority is eligible for healthcare premium supplement payments if the employee: (1) has attained the age of at least 55; (2) retires and commences benefits under the Enhanced Defined Contribution Plan (see Note 12) after completing at least 10 years of service; and (3) has been eligible to receive enhanced benefits under the Enhanced Defined Contribution Plan for at least 10 full years beginning on or after January 1, 2001.

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

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

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

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

Members are not required to contribute to the Supplement Plan, and the Authority did not make any contributions in 2010. In 2012 and 2011, the Authority funded \$57,600 and \$14,400, respectively, to a third-party beneficiary for retirees qualified for the benefit and retiring after 2010. Otherwise, the Supplement Plan is unfunded as of December 31, 2012. However, any eligible retirees retiring in the future will have their lifetime benefit deposited with a third-party administrator in the year in which they retire.

The annual OPEB cost for 2012 and 2011 was \$839,000 and \$836,000, respectively. The net OPEB obligation at December 31, 2012 and 2011 is \$3,094,293 and \$2,312,984, respectively.

Relevant actuarial methods and significant assumptions are as follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Projected Unit Credit
Actuarial accrued liability	\$5,732,568
Discount rate	3.75%
Salary increase liability	3.5%
Amortization period	30 years, open

Note 14: Risk Management

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

The Authority is self-insured for medical malpractice to the limits of the Colorado Governmental Immunity Act. In tort litigation covered by the Colorado Governmental Immunity Act, injury to one person in any single occurrence is limited to the amount of \$150,000, and for injury to two or more persons in a single occurrence, the limitation is \$600,000 with the stated limitation that no person may recover in excess of \$150,000. As part of a general liability/professional liability policy, the Authority carries excess coverage with a limit of \$1,000,000 per occurrence and \$3,000,000 in the aggregate. At December 31, 2012, the amount of medical malpractice and other liability was \$2,377,671. The Authority relied upon an actuarial estimate of the medical malpractice to record IBNR losses and loss adjustment expenses. A discount rate of 2.5% was applied to the actuarially determined liability as of December 31, 2012. Changes in the reported liability for the years ended December 31, 2012 and 2011 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2011	\$ 2,236,023	\$ 777,346	\$ (367,318)	\$ 2,646,051
2012	2,646,051	276,319	(544,699)	2,377,671

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

For other types of risk, the Authority generally carries commercial policies with deductibles ranging from \$50,000 to \$500,000 and limits of \$1,000,000 to \$10,000,000.

On January 1, 2002, the Authority was issued a “self-insurance permit” by the Colorado Department of Labor and Employment, Division of Workers’ Compensation, which allows the Authority to be its own insurance carrier for workers’ compensation risk.

At December 31, 2012, the amount of workers’ compensation liability was \$3,299,320. This liability is based on actuarial estimates of the workers’ compensation to record IBNR losses and loss adjustment expenses. Changes in the reported liability for the years ended December 31, 2012 and 2011 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2011	\$ 3,077,868	\$ 1,372,693	\$ (1,615,874)	\$ 2,834,687
2012	2,834,687	3,186,003	(2,721,370)	3,299,320

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

Note 15: Contingencies

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

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

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2012 and 2011

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

Note 16: Commitments

The Authority entered into multiple construction contracts to remodel existing buildings during 2012 and prior. Under these contracts, the Authority has committed to pay contractors approximately \$36,570,000 in future periods.

Note 17: Health Care Reform

During 2010, Congress passed legislation that will significantly reform the health care system in the United States of America. The legislation will require certain changes through 2014 to private and public health care insurance plans. While the impact of these regulatory changes cannot currently be determined, it is reasonably possible that these changes could have a significant impact on the Authority's net patient service revenues and operations.

Note 18: Subsequent Events

The Budget Control Act (BCA) of 2011 mandated that if legislation were not enacted by January 2013 to meet budget targets, a sequestration would occur for mandatory reductions in Federal spending. The American Taxpayer Relief Act of 2012 postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013, which will result in a 2% reduction of Medicare rates beginning April 1, 2013.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Supplementary Information

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Denver Health and Hospital Authority
Other Postemployment Benefits
Years Ended December 31, 2012 and 2011

Schedule of Funding Progress-Unaudited

Healthcare Premium Supplement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
January 1, 2013	\$ -	\$ 5,732,568	0%	\$ 5,732,568	\$268,282,209	2.10%
January 1, 2011	\$ -	\$ 3,782,682	0%	\$ 3,782,682	\$225,461,933	1.68%
January 1, 2009	\$ -	\$ 1,777,279	0%	\$ 1,777,279	\$199,854,979	0.89%

The required supplementary information is based on a biennial actuarial valuation of the Authority's Healthcare Premium Supplement Plan for the year January 1, 2012 through December 31, 2012, updated for additional accrued benefits in the subsequent fiscal year.

