UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Financial Statements
and
Independent Auditors' Report
June 30, 2016 and 2015

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UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Table of Contents

UNIVERSITY PHYSICIANS, INC.
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Management's Discussion and Analysis
June 30, 2016 and 2015

This discussion and analysis of the financial performance of University Physicians, Inc. ("UPI") provides an overview of UPI's financial activities and balances as of and for the years ended June 30, 2016 and 2015.

Management's Discussion and Analysis is designed to focus on the current fiscal year activity, resulting changes, and currently known facts. Please read it in conjunction with UPI's financial statements.

Operating Highlights

UPI is one of the largest multi-specialty group practices in the Rocky Mountain region. UPI's provider membership of approximately 2,800 clinical faculty of the University of Colorado School of Medicine ("SOM") provide clinical care on the Anschutz Medical Campus, an academic medical center that includes University of Colorado Hospital ("UCH") and Children's Hospital Colorado ("Children's Colorado"), and at several other locations in the Denver metropolitan area and across the state. UPI's providers balance a unique, tripartite mission of teaching, research, and clinical care.

In the last fiscal year, UPI reported:

- Net position increased 13.2%, or $49.8 million, over the prior year to $427.7 million. The increase was primarily attributable to continued growth in operating revenue and receipt of $13.5 million of electronic health record incentive funds in UPI's fourth year of participation. Cash and investments increased 12.0% to $351.7 million during the year.

- Operating revenue increased 10.9%, or $73.9 million, to $754.0 million. Patient services revenue contributed the majority of this change, increasing 13.0%, or $62.4 million, in the year. This increase was driven by a 7.5% growth in clinical volumes (measured in work relative value units), ongoing efforts to maximize reimbursement rates for commercial insurance, and improved performance in revenue cycle operations. Contract revenue, primarily from UPI's affiliate hospitals, increased 5.6%, or $11.2 million, during the year.

UPI engaged the services of a third-party consulting firm to perform an independent review of its revenue cycle operations to benchmark performance and identify potential areas of improvement; there were no material findings from the engagement. The effort did, however, indicate initiatives with regard to reporting, communication, and the use of technology to enhance clinical department customer satisfaction and the effectiveness and efficiency of specific components of the revenue cycle.

Operating Highlights (continued)

UPI continued to successfully respond to changing market conditions resulting from the Affordable Care Act. During 2016, UPI successfully retained network participation in the majority of the narrow network offerings. In addition, UPI maintained its commercial contract portfolio. UPI continues to demonstrate success in new value-based purchasing models with particularly strong results generated under the Medicare Value-Based Modifier Program. This foundation in value-based purchasing will be leveraged in both commercial and Medicare Payment Reform ("MACRA") alternative payment programs.

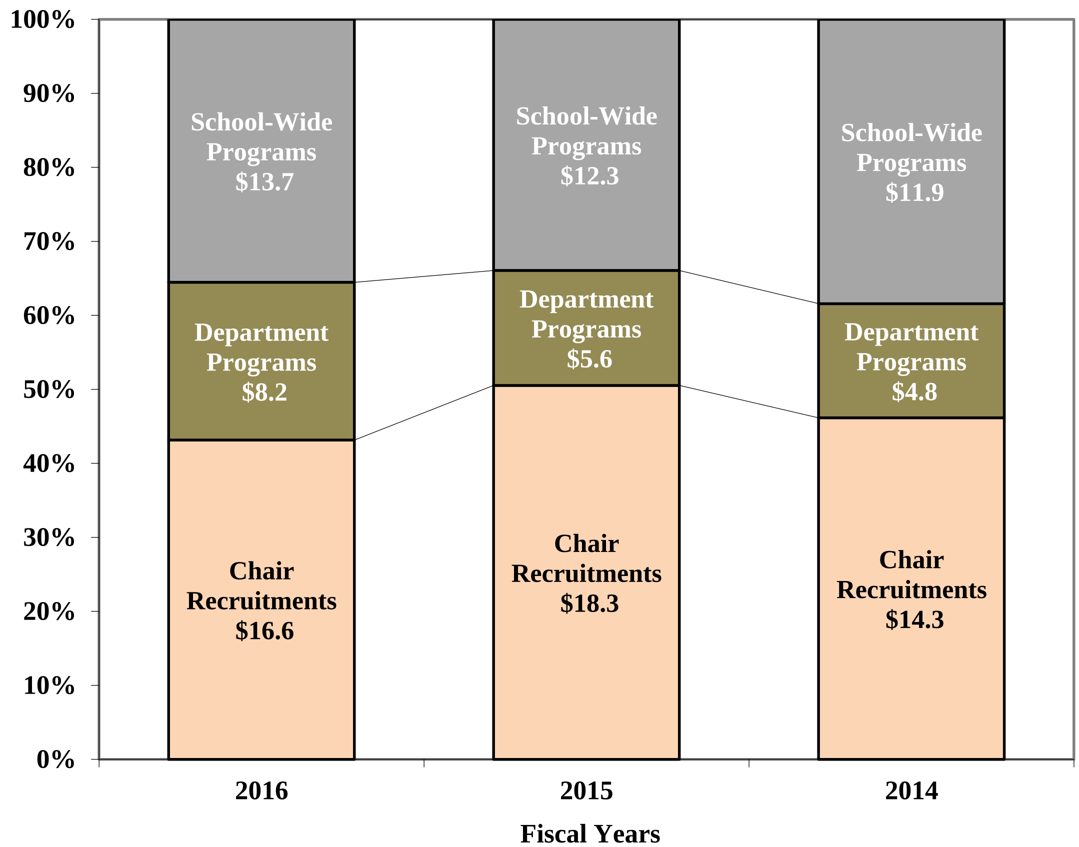
Clinical capacity expanded in the Denver metropolitan area and throughout the Front Range. UPI recruited approximately 250 faculty to meet increased volumes and deliver new clinical programs. Clinical faculty also increased through the addition of community-based practices who joined the SOM and will participate in the clinical, academic, and research missions of the enterprise. In addition, UPI and the SOM supported and are active participants in the launch of a multi-disciplinary center in the Colorado Springs community by Children's Colorado.

UPI is in its fourth year of participation in the Department of Health and Human Services Meaningful Use ("MU") program designed to incent adoption of electronic health records. During the year, incentive payments from Medicare and Medicaid under the program totaled approximately $13.5 million. UPI has received $48.0 million from the program since inception. The UPI Board of Directors (the "Board") has utilized MU funds in support of a campus-wide clinical and research enterprise warehouse, to extend the EPIC electronic health record to SOM free-standing clinics, and as reserve funding for participating faculty to offset mission-related operating expenses. UPI continues to actively manage the filing requirements of the MU program

Operating Highlights (continued)

Clinical and academic programs continued to grow as a result of recurring investment in these areas. Departments invested approximately $22.6 million and $7.1 million of available reserve funds to create and deliver new programs within their organizations in fiscal years 2016 and 2015, respectively. Over the same period, the SOM's Academic Enrichment Fund ("AEF"), derived from an assessment on clinical earnings, invested an additional $38.5 million and $36.2 million, respectively, in support of new programs, faculty recruitments, and the overall mission of the enterprise. Since its inception, the AEF has invested approximately $423.0 million to further develop the academic missions and programs of the SOM. As required by UPI's bylaws, AEF funds are available as a loan to cover SOM department operating deficits that may arise from time to time. As of June 30, 2016, there were no new or outstanding AEF loans issued for this purpose.

Academic Enrichment Fund Support to the SOM
Fiscal Years 2016, 2015, and 2014
(in millions)



Overview of the Basic Financial Statements

The following analysis of UPI's finances is intended to serve as an introduction to UPI's basic financial statements, including the balance sheets; statements of revenue, expenses, and changes in net position; and statements of cash flows. These basic financial statements are reported on an accrual basis. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The balance sheets provide an indication of UPI's current financial position. The statements of revenue, expenses, and changes in net position report UPI's operating activity for the fiscal period and the resulting change in its financial position. In reviewing financial statements, consideration should also be given to non-financial factors to best determine the likely future direction of UPI's financial performance. These factors could include, but are not limited to, changes in UPI's patient base, measures of quality of service, economic factors, and general trends in the market for healthcare.

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. These statements report sources of cash, uses of cash, and changes in cash balances during the reporting periods.

Financial Analysis and Results of Operations

UPI's net position reflects the difference between its assets and liabilities reported in the balance sheets. Table 1 summarizes UPI's assets, liabilities, and net position:

Table 1
Net Position

	June 30,		
	2016	2015	2014
Assets			
Current assets	$225,288,508	$219,146,432	$181,671,173
Capital assets, net	43,082,173	44,111,513	45,166,226
Other non-current assets	219,883,423	182,405,877	171,794,553
Total assets	$488,254,104	$445,663,822	$398,631,952
Liabilities			
Current liabilities	$ 51,667,522	$ 57,588,831	$ 45,905,154
Long-term liabilities	8,893,455	10,193,784	14,878,654
Total liabilities	$ 60,560,977	$ 67,782,615	$ 60,783,808
Net position			
Invested in capital assets, net of related debt	$ 32,880,764	$ 32,548,859	$ 29,224,211
Unrestricted	394,812,363	345,332,348	308,623,933
Total net position	$427,693,127	$377,881,207	$337,848,144

Current Assets

Current assets increased 2.8% and 20.6% in fiscal year 2016 and 2015, respectively. This is primarily attributable to growth in patient invoicing and collections that increased cash and cash equivalents and net accounts receivable.