Denver Health and Hospital Authority
Supplementary Statement of Net Position Information
December 31, 2012

	The Authority						Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	
Assets and Deferred Outflows of Resources							
Current Assets							
Cash and cash equivalents	\$ 35,186,579	\$ -	\$ -	\$ -	\$ 35,186,579	\$ -	\$ 35,186,579
Restricted cash and cash equivalents	-	-	-	-	-	903,737	903,737
Patient accounts receivable, net	59,586,757	-	-	-	59,586,757	-	59,586,757
Due from other governmental entities	54,396,327	203,255	-	7,035,901	61,635,483	-	61,635,483
Due from City and County of Denver	1,682,496	311,633	-	-	1,994,129	-	1,994,129
Other receivables	2,682,556	244,310	2,952,215	2,401,620	8,280,701	-	8,280,701
Interest receivable	1,178,248	-	-	-	1,178,248	-	1,178,248
Due from (to) other funds and invested in discretely presented component unit	(15,350,227)	(3,503,265)	20,230,658	(131,017)	1,246,149	(575)	1,245,574
Inventories	10,775,083	-	-	-	10,775,083	-	10,775,083
Prepaid expenses and other assets	3,365,761	-	47,475	-	3,413,236	-	3,413,236
Total current assets	153,503,580	(2,744,067)	23,230,348	9,306,504	183,296,365	903,162	184,199,527
Noncurrent Assets							
Note receivable	28,961,015	-	-	-	28,961,015	-	28,961,015
Estimated third-party payor settlements receivable	12,331,401	-	-	-	12,331,401	-	12,331,401
Equity interest in joint venture	619,000	-	-	-	619,000	-	619,000
Restricted investments	17,145,210	-	-	-	17,145,210	-	17,145,210
Capital assets, net of accumulated depreciation	371,936,987	3,959,207	229,374	-	376,125,568	33,133,736	409,259,304
Long-term investments	136,822,178	-	-	-	136,822,178	-	136,822,178
Unamortized bond fees and other long-term assets	1,818,160	701,278	-	-	2,519,438	400,316	2,919,754
Total noncurrent assets	569,633,951	4,660,485	229,374	-	574,523,810	33,534,052	608,057,862
Total assets	723,137,531	1,916,418	23,459,722	9,306,504	757,820,175	34,437,214	792,257,389
Deferred Outflows of Resources							
Accumulated change in fair value of hedging derivatives	17,945,433	-	-	-	17,945,433	-	17,945,433
Total assets and deferred outflows of resources	\$ 741,082,964	\$ 1,916,418	\$ 23,459,722	\$ 9,306,504	\$ 775,765,608	\$ 34,437,214	\$ 810,202,822

Denver Health and Hospital Authority
Supplementary Statement of Net Position Information
December 31, 2012

	Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	Total
Liabilities and Net Position							
Current Liabilities							
Current maturities of bonds payable	\$ 4,780,000	\$ -	\$ -	\$ -	\$ 4,780,000	\$ -	\$ 4,780,000
Current maturities of capital leases	95,245	-	-	-	95,245	-	95,245
Current maturities of notes payable	195,000	-	-	-	195,000	-	195,000
Current portion of liability for estimated third-party settlements	2,377,671	-	-	-	2,377,671	-	2,377,671
Accounts payable and accrued expenses	38,177,364	-	2,240,302	-	40,417,666	37,955	40,455,621
Accrued salaries, wages and employee benefits	21,776,960	-	-	-	21,776,960	-	21,776,960
Accrued compensated absences	24,684,632	-	-	-	24,684,632	-	24,684,632
Deferred revenue	2	-	4,420	3,249,219	3,253,641	-	3,253,641
Derivative interest rate swap liability	2,275,581	-	-	-	2,275,581	-	2,275,581
Accrued claims	5,005,000	-	-	-	5,005,000	-	5,005,000
Total current liabilities	<u>99,367,455</u>	<u>-</u>	<u>2,244,722</u>	<u>3,249,219</u>	<u>104,861,396</u>	<u>37,955</u>	<u>104,899,351</u>
Long-term Liabilities							
Long-term portion of liability for estimated third-party settlements	6,448,237	-	-	-	6,448,237	-	6,448,237
Long-term portion of compensated absences	437,137	-	-	-	437,137	-	437,137
Bonds payable, less current maturities, net	207,097,273	-	-	-	207,097,273	-	207,097,273
Capital lease obligations, less current maturities	88,856	-	-	-	88,856	-	88,856
Notes payable	4,395,181	-	-	-	4,395,181	37,607,050	42,002,231
Derivative interest rate swap liability	15,669,852	-	-	-	15,669,852	-	15,669,852
Postemployment benefits	3,094,293	-	-	-	3,094,293	-	3,094,293
Total long-term liabilities	<u>237,230,829</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,230,829</u>	<u>37,607,050</u>	<u>274,837,879</u>
Total liabilities	<u>336,598,284</u>	<u>-</u>	<u>2,244,722</u>	<u>3,249,219</u>	<u>342,092,225</u>	<u>37,645,005</u>	<u>379,737,230</u>
Net Position							
Net investment in capital assets	155,285,431	-	-	-	155,285,431	-	155,285,431
Restricted expendable	929,729	-	-	-	929,729	-	929,729
Unrestricted	248,269,520	1,916,418	21,215,000	6,057,285	277,458,223	(3,207,791)	274,250,432
Total net position	<u>404,484,680</u>	<u>1,916,418</u>	<u>21,215,000</u>	<u>6,057,285</u>	<u>433,673,383</u>	<u>(3,207,791)</u>	<u>430,465,592</u>
Total liabilities and net position	<u>\$ 741,082,964</u>	<u>\$ 1,916,418</u>	<u>\$ 23,459,722</u>	<u>\$ 9,306,504</u>	<u>\$ 775,765,608</u>	<u>\$ 34,437,214</u>	<u>\$ 810,202,822</u>

Denver Health and Hospital Authority
Supplementary Statement of Net Position Information
December 31, 2011

	The Authority						Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	
Assets and Deferred Outflows of Resources							
Current Assets							
Cash and cash equivalents	\$ 46,895,027	\$ -	\$ -	\$ -	\$ 46,895,027	\$ -	\$ 46,895,027
Restricted cash and cash equivalents	-	-	-	-	-	1,421,823	1,421,823
Patient accounts receivable, net	63,231,892	-	-	-	63,231,892	-	63,231,892
Due from other governmental entities	37,393,328	205,043	-	5,715,843	43,314,214	-	43,314,214
Due from City and County of Denver	1,912,566	125,246	-	-	2,037,812	-	2,037,812
Other receivables	4,213,118	243,871	3,330,798	2,324,953	10,112,740	-	10,112,740
Interest receivable	936,901	-	-	-	936,901	-	936,901
Due from (to) other funds and invested in discretely presented component unit	(13,456,746)	(4,170,377)	18,062,404	189,349	624,630	250,923	875,553
Inventories	10,376,883	-	-	-	10,376,883	-	10,376,883
Prepaid expenses and other assets	3,263,356	-	29,351	-	3,292,707	-	3,292,707
Total current assets	154,766,325	(3,596,217)	21,422,553	8,230,145	180,822,806	1,672,746	182,495,552
Noncurrent Assets							
Note receivable	28,961,015	-	-	-	28,961,015	-	28,961,015
Estimated third-party payor settlements receivable	17,640,947	-	-	-	17,640,947	-	17,640,947
Equity interest in joint venture	598,105	-	-	-	598,105	-	598,105
Restricted investments	20,827,308	-	-	-	20,827,308	-	20,827,308
Capital assets, net of accumulated depreciation	382,993,998	4,489,115	423,101	-	387,906,214	34,752,205	422,658,419
Long-term investments	113,505,490	-	-	-	113,505,490	-	113,505,490
Unamortized bond fees and other long-term assets	1,903,072	660,803	-	-	2,563,875	490,107	3,053,982
Total noncurrent assets	566,429,935	5,149,918	423,101	-	572,002,954	35,242,312	607,245,266
Total assets	721,196,260	1,553,701	21,845,654	8,230,145	752,825,760	36,915,058	789,740,818
Deferred Outflows of Resources							
Accumulated change in fair value of hedging derivatives	18,726,827	-	-	-	18,726,827	-	18,726,827
Total assets and deferred outflows of resources	\$ 739,923,087	\$ 1,553,701	\$ 21,845,654	\$ 8,230,145	\$ 771,552,587	\$ 36,915,058	\$ 808,467,645