Table 2
Current Assets

	June 30,		
	2016	2015	2014
Cash and cash equivalents	$ 84,577,075	$ 98,890,650	$ 67,125,475
Short-term investments	52,958,306	38,020,424	24,806,186
Net accounts receivable	78,636,070	72,234,676	71,708,214
Other current assets, contract receivables, receivables from related parties, and assets limited as to use for investment purposes	9,117,057	10,000,682	18,031,298
Total current assets	$225,288,508	$219,146,432	$181,671,173

Net Accounts Receivable

Net accounts receivable increased 8.9% and 0.7% during 2016 and 2015, respectively. UPI's collection rates and days outstanding in accounts receivable can fluctuate from year to year due to a variety of factors, including billing and collections processes and performance and changes in the timing or composition of patient service revenue. As reflected in Table 3 below, UPI's accounts receivable metrics remain strong in fiscal year 2016. For additional information regarding UPI's net accounts receivable concentration of credit risk, please refer to Note 1 – Organization and Summary of Significant Accounting Policies of the audited financial statements.

Table 3
Net Collection Ratio and Average Days Outstanding on Revenue

	For the Years Ended June 30,		
	2016	2015	2014
Net collection ratio	93.8%	94.5%	88.3%
Average days outstanding on revenue	36	40	45

Capital Assets

UPI capitalizes purchases of furniture and/or equipment and building improvements totaling $5,000 or more. Table 4 below summarizes UPI's capital assets balances, net of depreciation. The majority, or nearly $28.2 million, $29.6 million, and $31.5 million in 2016, 2015, and 2014, respectively, of the capital asset balances is attributable to UPI's administrative office building.

Table 4
Capital Assets at Year-End (Net of Depreciation)

	June 30, 2016	June 30, 2015	June 30, 2014
Capital assets, not being depreciated	$ 2,882,980	$ 4,302,476	$ 2,032,037
Capital assets, net of depreciation	40,199,193	39,809,037	43,134,189
Total capital assets, net	$ 43,082,173	$ 44,111,513	$ 45,166,226

Other Non-Current Assets

Long-term investments represent the largest component of non-current assets and increased $37.0 million, or 20.9%, and $10.6 million, or 6.4%, in 2016 and 2015, respectively, as additional funds were moved to fixed-income securities purchased by UPI's investment managers. Please refer to Note 2 – Deposits and Investments and Note 3 – Fair Value Measurements and Investments of the audited financial statements for more information. In February 2014, TriWest completed a recapitalization, which culminated in a stock repurchase of all outstanding shares. In collaboration with University of Colorado Hospital Authority, the UPI Board approved a recommendation to reinvest $3.25 million of the gross proceeds from the stock repurchase in the new TriWest entity. Please refer to Note 6 – Related Party Transactions of the audited financial statements for more information.

Table 5
Other Non-Current Assets

	June 30, 2016	June 30, 2015	June 30, 2014
Long-term investments (maturities exceeding one year)	$214,130,544	$177,152,998	$166,541,676
Investments in TriWest Healthcare Alliance Corp.; UCH/UPI/SOM imaging facility; Boulder Bone & Joint Specialists, LLC; and Children's North Surgery Center, LLC	5,252,879	5,252,879	5,252,877
Other non-current assets	500,000	-	-
	$219,883,423	$182,405,877	$171,794,553

Debt Obligations

At June 30, 2016, 2015, and 2014, UPI had combined short- and long-term debt obligations of $10.2 million, $11.6 million, and $15.9 million, respectively. The majority of the debt obligations resulted from UPI's financing of an administrative office building. The remaining debt obligations are from medical and clinical laboratory equipment lease obligations. For more information about UPI's outstanding debt, please refer to Note 7 – Long-Term Debt of the audited financial statements.

Net Position

Increases or decreases in net position over time may serve as a useful indicator of UPI's financial position. Table 6 compares 2016 revenue and expenses to 2015 and 2014 and shows the increase in net position in each year.

Table 6
Statements of Revenue, Expenses, and Changes in Net Position

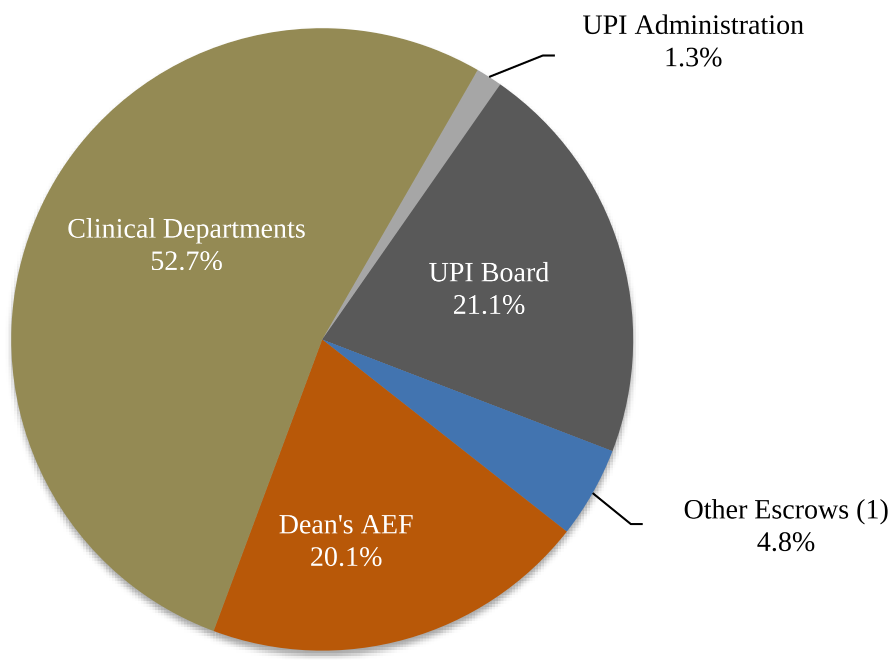
	For the Years Ended June 30,		
	2016	2015	2014
Operating revenue			
Net patient service revenue	$541,304,148	$478,914,186	$433,323,038
Contract income	209,962,841	198,772,406	185,700,696
Lease income	2,710,818	2,348,502	2,278,780
Total operating revenue	753,977,807	680,035,094	621,302,514
Operating expenses			
Member salaries, incentives, and benefits	521,761,757	470,442,210	426,309,392
Administrative and support salaries and benefits	69,907,567	63,859,463	61,408,340
Academic enrichment fund support	38,492,070	36,224,491	31,031,363
Other operating and general and administrative expenses	64,850,853	54,724,497	45,572,576
Depreciation and amortization	4,465,943	4,124,567	3,944,126
Total operating expenses	699,478,190	629,375,228	568,265,797
Operating income	54,499,617	50,659,866	53,036,717
Non-operating income (expense)			
Other non-operating gains (losses)	98,555	(6,196)	12,417
Interest expense	(252,935)	(203,113)	(24,232)
Contributions to affiliated organizations	(15,898,636)	(15,029,076)	(9,888,603)
Investment income	11,365,319	4,611,582	25,175,419
Total non-operating (expense) income	(4,687,697)	(10,626,803)	15,275,001
Change in net position	49,811,920	40,033,063	68,311,718
Total net position, beginning of year	377,881,207	337,848,144	269,536,426
Total net position, end of year	$427,693,127	$377,881,207	$337,848,144

Net Position (continued)

UPI's net position comprises capital assets and other accumulated funds intended for use in designated programs or for specific operational purposes. Unique fund balances are maintained specific to either the entity that generates and manages it (for example, a clinical department) or resulting from a mandate or Board action that authorized the creation of the account (for example, reserves specific to the UPI administrative office building). In either case, designated fund balances increase or decrease for activity specific to the fund's purpose, and, in each instance, an individual entity has singular authority to manage that individual account. As of June 30, 2016, of the $394.8 million in unrestricted net position, $345.3 million, or 87.5%, is considered designated and intended for specific use compared to $317.0 million and $260.3 million, or 91.8% and 84.3%, in fiscal years 2015 and 2014, respectively.

As of June 30, 2016, UPI's net designated position is assigned for use by the following entities and the programs and missions they manage and support.

Composition of Designated Net Position
$345.3 million as of June 30, 2016



(1) Includes pending capitated health plan distributions and stop-loss reserves, building financing and maintenance reserves, and TriWest network management contract funds.

Operating Revenue

UPI's operating revenue increased $73.9 million, or 10.9%, in fiscal year 2016 to a total of $754.0 million. This is compared to an increase of $58.7 million, or 9.5%, to a total of $680.0 million in fiscal year 2015.

Patient Service Revenue

The majority of UPI's operating revenue consists of patient service revenue (net collectible healthcare services) provided by the SOM clinical faculty to patients seen at UCH, Children's Colorado, and other hospital and clinical sites throughout the state and region.

Patient service revenue for fiscal year 2016 increased $62.4 million, or 13.0%, from the previous fiscal year compared to a $45.6 million, or 10.5%, increase in fiscal year 2015. Factors contributing to this growth include continued growth in patient service volumes, commercial insurance contract rate increases, and improved performance in UPI's revenue cycle operations. More specifically:

1) Increases in patient service volumes.

   The Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services sets standardized measures of patient service volumes through a valuation metric called work relative value units ("WRVUs"). CMS is a U.S. federal agency that administers Medicare, Medicaid, and the State Children's Health Insurance Program. In this past fiscal year, WRVUs increased 7.5%, or approximately 367,000 units, over the prior year compared to an 8.8%, or approximately 396,000 unit, increase from fiscal years 2014 to 2015.

Work Relative Value Units[1]

FY 2016	FY 2015	FY 2014
5,239,214	4,871,793	4,475,793

[1]*Note: For comparative purposes, all years were based on the 2013 RBRVS table.*

2) Commercial insurance contract rate increase.

   Healthcare services reimbursements are received from patients and third-party payers. Third-party payers include government sources, such as Medicare and Medicaid. Private commercial insurance and managed care programs and companies represent the remaining third-party payers and, in recent years, have been a source of rate increases related to clinical services.

Operating Revenue (continued)

Patient Service Revenue (continued)

UPI's healthcare services reimbursement methods vary by third-party payer.

- Medicare reimburses physician services according to a national fee schedule established annually by CMS.
- Medicaid reimbursement is established by state Medicaid fee schedules for physician services.
- Managed care reimbursement arrangements for physician services with commercial insurance carriers are fixed at periodically negotiated contract rates, with the majority of these contracts reimbursing physician services on a discounted fee-for-service basis.

3) Improved performance in billing and collections processes.

Changes in the pace or effectiveness of the billing and collections process can result in a corresponding change in patient services revenue.

In fiscal year 2016, UPI had a net collection rate of 93.8% and had 36 days of outstanding charges as indicated in Table 3 on page 5. Days' charges outstanding compares favorably to that reported in fiscal year 2015, indicating an improvement of 10.0% in days of outstanding charges.

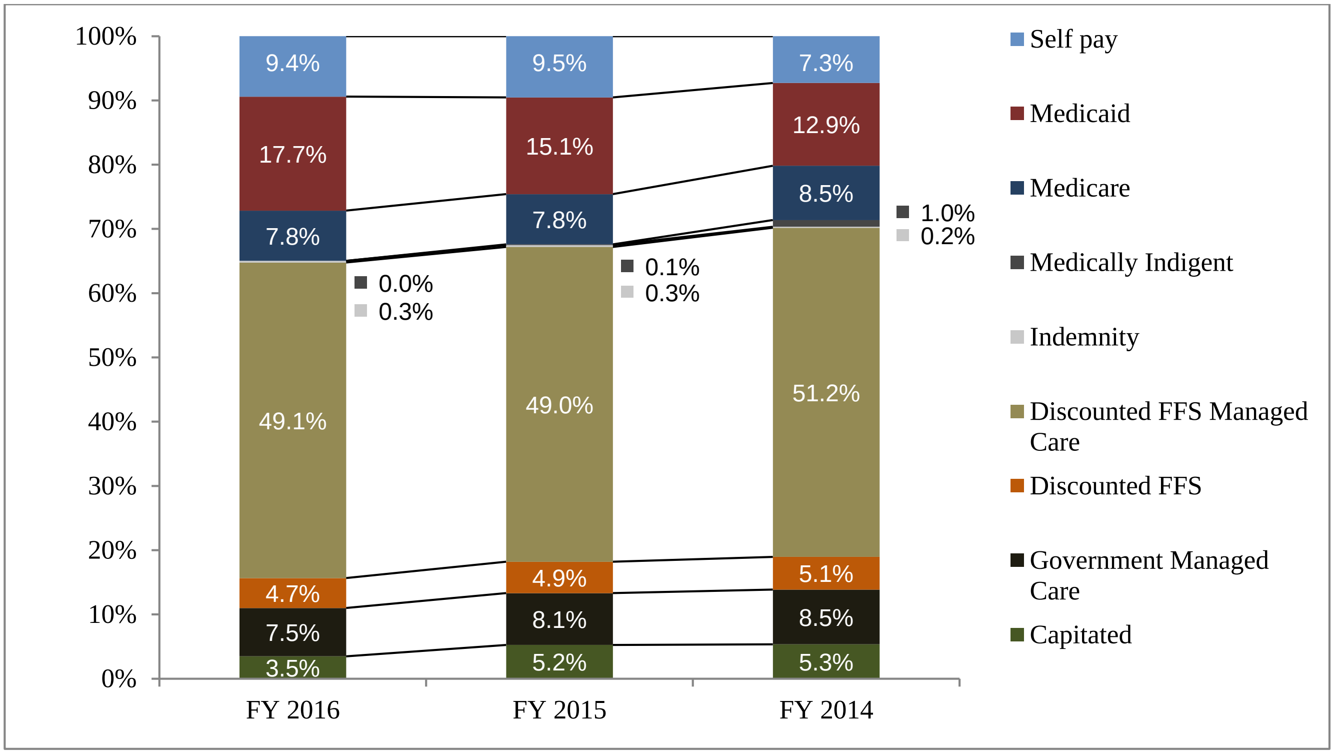
In addition, through collaboration with UCH, UPI's SOM faculty provide healthcare services to the University of Colorado faculty and staff, UPI employees, and UCH employees. UPI holds a contract with the University of Colorado Health and Welfare Trust that reimburses UPI at a fixed monthly rate for all physician services provided to beneficiaries in these three organizations. Currently, approximately 22,500 lives are enrolled in the University of Colorado network plan, and UPI manages the provision of services provided by SOM faculty within the level of reimbursement provided by the contract. Due to sophisticated faculty-led medical management practices, the University of Colorado network plan has had consistent and strong fiscal performance since inception.

Operating Revenue (continued)

Patient Service Revenue (continued)

The following table illustrates the relative contribution of payment sources to patient service revenue during the fiscal years ended June 30, 2016, 2015, and 2014.

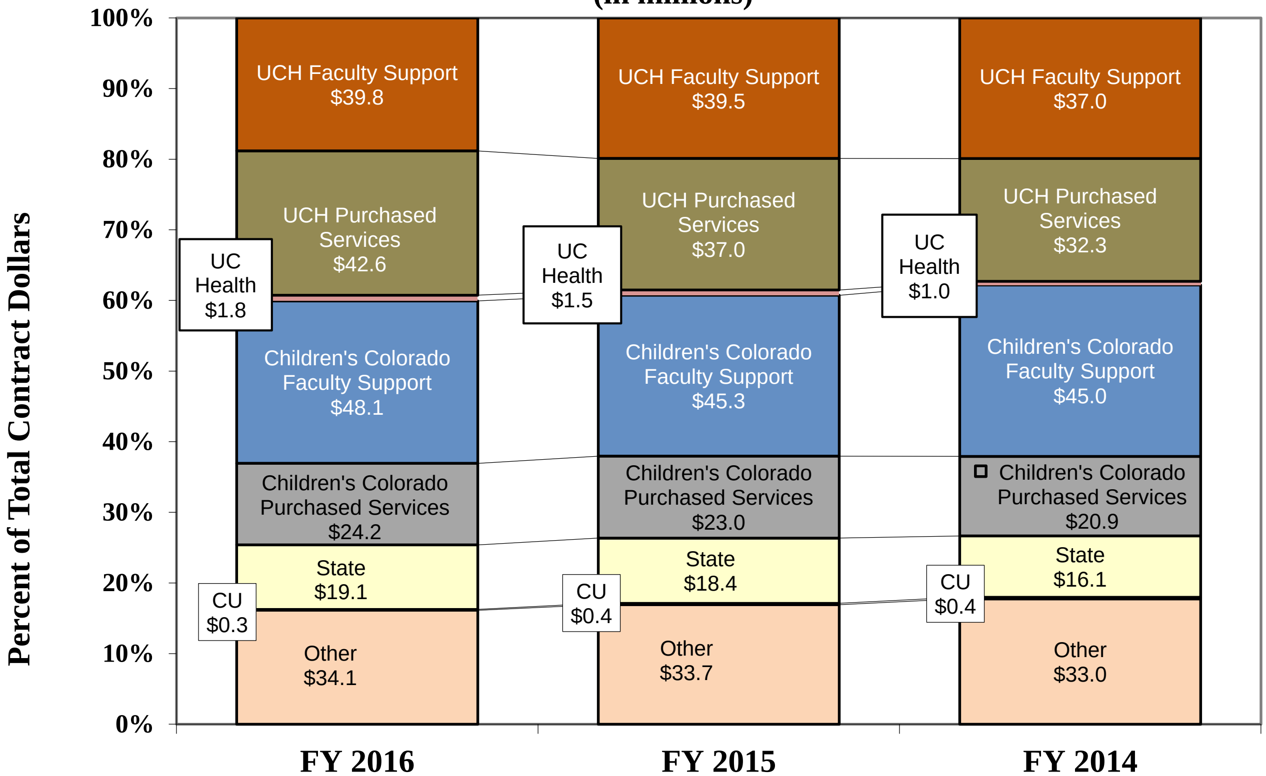
Payer Mix Comparison by Percent of Clinical Collections



Contract Income

Contract income increased 5.6% to $210.0 million in fiscal year 2016 compared to a 7.0% increase in 2015.

Contract Services by Payer (in millions)



The majority of the approximate $11.2 million and $13.1 million change in the last two fiscal years was due to increased faculty support and reimbursements for services provided by UPI on behalf of UCH and Children's Colorado.

Lease Income

Lease income reported in fiscal year 2016 was $2.7 million, an increase of 15.4% over the prior year. UPI leases 90,766 square feet of its current administration building's 184,700 total rentable square feet to both affiliates (SOM's Hemophilia and Thrombosis Center, Adult and Child Center for Health Outcomes Research and Delivery Science, Center for Global Health, Healthcare Policy and Research, the Depression Center, and Center for Behavioral Health Impact and Innovation) and a third party (Colorado Prevention Center). Approximately 4.5%, or 8,275 square feet, is currently unoccupied and available for lease.