Denver Health and Hospital Authority
Supplementary Statement of Net Position Information
December 31, 2011

	The Authority							
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.		
Liabilities and Net Position								
Current Liabilities								
Current maturities of bonds payable	\$ 4,555,000	\$ -	\$ -	\$ -	\$ 4,555,000	\$ -	\$ 4,555,000	
Current maturities of capital leases	48,188	-	-	-	48,188	-	48,188	
Current maturities of notes payable	185,000	-	-	-	185,000	-	185,000	
Current portion of liability for estimated third-party settlements	8,449,439	-	-	-	8,449,439	-	8,449,439	
Accounts payable and accrued expenses	40,351,247	250,122	1,737,937	74,797	42,414,103	884,246	43,298,349	
Accrued salaries, wages and employee benefits	18,235,700	-	-	-	18,235,700	-	18,235,700	
Accrued compensated absences	22,984,590	-	-	-	22,984,590	-	22,984,590	
Deferred revenue	-	-	33,763	1,793,102	1,826,865	-	1,826,865	
Derivative interest rate swap liability	2,280,584	-	-	-	2,280,584	-	2,280,584	
Accrued claims	4,935,000	-	-	-	4,935,000	-	4,935,000	
Total current liabilities	<u>102,024,748</u>	<u>250,122</u>	<u>1,771,700</u>	<u>1,867,899</u>	<u>105,914,469</u>	<u>884,246</u>	<u>106,798,715</u>	
Long-term Liabilities								
Long-term portion of liability for estimated third-party settlements	4,849,526	-	-	-	4,849,526	-	4,849,526	
Long-term portion of compensated absences	478,016	-	-	-	478,016	-	478,016	
Bonds payable, less current maturities, net	211,563,338	-	-	-	211,563,338	-	211,563,338	
Capital lease obligations, less current maturities	45,710	-	-	-	45,710	-	45,710	
Notes payable	4,590,181	-	-	-	4,590,181	37,607,050	42,197,231	
Derivative interest rate swap liability	16,446,243	-	-	-	16,446,243	-	16,446,243	
Postemployment benefits	2,312,984	-	-	-	2,312,984	-	2,312,984	
Total long-term liabilities	<u>240,285,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240,285,998</u>	<u>37,607,050</u>	<u>277,893,048</u>	
Total liabilities	<u>342,310,746</u>	<u>250,122</u>	<u>1,771,700</u>	<u>1,867,899</u>	<u>346,200,467</u>	<u>38,491,296</u>	<u>384,691,763</u>	
Net Position								
Net investment in capital assets	182,833,889	4,489,115	423,101	-	187,746,105	-	187,746,105	
Unrestricted	214,778,452	(3,185,536)	19,650,853	6,362,246	237,606,015	(1,576,238)	236,029,777	
Total net position	<u>397,612,341</u>	<u>1,303,579</u>	<u>20,073,954</u>	<u>6,362,246</u>	<u>425,352,120</u>	<u>(1,576,238)</u>	<u>423,775,882</u>	
Total liabilities and net position	<u>\$ 739,923,087</u>	<u>\$ 1,553,701</u>	<u>\$ 21,845,654</u>	<u>\$ 8,230,145</u>	<u>\$ 771,552,587</u>	<u>\$ 36,915,058</u>	<u>\$ 808,467,645</u>	

Denver Health and Hospital Authority
Supplementary Revenues and Expenses Information
Year Ended December 31, 2012