Operating Expenses

UPI's operating expenses increased $70.1 million, or 11.1%, in 2016 compared to a $61.1 million, or 10.7%, increase in 2015. Member salaries, incentives, and benefits comprised the majority of the increase, growing $51.3 million, or 10.9%, and $44.1 million, or 10.3%, in 2016 and 2015, respectively. Growth in member salaries and benefits is a result of both the addition of new clinical faculty members, as well as from increased funding of faculty salaries and operating expenses from clinical income sources. This use of clinical funds is in alignment with UPI's 501(c)(3) non-profit mission and allows the SOM to subsidize at least a portion of its underfunded teaching and research missions. Additional operating expenses were also incurred through support funding provided by the AEF and Board funds committed to a campus-wide clinical and research data warehouse.

The operating expenses reported in Table 6 include member incentives totaling approximately $37.7 million, $39.1 million, and $39.9 million in fiscal years 2016, 2015, and 2014, respectively. Member incentives are paid only after all other obligations, including debt service, have been satisfied and fluctuate due to changes in department and provider profitability and any actions by departments to increase their operating reserves. UPI's bylaws stipulate that incentives are subject to availability of revenue over expenses and should not be considered fixed obligations.

Non-Operating Income and Expenses

The primary source of non-operating income is interest and dividend payments earned on UPI's investment portfolio and dividends from equity interests in joint venture investments held by the corporation. Changes in the fair market value of UPI's investments are recorded as unrealized gains or losses. For additional investment information, including an analysis of credit quality, please refer to Note 2 – Deposits and Investments of the audited financial statements. During fiscal year 2014, UPI recorded a gain related to a repurchase of its TriWest investment as well as dividends generated from its historical investment in that entity prior to the recapitalization. UPI's investment income, realized (losses) gains, and change in unrealized gains (losses) are summarized in the following table.

Table 7
Investment Earnings

	For the Years Ended June 30,		
	2016	2015	2014
Realized losses	$ (854,132)	$ (772,237)	$ (659,665)
Change in unrealized gains (losses)	5,206,776	(654,851)	1,508,189
Interest and dividends	7,012,675	6,038,670	8,169,387
Gain on TriWest share repurchase	-	-	16,157,508
	$ 11,365,319	$ 4,611,582	$ 25,175,419

Non-Operating Income and Expenses (continued)

Other components of non-operating income and expenses include:

- Interest expense, which comprises debt and clinical department capital equipment lease interest payments. UPI's refinanced bank-direct purchase obligations bear a fixed rate of interest of 2.3%.

- UPI contributed approximately $15.9 million, $15.0 million, and $9.9 million in fiscal years 2016, 2015, and 2014, respectively, to affiliated organizations, including the University of Colorado and Children's Hospital Colorado Foundations, the SOM, and UCH. Contributions are made at a department or the Board's direction and are funded from appropriate accounts in support of endowments or research-related activities.

Economic Factors and Other Considerations

UPI's clinical income supports an increasing percentage of SOM faculty salaries and benefits and currently represent approximately 75% of all faculty funding sources. Additional reductions in state or federal funding will create greater demand for clinical income to compensate for the funding shortfalls that may result. To date, clinical faculty growth, efficient revenue cycle management, and success in commercial contract rate negotiations have ensured adequate cash flow is available to fund this increasing obligation. In the future, UPI's ability to successfully manage this financial dynamic could become more limited.

Several regulatory changes resulting from the Affordable Care Act will impact UPI's operations, reimbursement rates, and financial results. Initiatives to improve the effectiveness of healthcare services through new reimbursement models will place new financial burdens on UPI. Emerging legislation and regulation could require significant additional investment in clinical reporting to better measure quality outcomes. Medicaid expansion and limited capacity among public access providers will continue to challenge the organization. Increases in patient payment responsibilities will impact the performance and operating expense of UPI's revenue cycle functions.

Changes in both patient service volumes and reimbursement rates as a result of an expansion of the Medicaid population, the migration of patients to narrow network plans or other forms of patient population management, or reductions in commercial contract reimbursements will result in slowing revenue growth. To date, investments by UPI's affiliate hospitals to increase facility capacity, growth in clinical faculty, regional presence, and efforts to align with community physicians and practices have served to mitigate the revenue impact of these factors.

UPI completed its fiscal year 2017 budget in the context of these business challenges and conditions. The budget, as presented in Table 9, reflects continued growth in clinical operations and performance and recurring investment in academic, clinical, and research programs that will benefit UPI and the SOM in future years.

Fiscal Year 2016 Budget

The 2017 budget, as approved by UPI's Board, projects income from operations of approximately $68.0 million and is presented in the table below.

Table 8
Approved Financial Plan
Fiscal Year Ending June 30,

	2016 Actual	2017 Financial Plan
Net patient service revenue	$541,304,148	$587,750,000
Contract income	209,962,841	230,000,000
Lease income	2,710,818	2,750,000
Total operating revenue	753,977,807	820,500,000
Member salaries, incentives, and benefits	521,761,757	577,000,000
Administrative and support salaries and benefits	69,907,567	73,000,000
Academic enrichment fund support	38,492,070	40,000,000
Other operating and general and administrative expenses	64,850,853	58,000,000
Depreciation and amortization	4,465,943	4,500,000
Total operating expenses	699,478,190	752,500,000
Operating income	54,499,617	68,000,000
Other non-operating gains	98,555	-
Interest expense	(252,935)	(230,000)
Contributions to affiliated organizations	(15,898,636)	(12,000,000)
Investment income	11,365,319	8,000,000
Total non-operating expenses	(4,687,697)	(4,230,000)
Change in net position	$ 49,811,920	$ 63,770,000

Cash-Basis Financial Statements

Although UPI presents its year-end external financial statements using the accrual basis of accounting as required by generally accepted accounting principles and for consolidation purposes in reporting to the University of Colorado, the recurring operating review and management of UPI's operations is facilitated by the use of cash-based financial statements. The following information presented in Tables 9-11 has been developed on a cash basis and provides an alternative measure of UPI's financial performance and future period financial plans.

Table 9
Summary of Income and Expenditures
(Cash-Basis Financial Statements)

	For the Years Ended June 30,		
	2016	2015	2014
Operating revenue			
Patient service revenue	$530,482,888	$484,154,598	$423,171,241
Contract income	206,346,653	201,060,122	183,810,551
Lease income	2,744,665	2,300,892	2,321,015
Total operating revenue	739,574,206	687,515,612	609,302,807
Operating expenses			
Member salaries, incentives, and benefits	523,934,083	467,717,513	417,254,019
Administrative and support salaries and benefits	69,721,044	63,429,678	61,242,589
Academic enrichment fund support	38,492,071	36,224,491	31,031,363
Other operating and general and administrative expenses	64,670,112	62,337,579	50,666,224
Total operating expenses	696,817,310	629,709,261	560,194,195
Operating income	42,756,896	57,806,351	49,108,612
Other non-operating gains	16,680	9,953	125,941
Interest expense	(244,830)	(163,189)	(9,390)
Contributions to affiliated organizations	(19,807,604)	(9,798,550)	(9,892,660)
Investment income	5,722,505	8,926,726	15,677,210
Total non-operating (expense) income	(14,313,249)	(1,025,060)	5,901,101
Net income over expenses	$ 28,443,647	$ 56,781,291	$ 55,009,713

Cash-Basis Financial Statements (continued)

UPI has capitalized on the economies and efficiencies of operating at scale. The centralized administrative organization is supported by assessment fees on clinical and contract cash collections. Services delivered by that organization currently include medical coding, billing and collections, contracting, network management, information technology, business development, and other corporate and administrative functions. The assessment fees for these services have been reduced in several of the past 10 years and were set at 8.0% for clinical and 1.5% or 0.5%, depending on the contracting entity, for contract income in the fiscal year. In fiscal year 2014, the Board approved a recommendation to rebate no less than 50% of any assessment income in excess of the operating expenses required to fund the administrative organization. Assessment rebates have occurred in each of the past three fiscal years.

Required Cash Reserves

UPI maintains adequate liquid balances to meet anticipated demands. In addition, UPI is required to hold cash and investment balances to comply with reserve requirements imposed by both its bylaws and banking partners. UPI's bylaws mandate SOM departments maintain a UPI reserve fund equal to or greater than 10% of budgeted clinical faculty salaries and benefits. In addition, the fixed-rate direct purchase obligation requires that UPI satisfy certain financial covenants, one of which is specific to the adequacy of cash and liquid reserves relative to annual operating expenses.

Table 10
Required Operating Cash Reserves
(in millions)

Bylaw reserve for faculty salary, benefits	$	57.4
Letter of credit covenants	$	109.5

Required Cash Reserves (continued)

UPI's financial performance in fiscal year 2016 demonstrates UPI's ability to produce operating income and cash flow sufficient to maintain the mandatory reserve and cash requirements listed in Table 10. As reported in Table 11 below, days' cash on hand is 184 at June 30, 2016.

Table 11
Days' Cash on Hand
Fiscal Year Ended June 30, 2016

Total operating expenses – cash basis (Table 10)	$696,817,310
Divided by 365 days	365
Daily operating expenses	$ 1,909,089
Total cash on hand (see balance sheet)	
Cash and cash equivalents	$ 84,577,075
Short-term investments	52,958,306
Long-term investments	214,130,544
Total cash on hand	$351,665,925
Divided by daily operating expenses (see above)	$ 1,909,089
Days' cash on hand	184

Request for Information

This financial report is designed to provide a general overview of UPI's financial results for all those with an interest in UPI'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, P.O. Box 110247, Aurora, Colorado, 80042-0247.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
University Physicians, Inc.
Aurora, Colorado

We have audited the accompanying financial statements of University Physicians, Inc., a component unit of The University of Colorado ("UPI"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise UPI'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.

AUDITORS' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University Physicians, Inc. a component unit of The University of Colorado as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1-19 be presented to supplement the basic financial statements. Such information, although not a part of the 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

EKS+H LLLP

EKS&H LLLP

September 6, 2016
Denver, Colorado

UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Balance Sheets

	June 30, 2016	June 30, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 84,577,075	$ 98,890,650
Short-term investments	52,958,306	38,020,424
Accounts receivable, less allowance for doubtful accounts of approximately $3,404,000 (2016) and $4,594,000 (2015)	78,636,070	72,234,676
Receivable from related parties	1,435,653	2,159,257
Contracts receivable	6,858,723	5,938,049
Other current assets	822,681	1,903,376
Total current assets	225,288,508	219,146,432
Non-current assets		
Long-term investments	214,130,544	177,152,998
Capital assets, net of accumulated depreciation	43,082,173	44,111,513
Other assets	5,752,879	5,252,879
Total non-current assets	262,965,596	226,517,390
Total assets	$ 488,254,104	$ 445,663,822
Liabilities and Net Position		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,723,010	$ 11,343,817
Accrued payroll and related liabilities	2,245,902	2,335,295
Payable to University of Colorado	6,639,006	7,062,457
Other related party payables	1,461,513	-
Accrued incentive distribution	33,290,137	35,478,392
Current maturities of capital lease obligations	131,954	192,870
Current portion of long-term debt	1,176,000	1,176,000
Total current liabilities	51,667,522	57,588,831
Long-term liabilities		
Capital lease obligations, net of current portion	236,455	360,784
Long-term debt, net of current portion	8,657,000	9,833,000
Total long-term liabilities	8,893,455	10,193,784
Total liabilities	60,560,977	67,782,615
Commitments and contingencies		
Net position		
Invested in capital assets, net of related debt	32,880,764	32,548,859
Unrestricted (Note 1)	394,812,363	345,332,348
Total net position	427,693,127	377,881,207
Total liabilities and net position	$ 488,254,104	$ 445,663,822

See notes to financial statements.

UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Statements of Revenue, Expenses, and Changes in Net Position

	For the Years Ended June 30,	
	2016	2015
Operating revenue		
Net patient service revenue	$ 541,304,148	$ 478,914,186
Contract income	209,962,841	198,772,406
Lease income	2,710,818	2,348,502
Total operating revenue	753,977,807	680,035,094
Operating expenses		
Member salaries, incentives, and benefits	521,761,757	470,442,210
Administrative and support salaries and benefits	69,907,567	63,859,463
Academic enrichment fund support	38,492,070	36,224,491
Other operating and general and administrative expenses	64,850,853	54,724,497
Depreciation and amortization	4,465,943	4,124,567
Total operating expenses	699,478,190	629,375,228
Operating income	54,499,617	50,659,866
Non-operating income (expense)		
Other non-operating gains (losses)	98,555	(6,196)
Interest expense	(252,935)	(203,113)
Contributions to affiliated organizations	(15,898,636)	(15,029,076)
Investment income	11,365,319	4,611,582
Total non-operating income (expense)	(4,687,697)	(10,626,803)
Change in net position	49,811,920	40,033,063
Total net position, beginning of year	377,881,207	337,848,144
Total net position, end of year	$ 427,693,127	$ 377,881,207

See notes to financial statements.

UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Statements of Cash Flows

	For the Years Ended June 30,	
	2016	2015
Cash flows from operating activities		
Cash received from patients and third-party payers	$ 534,902,754	$ 478,387,638
Cash received from contracting resources, including from affiliates	212,476,589	203,056,720
Cash payments to suppliers for goods and services	(105,844,973)	(82,514,548)
Cash payments to employees and the University of Colorado on behalf of members	(593,946,972)	(531,656,953)
Net cash provided by operating activities	47,587,398	67,272,857
Cash flows from non-capital financing activities		
Other payments for contributions to affiliated organizations	(15,898,636)	(15,029,076)
Net cash used in non-capital financing activities	(15,898,636)	(15,029,076)
Cash flows from capital and related financing activities		
Principal payments of long-term debt and capital leases	(1,778,262)	(4,379,361)
Payments of interest on long-term debt and capital leases	(252,935)	(203,113)
Capital expenditures	(3,421,670)	(3,086,006)
Proceeds from sale of capital assets	478,824	4,350
Net cash used in capital and related financing activities	(4,974,043)	(7,664,130)
Cash flows from investing activities		
Other non-operating receipts	21,815	5,604
Notes receivable executed with related party	(500,000)	-
Investment income	6,158,543	5,266,433
Proceeds from TriWest share repurchase	-	4,170,377
Assets restricted for investment purposes	-	2,223,521
Proceeds from sale and maturities of investments	99,464,500	86,179,510
Purchases of investments	(146,173,152)	(110,659,921)
Net cash used in investing activities	(41,028,294)	(12,814,476)
Net (decrease) increase in cash and cash equivalents	(14,313,575)	31,765,175
Cash and cash equivalents at beginning of year	98,890,650	67,125,475
Cash and cash equivalents at end of year	$ 84,577,075	$ 98,890,650

(Continued on the following page)

See notes to financial statements.

UNIVERSITY PHYSICIANS, INC.
A Component Unit of The University of Colorado

Statements of Cash Flows

(Continued from the previous page)

	For the Years Ended June 30,	
	2016	2015
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 54,499,617	$ 50,659,866
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	4,465,943	4,124,567
Bad debt expense	30,462,884	34,519,580
Change in operating assets and liabilities		
Accounts receivable	(36,864,278)	(35,046,042)
Receivable from related parties	723,604	953,844
Contracts receivable	(920,674)	981,968
Other current assets	1,080,695	(299,094)
Accounts payable and accrued liabilities	(4,620,807)	4,763,086
Accrued payroll and related liabilities	(89,393)	45,837
Payable to University of Colorado	(423,451)	3,970,362
Payable to other related parties	1,461,513	-
Accrued incentive distribution	(2,188,255)	2,598,883
	(6,912,219)	16,612,991
Net cash provided by operating activities	$ 47,587,398	$ 67,272,857

Supplemental disclosure of non-cash investing, capital, and financing activities:

UPI held investments at June 30, 2016 and 2015 with a fair value of $267,088,850 and $215,173,422, respectively. During the years ended June 30, 2016 and 2015, the net increase (decrease) in fair value of these investments was $5,206,776 and $(654,851), respectively.

During the years ended June 30, 2016 and 2015, UPI recorded a gain (loss) on the disposal of capital assets of $76,740 and $(11,802), respectively.

During the year ended June 30, 2016, capital assets in the amount of $417,017 were purchased through capital lease financing.

During the year ended June 30, 2015, UPI refinanced its variable-rate debt with a fixed-rate bank-direct purchase obligation, which included a $3,500,000 cash payment to reduce the principal to a net outstanding amount of $11,695,000.

See notes to financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

University Physicians, Inc. ("UPI") is a Colorado non-profit corporation organized to perform the billing, collection, and disbursement functions for professional services rendered as authorized in Section 23-20-114 of the Colorado Revised Statutes 1973. UPI is the University of Colorado School of Medicine's ("SOM") faculty practice plan with approximately 2,800 member providers. UPI does not, however, employ physicians or practice medicine directly; it provides the business and administrative support for the clinical faculty employed by the SOM. The members' primary sites of practice are at the University of Colorado Hospital ("UCH") and Children's Hospital Colorado ("Children's Colorado"), but members also provide limited clinical services at multiple hospital and clinic sites throughout the region, including the National Jewish Medical and Research Center, the Veterans Administration Medical Center, and Denver Health and Hospital Authority. Approximately 75% of patients cared for reside within the Denver metropolitan area.

The majority of the members of UPI's Board of Directors (the "Board") are the chairs of the SOM departments, and the Dean of the SOM is the President of UPI. Consequently, UPI is considered to be a component unit of the University of Colorado for financial reporting purposes. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, UPI is accounted for as a single column business-type activity.

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Financial Instruments

Financial instruments consist of cash and cash equivalents, assets limited as to use for investment purposes, short-term investments, accounts receivable, long-term investments, current liabilities, and long-term debt obligations. The carrying amounts reported on the balance sheets for cash and cash equivalents, accounts receivable, and current liabilities approximate fair value due to their short-term nature. Management's estimate of the fair value of the other financial instruments is described in Notes 2, 3, and 7 to the financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, money market accounts, and other similar investments with a maturity of three months or less when acquired.

Investments

Investments are recorded at fair value. Fair values of investments traded on a national exchange are based on the last reported sales price on the last business day of the year; fair values of investments traded in the over-the-counter market are based on the average of the last recorded bid and ask price. Investment transactions are recorded on the trade date. Interest, dividends, and realized and unrealized gains and losses, based on the specific identification method, are included in non-operating income (expense) when incurred.

Concentrations of Accounts Receivable Credit Risk

UPI grants credit without collateral to its patients. The mix of accounts receivable from patients and third-party payers is as follows:

	June 30,	
	2016	2015
Managed care	56.1 %	52.2 %
Medicare	16.0	15.4
Medicaid	16.1	19.3
Other third-party payers	7.5	7.6
Self-pay	4.3	5.5
	100.0 %	100.0 %

Allowance for Doubtful Accounts

Provision for estimated uncollectible patient accounts is made in amounts approximating anticipated losses. Individual patient accounts are written off against the allowance when collection of the account appears doubtful. Bad debts substantially consist of write-offs for uncollectible balances on self-pay patients. Bad debts of $30,462,884 and $34,519,580 are included as a reduction in patient service revenue for the years ended June 30, 2016 and 2015, respectively.