	The Authority						DHHA Pavilion M, Inc.	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority			
Operating Revenues								
Net patient service revenue	\$ 350,725,643	\$ 1,673,098	\$ -	\$ 433,254	\$ 352,831,995	\$ -	\$ 352,831,995	
Capitation earned net of reinsurance expense	122,970,708	-	-	-	122,970,708	-	122,970,708	
Medicaid disproportionate share and other safety net reimbursement	112,254,391	-	-	-	112,254,391	-	112,254,391	
City and County of Denver payment for hospital services	27,977,304	-	-	-	27,977,304	-	27,977,304	
Federal, state and other grants	12,894,208	2,298,663	943,248	39,853,987	55,990,106	-	55,990,106	
City and County of Denver purchased services	2,308,313	16,349,114	88,825	-	18,746,252	-	18,746,252	
Poison and drug center contracts	-	-	21,639,182	-	21,639,182	-	21,639,182	
Other operating revenue	29,008,996	1,688,932	-	340,873	31,038,801	422,794	31,461,595	
Total operating revenues	658,139,563	22,009,807	22,671,255	40,628,114	743,448,739	422,794	743,871,533	
Operating Expenses								
Salaries and benefits	387,901,057	17,489,693	13,173,569	25,635,334	444,199,653	-	444,199,653	
Contracted services and nonmedical supplies	117,328,465	2,410,143	8,139,731	14,131,413	142,009,752	210,213	142,219,965	
Medical supplies and pharmaceuticals	68,719,444	1,332,086	4,554	861,119	70,917,203	-	70,917,203	
Managed care outside provider claims	35,332,315	-	-	-	35,332,315	-	35,332,315	
Depreciation and amortization	43,597,802	556,018	193,726	-	44,347,546	1,393,182	45,740,728	
Total operating expenses	652,879,083	21,787,940	21,511,580	40,627,866	736,806,469	1,603,395	738,409,864	
Operating income (loss)	5,260,480	221,867	1,159,675	248	6,642,270	(1,180,601)	5,461,669	
Nonoperating Revenues (Expenses)								
Increase in equity in joint venture	20,896	-	-	-	20,896	-	20,896	
Interdepartmental transfers	307,789	16,049	(18,629)	(305,209)	-	-	-	
Distribution from discretely presented component unit	4,000,000	-	-	-	4,000,000	-	4,000,000	
Interest income	4,487,231	-	-	-	4,487,231	1,405	4,488,636	
Interest expense	(10,958,272)	-	-	-	(10,958,272)	(455,454)	(11,413,726)	
Net increase in fair value of investments	3,143,408	-	-	-	3,143,408	-	3,143,408	
Gain on disposition of capital assets	283,028	-	-	-	283,028	3,097	286,125	
Total nonoperating revenues (expenses)	1,284,080	16,049	(18,629)	(305,209)	976,291	(450,952)	525,339	
Income (loss) before capital contributions	6,544,560	237,916	1,141,046	(304,961)	7,618,561	(1,631,553)	5,987,008	
Contributions Restricted for Capital Assets	327,779	374,923	-	-	702,702	-	702,702	
Increase (decrease) in net position	\$ 6,872,339	\$ 612,839	\$ 1,141,046	\$ (304,961)	\$ 8,321,263	\$ (1,631,553)	\$ 6,689,710	

Denver Health and Hospital Authority
Supplementary Revenues and Expenses Information
Year Ended December 31, 2011

	The Authority						DHHA Pavilion M, Inc.	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority			
Operating Revenues								
Net patient service revenue	\$ 330,435,756	\$ 1,540,002	\$ -	\$ 724,676	\$ 332,700,434	\$ -	\$ 332,700,434	
Capitation earned net of reinsurance expense	125,643,318	-	-	-	125,643,318	-	125,643,318	
Medicaid disproportionate share and other safety net reimbursement	115,434,512	-	-	-	115,434,512	-	115,434,512	
City and County of Denver payment for hospital services	28,477,302	-	-	-	28,477,302	-	28,477,302	
Federal, state and other grants	13,238,603	2,295,480	1,419,162	41,063,651	58,016,896	-	58,016,896	
City and County of Denver purchased services	2,529,979	15,551,897	96,900	-	18,178,776	-	18,178,776	
Poison and drug center contracts	-	-	22,984,087	-	22,984,087	-	22,984,087	
Other operating revenue	17,487,938	1,679,143	-	100,920	19,268,001	267,378	19,535,379	
Total operating revenues	633,247,408	21,066,522	24,500,149	41,889,247	720,703,326	267,378	720,970,704	
Operating Expenses								
Salaries and benefits	365,952,481	17,985,602	13,164,761	25,945,133	423,047,977	-	423,047,977	
Contracted services and nonmedical supplies	109,366,374	2,309,457	9,573,480	15,526,828	136,776,139	746,587	137,522,726	
Medical supplies and pharmaceuticals	64,258,002	1,138,329	2,771	1,021,820	66,420,922	434,005	66,854,927	
Managed care outside provider claims	33,052,207	-	-	-	33,052,207	-	33,052,207	
Depreciation and amortization	41,043,980	576,951	239,481	-	41,860,412	294,024	42,154,436	
Total operating expenses	613,673,044	22,010,339	22,980,493	42,493,781	701,157,657	1,474,616	702,632,273	
Operating income (loss)	19,574,364	(943,817)	1,519,656	(604,534)	19,545,669	(1,207,238)	18,338,431	
Nonoperating Revenues (Expenses)								
Increase in equity in joint venture	182,697	-	-	-	182,697	-	182,697	
Interdepartmental transfers	630,625	-	22,643	(653,268)	-	-	-	
Distribution from discretely presented component unit	3,000,000	-	-	-	3,000,000	-	3,000,000	
Interest income	4,088,973	-	-	-	4,088,973	59,117	4,148,090	
Interest expense	(11,398,132)	-	-	-	(11,398,132)	(303,721)	(11,701,853)	
Net decrease in fair value of investments	(2,097,011)	-	-	-	(2,097,011)	-	(2,097,011)	
Loss on disposition of capital assets	(129,995)	-	-	-	(129,995)	-	(129,995)	
Total nonoperating revenues (expenses)	(5,722,843)	-	22,643	(653,268)	(6,353,468)	(244,604)	(6,598,072)	
Income (loss) before capital contributions	13,851,521	(943,817)	1,542,299	(1,257,802)	13,192,201	(1,451,842)	11,740,359	
Contributions Restricted for Capital Assets	1,305,348	189,881	-	-	1,495,229	-	1,495,229	
Increase (decrease) in net position	\$ 15,156,869	\$ (753,936)	\$ 1,542,299	\$ (1,257,802)	\$ 14,687,430	\$ (1,451,842)	\$ 13,235,588	