Revenue and Receivables from Related Parties and Other Revenue and Receivables

These receivables represent contractual agreements for reimbursement of services performed by faculty members and/or staff for both related (Note 6) and unrelated third parties. Services are provided under a wide range of contractual agreements, including those for clinical and administrative effort, biotechnical services, and medical/legal and consulting time.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Revenue and Receivables from Related Parties and Other Revenue and Receivables (continued)

UPI recognizes contract income in the period in which services have been provided. UPI recognizes lease income in the period in which it was earned, based on facility utilization.

Capital Assets

Capital assets are recorded at cost when purchased. UPI capitalizes all assets with a value of $5,000 or more and with an estimated useful life of greater than one year. Renovations to buildings and other improvements and replacements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are expensed in the period incurred.

Major outlays for capital assets and improvements are capitalized as construction in progress throughout a building project. Interest incurred during the construction phase is included as part of the value of the capital asset.

UPI capitalizes all collections, such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collections do not decrease over time. These collections are not depreciated in UPI's financial statements.

The cost and accumulated depreciation for capital assets sold or retired are removed from the accounts and the resulting gain or loss is included in other non-operating gains (losses) on the accompanying statements of revenue, expenses, and changes in net position.

The provision for depreciation is provided over the estimated useful life of each class of capital assets using the straight-line method and monthly convention. Useful lives for buildings and improvements are 10 to 40 years, leasehold improvements are 5 to 20 years, and equipment is 3 to 15 years.

Long-Lived Assets

UPI's long-lived assets consist primarily of land, building, and equipment. UPI performs a review of long-lived assets whenever events or circumstances indicate the service utility of an asset may have significantly and unexpectedly declined to assess whether an impairment of value has occurred. If such an impairment has occurred, the related assets would be written down. No adjustments for impairment have been recognized during the years ended June 30, 2016 and 2015.

Accrued Incentive Distribution

According to the UPI bylaws, SOM faculty who are members of UPI are eligible to earn an incentive payment as described and administered through approved departmental incentive plans. All UPI faculty member incentives are subject to availability of department cash earnings after all operating expenses and reserve obligations have been satisfied over semi-annual periods (currently ending December 31 and June 30).

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Net Position

UPI's net position is classified as follows:

Invested in capital assets, net of related debt – Capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Designated – Funds maintained for specific programs and projects and managed primarily by SOM/UPI clinical departments to further their academic, research, and clinical missions. Also, certain balances are held to satisfy the requirements of UPI's bylaws and covenants associated with UPI's debt. Designated assets also include administrative accounts to manage payments associated with a capitated healthcare program and certain debt service costs. Separate fund balances are maintained to account for both the source and intended use of designated funds. UPI's net assets designated for the purposes described above totaled $345,263,913 and $317,033,393 as of June 30, 2016 and 2015, respectively.

Unrestricted – Other funds and net working capital not yet assigned to designated categories that could be available for unrestricted use.

Revenue and Expenses

UPI's statements of revenue, expenses, and changes in net position distinguish between operating and non-operating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services and includes patient service, contract, and lease revenue. Non-exchange income includes investment income and gain on sale of capital assets and is reported as non-operating income (expense). Operating expenses are all expenses incurred to provide healthcare services, new program development, faculty development, and recruitment support. Non-operating expenses include interest expense and contributions to affiliates.

Net Patient Service Revenue, Contractual Arrangements, and Charity Care

UPI members provide care to patients covered by various third-party payers, such as Medicare, Medicaid, private insurance companies, and managed care programs. Amounts earned under these third-party contractual arrangements are primarily from fixed-rate agreements, which for Medicare and Medicaid are updated annually by federal and state governments, respectively. Contractual arrangements with insurance companies and managed care plans are reimbursed at periodically negotiated contract rates. Amounts reimbursed for services rendered to patients covered under the Medicare and Medicaid programs are generally less than established commercial contract billing rates. Differences between established billing rates and amounts reimbursed are recognized as contractual adjustments.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue, Contractual Arrangements, and Charity Care (continued)

The following summary details gross charges and approximate uncompensated care resulting from contractual allowances and bad debts:

	June 30, 2016	June 30, 2015
Gross charges	$ 1,674,015,721	$ 1,528,565,541
Third-party contractual allowances	(1,102,248,689)	(1,015,131,775)
Provision for bad debt	(30,462,884)	(34,519,580)
Net patient service revenue	$ 541,304,148	$ 478,914,186

UPI derived approximately 7.8% of its net revenue from services provided under the Medicare program for each of the years ended June 30, 2016 and 2015. UPI derived approximately 17.7% and 15.1% of its net revenue from services provided under the Medicaid program for the years ended June 30, 2016 and 2015, respectively. In addition to the standard Medicaid program, UPI provided substantial care to Medicaid patients under the Colorado Access program. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes UPI is in compliance, in all material respects, with applicable laws and regulations.

In accordance with UPI's mission and philosophy, UPI members provide substantial levels of charity care to patients who meet certain defined criteria. Charity care relates to services rendered for which no payment is expected. Because UPI does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The estimated cost of providing charity care in fiscal years 2016 and 2015 totaled approximately $7,155,000 and $7,349,000, respectively. The cost of charity care is estimated by applying a ratio of operating expenses to total gross charges to those charges specifically associated with charity care.

Income Taxes

As an organization described in Internal Revenue Code ("IRC") Section 501(c)(3), UPI is exempt from income taxes on its related income under IRC Section 501(a) and is a "supporting organization" under IRC Section 509(a)(3). There was no tax liability related to income generated from activities unrelated to UPI's exempt purposes as of June 30, 2016 and 2015. Pursuant to a private letter ruling received from the IRS on February 12, 2009, UPI is exempt from filing IRS Form 990 as it is considered to be controlled and operated by a governmental entity. UPI has evaluated tax positions taken, and, as none are considered to be uncertain, no amounts have been recognized.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncement

During the year ended June 30, 2016, UPI adopted Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, which clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurement. Upon adoption, management reviewed the assets and liabilities of UPI, established the unit of account for the assets and liabilities subject to fair value recognition and disclosure, and determined the fair value hierarchy level under which each unit of account should be classified. As a result of the adoption, there were no changes in the measurement of assets or liabilities previously held by UPI. GASB Statement No. 72 has been retroactively applied to both fiscal years presented.

Subsequent Events

UPI has evaluated all subsequent events through the auditors' report date. There were no material subsequent events that required recognition or disclosure in the financial statements.

Note 2 - Deposits and Investments

The bank balance of deposits, including demand accounts and money market investments, was $87,386,394 and $101,552,030 at June 30, 2016 and 2015, respectively. UPI's deposits and investments include the following:

	June 30, 2016		
	Deposits	Investments	Total
Cash and cash equivalents	$ 84,577,075	$ -	$ 84,577,075
Short-term investments	-	52,958,306	52,958,306
Long-term investments	-	214,130,544	214,130,544
	$ 84,577,075	$ 267,088,850	$ 351,665,925

	June 30, 2015		
	Deposits	Investments	Total
Cash and cash equivalents	$ 98,890,650	$ -	$ 98,890,650
Short-term investments	-	38,020,424	38,020,424
Long-term investments	-	177,152,998	177,152,998
	$ 98,890,650	$ 215,173,422	$ 314,064,072

Note 2 - Deposits and Investments (continued)

UPI's investment portfolio is not exposed to foreign currency risk. As of June 30, 2016 and 2015, UPI had the following investments:

	June 30, 2016		June 30, 2015	
Investment Type	Fair Value	Weighted Average Maturity in Years	Fair Value	Weighted Average Maturity in Years
Corporate bonds	$ 116,478,158	5.19	$ 97,516,101	3.15
Federal agency and government securities	71,119,519	5.48	48,746,783	4.84
Certificates of deposit	3,392,145	2.26	3,869,852	0.17
Municipal securities	12,483,873	4.90	12,272,498	4.44
Mortgage-backed securities	20,632,686	3.71	17,988,813	4.24
Commercial-backed securities	20,430,289	4.61	14,285,695	4.52
Asset-backed securities	22,552,180	2.41	20,493,680	2.33
	$ 267,088,850		$ 215,173,422	
Portfolio weighted average maturity		4.82		3.66

The calculation of weighted average maturity follows standard conventions and includes the time remaining to maturity for traditional securities and a calculation of the remaining expected investment life for structured securities.

UPI uses the services of institutional asset managers with discretionary trading authority over the portfolio. UBS Corporate Cash Management and Galliard Capital Management manage the assets directed to their accounts according to the objectives and limitations established by UPI's investment policy. The holdings in the portfolio as of the years ended June 30, 2016 and 2015 include a broad spectrum of high-quality fixed-income securities, as allowed under the investment policy.

The UPI investment policy is designed primarily to protect the principal value of invested balances. The policy has a diversification focus, which reduces the risk of principal loss by setting percentage-based credit and concentration limits. In addition, the policy details the specific asset classes allowed for purchase and is limited to those considered industry standard and traditionally found in high-quality fixed-income portfolios. The policy also describes the procedures to be followed in the event of a securities downgrade below investment grade.

Interest Rate Risk – UPI manages its exposure to changing interest rates in part by limiting the maturities allowable in the portfolio. The policy currently limits individual maturities to 10 years. In addition, the policy establishes a duration measure relative to an industry benchmark appropriate for the particular mandate under management.

Note 2 - Deposits and Investments (continued)

Credit and Concentration Risk – UPI's investment policy limits fixed-income asset purchases to those with investment-grade credit ratings (BBB or higher) by a national rating service. In addition, the policy limits concentrations to any individual issuer. For AAA- and AA-rated securities, no one issuer can comprise more than 5% of the portfolio. For A-rated credits, no one issuer can account for more than 2.5% of the portfolio. For BBB-rated securities, the policy limits the maximum exposure to this credit class to no more than 15% of the portfolio and restricts the holdings per issuer to no more than 1.0%. Decisions to hold any securities downgraded below investment-grade levels (Baa3/BBB) are to be reported to UPI's Finance Committee. UPI's portfolio asset classes and average credit quality at year-end were:

	June 30, 2016		June 30, 2015	
Investment Type	Ratings	% of Portfolio	Ratings	% of Portfolio
Certificates of deposit	FDIC	1.3 %	FDIC	1.8 %
Federal agency and government securities	AA+ or better	26.6	AA+ or better	22.7
Corporate bonds	A- or better	34.2	A- or better	38.3
Corporate bonds	Below A	9.3	Below A	7.0
Municipal securities	A or better	4.7	A or better	5.7
Mortgage-backed securities	AA+ or better	7.7	AA+ or better	8.4
Commercial-backed securities	AA or better	7.7	AA- or better	6.6
Asset-backed securities	AA+ or better	8.5	AA+ or better	9.5
		100.0 %		100.0 %

Note 3 - Fair Value Measurements and Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities;

Level 2: Observable prices that are based on inputs not quoted in active markets but corroborated by market data; or

Level 3: Unobservable inputs in which there is little or no market data, which requires the reporting entity to develop its own assumptions.

Note 3 - Fair Value Measurements and Investments (continued)

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Following is a description of the valuation methodologies used for assets measured at fair value:

> *Fixed income securities* - Valued based on prices currently available for securities from identifiable market sources or defined methodologies to estimate or approximate the fair value of those securities. Level 1 designates those securities for which quoted prices are readily available in active markets for identical assets. Level 2 indicates securities where prices are available in less active markets, for similar but not identical assets or using a matrix pricing approach in instances where market inputs are not directly observable.

Financial assets carried at fair value as of June 30, 2016 are classified in the table below in one of the categories described above:

Description	Level 1	Level 2	Level 3	Total
Corporate bonds	$ -	$ 116,478,158	$ -	$ 116,478,158
Federal agency and government securities	17,560,419	53,559,100	-	71,119,519
Municipal securities	-	12,483,873	-	12,483,873
Mortgage-backed securities	-	20,632,686	-	20,632,686
Commercial-backed securities	-	20,430,289	-	20,430,289
Asset-backed securities	-	22,552,180	-	22,552,180
Total	$ 17,560,419	$ 246,136,286	$ -	$ 263,696,705

Financial assets carried at fair value as of June 30, 2015 are classified in the table below in one of the categories described above:

Description	Level 1	Level 2	Level 3	Total
Corporate bonds	$ -	$ 97,516,101	$ -	$ 97,516,101
Federal agency and government securities	10,064,641	38,682,142	-	48,746,783
Municipal securities	-	12,272,498	-	12,272,498
Mortgage-backed securities	-	17,988,813	-	17,988,813
Commercial-backed securities	-	14,285,695	-	14,285,695
Asset-backed securities	-	20,493,680	-	20,493,680
Total	$ 10,064,641	$ 201,238,929	$ -	$ 211,303,570

Note 3 - Fair Value Measurements and Investments (continued)

Investments on the balance sheets include cash and certificates of deposit totaling $3,392,145 and $3,869,852 at June 30, 2016 and 2015, respectively, that are not subject to fair value classification reporting requirements.

Investment return consists of the following:

	For the Years Ended June 30,	
	2016	2015
Realized losses	$ (854,132)	$ (772,237)
Change in unrealized gains (losses)	5,206,776	(654,851)
Interest and dividends	7,012,675	6,038,670
	$ 11,365,319	$ 4,611,582

Note 4 - Capital Assets

Capital assets consist of the following as of June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 1,948,238	$ -	$ -	$ 1,948,238
Construction in progress	2,270,439	806,290	(2,270,439)	806,290
Artwork	83,799	44,653	-	128,452
Total capital assets, not being depreciated	4,302,476	850,943	(2,270,439)	2,882,980
Capital assets, being depreciated				
Land improvements	188,617	-	-	188,617
Building	38,304,888	489,615	-	38,794,503
Leasehold improvements	2,171,096	2,152,426	-	4,323,522
Medical equipment and furniture	8,137,928	1,286,098	(936,241)	8,487,785
Office equipment, including data processing	11,741,445	1,156,653	-	12,898,098
Other	1,158,374	173,840	-	1,332,214
Total capital assets, being depreciated	61,702,348	5,258,632	(936,241)	66,024,739
Less accumulated depreciation				
Land improvements	83,536	16,707	-	100,243
Building	8,647,161	1,918,566	-	10,565,727
Leasehold improvements	1,077,226	399,215	-	1,476,441
Medical equipment and furniture	5,951,428	851,053	(533,708)	6,268,773
Office equipment, including data processing	5,568,144	1,183,493	-	6,751,637
Other	565,816	96,909	-	662,725
Total accumulated depreciation	21,893,311	4,465,943	(533,708)	25,825,546
Total capital assets, being depreciated, net	39,809,037	792,689	(402,533)	40,199,193
Total capital assets, net	$ 44,111,513	$ 1,643,632	$ (2,672,972)	$ 43,082,173

Note 4 - Capital Assets (continued)

Capital assets consist of the following as of June 30, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 1,948,238	$ -	$ -	$ 1,948,238
Construction in progress	-	2,270,439	-	2,270,439
Artwork	83,799	-	-	83,799
Total capital assets, not being depreciated	2,032,037	2,270,439	-	4,302,476
Capital assets, being depreciated				
Land improvements	188,617	-	-	188,617
Building	38,304,888	-	-	38,304,888
Leasehold improvements	2,171,096	-	-	2,171,096
Medical equipment and furniture	7,856,185	497,271	(215,528)	8,137,928
Office equipment, including data processing	11,660,952	318,296	(237,803)	11,741,445
Other	1,158,374	-	-	1,158,374
Total capital assets, being depreciated	61,340,112	815,567	(453,331)	61,702,348
Less accumulated depreciation				
Land improvements	66,829	16,707	-	83,536
Building	6,851,398	1,795,763	-	8,647,161
Leasehold improvements	875,189	202,037	-	1,077,226
Medical equipment and furniture	5,297,818	852,986	(199,376)	5,951,428
Office equipment, including data processing	4,633,614	1,172,333	(237,803)	5,568,144
Other	481,075	84,741	-	565,816
Total accumulated depreciation	18,205,923	4,124,567	(437,179)	21,893,311
Total capital assets, being depreciated, net	43,134,189	(3,309,000)	(16,152)	39,809,037
Total capital assets, net	$ 45,166,226	$ (1,038,561)	$ (16,152)	$ 44,111,513

Note 5 - Retirement Plan

UPI sponsors a defined contribution retirement plan (the "Plan") for its permanent employees under the Teachers Insurance and Annuities Association's College Retirement Equities Fund. Employees are eligible for participation in the Plan after completing one year of service. On behalf of eligible employees, UPI contributed an amount equal to 7% of eligible employees' salaries for the years ended June 30, 2016 and 2015. UPI's contributions to the Plan for the years ended June 30, 2016 and 2015 were $1,948,378 and $1,872,460, respectively.

Note 6 - Related Party Transactions

UPI transfers funds to the SOM on a monthly basis to support SOM faculty salaries, fringe benefits, and other direct operating costs of its members. Transfers totaled approximately $618,000,000 and $549,000,000 for the years ended June 30, 2016 and 2015, respectively. Included in these transfers were charges of approximately $4,133,000 and $3,990,000 (including trust premium expenses and risk management administration expenses of approximately $3,518,000 and $3,462,000) for the years ended June 30, 2016 and 2015, respectively, from the SOM for other administrative costs under the terms of an annual operating agreement.

In furtherance of UPI's mission, UPI made contributions to affiliated organizations in 2016 and 2015 of approximately $15,899,000 and $15,029,000, respectively. UPI's affiliated organizations are the University of Colorado and Children's Hospital Colorado Foundations, the SOM, and UCH. These contributions are funded from department surpluses for endowments and research at the departments' discretion.

In October 2015, Children's Colorado, SOM, and UPI entered into a letter of intent (the "LOI") to staff and operate a pediatric multi-specialty center in Colorado Springs (the "Briargate Clinic"). The Briargate Clinic comprises existing operations at the Briargate medical office building, and, in the future, the center is expected to function as a practice organizational model for faculty delivering care at that location. Effective October 1, 2015, the Briargate Clinic began operating as a freestanding clinic and UPI commenced leasing space, equipment, and staff from Children's Colorado. Under the terms of the LOI, UPI assumed certain billing responsibilities for the Briargate Clinic and has agreed to compensate Children's Colorado for the fair market value of the services described above. Children's Colorado and UPI continue to hold discussions concerning the operating and financial requirements of the center. As of and for the year ended June 30, 2016, UPI recorded a liability and expense for the fair market value of the services provided of approximately $4,052,000 and a receivable from Children's Colorado in the amount of approximately $2,811,000.