Denver Health and Hospital Authority
Supplementary Budget to Actual Information
Year Ended December 31, 2012

	Actual	Budget	Variance – Favorable (Unfavorable)
Operating Revenues			
Net patient service revenue	\$ 352,831,995	\$ 342,230,550	\$ 10,601,445
Capitation earned net of reinsurance expense	122,970,708	130,551,495	(7,580,787)
Medicaid disproportionate share and other safety net reimbursement	112,254,391	120,438,694	(8,184,303)
City and County of Denver payment for hospital services	27,977,304	27,977,304	-
Federal, state and other grants	55,990,106	57,681,216	(1,691,110)
City and County of Denver purchased services	18,746,252	18,809,526	(63,274)
Poison and drug center contracts	21,639,182	26,293,749	(4,654,567)
Other operating revenue	31,461,595	31,571,018	(109,423)
	<u>743,871,533</u>	<u>755,553,552</u>	<u>(11,682,019)</u>
Operating Expenses			
Salaries and benefits	444,199,653	443,885,219	(314,434)
Contracted services and nonmedical supplies	142,219,965	144,148,075	1,928,110
Medical supplies and pharmaceuticals	70,917,203	70,142,577	(774,626)
Managed care outside provider claims	35,332,315	35,591,420	259,105
Depreciation and amortization	45,740,728	44,003,952	(1,736,776)
	<u>738,409,864</u>	<u>737,771,243</u>	<u>(638,621)</u>
	<u>5,461,669</u>	<u>17,782,309</u>	<u>(12,320,640)</u>
Nonoperating Revenues (Expenses)			
Increase in equity in joint venture	20,896	-	20,896
Distribution from discretely presented component unit	4,000,000	4,000,000	-
Interest income	4,488,636	4,518,315	(29,679)
Interest expense	(11,413,726)	(11,526,564)	112,838
	<u>(2,904,194)</u>	<u>(3,008,249)</u>	<u>104,055</u>
Reconciliation to Income before Capital Contributions			
Add:			
Net increase in fair value of investments	3,143,408	-	3,143,408
Gain on disposition of capital assets	286,125	-	286,125
	<u>525,339</u>	<u>(3,008,249)</u>	<u>3,533,588</u>
Income Before Capital Contributions	<u><u>\$ 5,987,008</u></u>	<u><u>\$ 14,774,060</u></u>	<u><u>\$ (8,787,052)</u></u>

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

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

We have audited the financial statements of Denver Health and Hospital Authority (the Authority) and its discretely presented component unit as of and for the year ended December 31, 2012 and have issued our report thereon dated March 28, 2013, which contained an "emphasis of matter" paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Denver Health Medical Plan, Inc., a component unit included on the financial statements as a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
Denver Health and Hospital Authority

Compliance

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

Other Matters

We noted certain matters that we reported to the Authority's management in a separate letter dated March 28, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
March 28, 2013