Note 6 - Related Party Transactions (continued)

During 2016 and 2015, UPI recognized approximately $48,119,000 and $45,268,000, respectively, in contract income from Children's Colorado for faculty, department, and programmatic support. UPI also received approximately $24,174,000 and $23,048,000 during 2016 and 2015, respectively, for the utilization of faculty services, including medical direction, on-call coverage, clinical lab and other related functions, and clinical services. Receivables from related parties include approximately $688,000 of net payments due from Children's Colorado at June 30, 2015. Other related party payables include approximately $1,461,000 of net payments due to Children's Colorado at June 30, 2016, primarily related to the Briargate transaction described above.

During 2016 and 2015, UPI recognized approximately $1,761,000 and $1,489,000, respectively, in contract income from University of Colorado Health ("UCHealth"), a non-profit health system formed in 2012 by the University of Colorado Health Authority and the Poudre Valley Health System. Contract income received from UCHealth includes reimbursements for services provided by faculty as well as programmatic and faculty support. Receivables from related parties include approximately $234,000 of net payments due from UCHealth at June 30, 2016.

During 2016 and 2015, UPI recognized approximately $39,772,000 and $39,541,000, respectively, in contract income from UCH for faculty, department, and programmatic support. UPI also received approximately $42,640,000 and $37,040,000 during 2016 and 2015, respectively, which represents reimbursements channeled through UCH by external entities for services provided by UPI on behalf of those external entities (e.g., Ryan White program) and for the utilization of faculty services, including medical direction, on-call coverage, clinical lab and other related functions, and clinical services. Additionally during 2015, UPI received from UCH state of Colorado pass-through reimbursements of $688,790 to cover a portion of the costs to provide care for the state's medically indigent program (Note 1). No reimbursements were received during 2016. Receivables from related parties include approximately $1,202,000 and $1,471,000 of net payments due from UCH at June 30, 2016 and 2015, respectively.

In fiscal year 1997, UPI contributed $993,750 of capital to UCH for a 30% interest in UCH's investment in TriWest. In April 2013, after being replaced by the Department of Defense under the TriCare management contract, TriWest recapitalized the corporation and subsequently completed a stock repurchase of all outstanding shares in February 2014. UPI received $17,151,258 for its ownership interest, which was included in investment income during the year ended June 30, 2014. A total of $9,730,881 was in the form of cash at closing, $3,250,000 of the proceeds were reinvested by UPI in the new TriWest entity, and the remaining $4,170,377 was paid in April 2015. UPI's new interest in TriWest represents 35% of a combined $9,250,000 investment held by University of Colorado Hospital Authority ("UCHA"). UPI and UCHA's investment in TriWest represented approximately 3% of the book value of the entity at closing. UPI accounts for its participation in UCHA's investment in TriWest on the cost basis.

Note 6 - Related Party Transactions (continued)

In December 2010, UPI, UCH, and the SOM entered into a joint operating agreement to develop and operate a radiology imaging facility. In fiscal years 2012 and 2011 combined, UPI contributed a total of approximately $988,000, which is equal to 49% of total capital contributions for the imaging center. Capital contributions and division of revenue and expenses will be split between the partners based upon the operating agreement. UPI recorded $894,435 and $1,025,668 in dividends during the years ended June 30, 2016 and 2015, respectively. Of these amounts, $697,000 and $517,000 for June 30, 2016 and 2015, respectively, is due from UCH, which is included in receivables from related parties on the balance sheet.

In March 2006, UPI purchased one membership capital contribution unit in Boulder Bone & Joint Specialists, LLC for $35,000. In March 2013, an additional one-half of one unit that had been purchased in April 2009 was sold. UPI has a 6.9% ownership interest in Boulder Bone & Joint Specialists, LLC and accounts for this investment on the cost basis. UPI received $151,356 and $96,610 in dividends during the years ended June 30, 2016 and 2015, respectively. The separate financial statements of the joint venture are available to UPI on an annual basis.

During 2009, UPI purchased 49 units representing a 24.5% share in Children's North Surgery Center, LLC ("Surgery Center") for $490,000. The Surgery Center was formed by Children's Hospital Colorado Association, UPI, and individual community physicians for the purpose of owning and operating a multi-specialty ambulatory surgery center focused on pediatric care. UPI accounts for its participation in the Surgery Center on the cost basis. During 2012, UPI contributed $122,500 through capital calls, thereby maintaining UPI's original ownership interest. There were no such capital calls during fiscal years 2016 or 2015. In addition to its equity interest in the entity, UPI has issued a guaranty for up to $1,200,000 in support of a $4,700,000 loan taken by the Surgery Center in support of its operations. In the event of default, UPI and Children's Colorado would be responsible for their proportionate interest in this indebtedness to the extent it could not be satisfied by any equity remaining in the venture. The separate financial statements of the joint venture are available to UPI on an annual basis.

Note 6 - Related Party Transactions (continued)

UPI leases office space in the administrative office building it currently occupies to the SOM's Hemophilia and Thrombosis Center, the Adult and Child Center for Health Outcomes Research and Delivery Science, the Center for Global Health, Healthcare Policy and Research, and the Depression Center. Lease income recognized during the years ended June 30, 2016 and 2015 from these entities was approximately $2,315,000 and $1,962,000, respectively. As of June 30, 2016, future minimum lease revenue for administrative office space leases is as follows:

For the Year Ending June 30,	
2017	$ 2,390,018
2018	1,029,372
2019	1,059,951
2020	898,993
2021	768,759
	$ 6,147,093

Note 7 - Long-Term Debt

Long-term debt consists of the following:

	June 30, 2016	June 30, 2015
Fixed-rate bonds, Series 2014, with interest and principal installments due monthly through November 2024	$ 9,833,000	$ 11,009,000
Less current portion	(1,176,000)	(1,176,000)
	$ 8,657,000	$ 9,833,000

Note 7 - Long-Term Debt (continued)

Changes in long-term debt and capital leases are as follows:

For the Year Ended June 30, 2016	Date of Issuance	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease obligations	Varies	$ 553,654	$ 417,017	$ (602,262)	$ 368,409	$ 131,954
Fixed-rate bonds, Series 2014	October 2014	11,009,000	-	(1,176,000)	9,833,000	1,176,000
Total		$ 11,562,654	$ 417,017	$ (1,778,262)	$ 10,201,409	$ 1,307,954

For the Year Ended June 30, 2015	Date of Issuance	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease obligations	Varies	$ 747,015	$ -	$ (193,361)	$ 553,654	$ 192,870
Variable-rate bonds, Series 2002	December 2002	15,195,000	-	(15,195,000)	-	-
Fixed-rate bonds, Series 2014	October 2014	-	11,695,000	(686,000)	11,009,000	1,176,000
Total		$ 15,942,015	$ 11,695,000	$ (16,074,361)	$ 11,562,654	$ 1,368,870

Annual debt service requirements on long-term debt are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2017	$ 1,176,000	$ 213,762	$ 1,389,762
2018	1,176,000	186,714	1,362,714
2019	1,176,000	159,666	1,335,666
2020	1,164,000	132,745	1,296,745
2021	1,164,000	105,973	1,269,973
Thereafter	3,977,000	160,073	4,137,073
Total long-term debt payments	$ 9,833,000	$ 958,933	$ 10,791,933

In December 2002, UPI entered into a loan agreement with the Fitzsimons Redevelopment Authority to issue variable-rate bonds, Series 2002, in the amount of $20,500,000. Proceeds from the sale of these bonds were used to fund the development, construction, and equipping of UPI's administrative office building. In October 2014, UPI refinanced its variable-rate debt with a fixed-rate bank-direct purchase obligation. The borrowing, funded by US Bank, included a $3,500,000 reduction in principal to a net amount outstanding at the time of the refinance of $11,695,000. The obligation is amortizable over 10 years and carries a fixed rate of 2.3%.

Note 7 - Long-Term Debt (continued)

The US Bank financing is subject to the same financial covenants as those included in the original variable-rate obligation, the most significant of which are the maintenance of 60 days' cash on hand (defined as cash plus readily marketable securities) and a debt service coverage ratio of 1.25. UPI is in compliance with its debt service requirements and financial covenants.

Included in capital assets as of June 30, 2016 is property with a cost of $420,405 and accumulated depreciation of $60,673 that UPI leases under capital leases. Amortization of property under capital leases is reported as depreciation expense. Future minimum lease payments under capital leases as of June 30, 2016 are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2017	$ 131,954	$ 5,163	$ 137,117
2018	100,112	3,118	103,230
2019	73,922	1,675	75,597
2020	59,183	592	59,775
2021	3,238	10	3,248
Total capital lease payments	$ 368,409	$ 10,558	$ 378,967

Note 8 - Commitments and Contingencies

Operating Lease Obligations

UPI leases certain medical and office equipment and medical and office space under leases accounted for as operating leases. The original lease terms are generally one to five years with options to renew the leases for specified periods subsequent to their original terms. Rent expense totaled approximately $3,306,000 and $1,790,000 for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016, future minimum lease commitments for operating equipment and space leases are as follows:

For the Year Ending June 30,	
2017	$ 1,393,063
2018	1,350,035
2019	1,093,893
2020	862,887
2021	827,006
Thereafter	2,858,776
	$ 8,385,660

Note 8 - Commitments and Contingencies (continued)

Letter of Credit

UPI holds a letter of credit agreement with a bank to fund any workers' compensation claims up to $390,780 as required by the Department of Labor. No amounts were outstanding on the letter of credit as of June 30, 2016 or 2015.

Revolving Line of Credit

UPI holds a revolving line of credit (the "line of credit") agreement with US Bank for liquidity management purposes. The line of credit, originally executed in January 2012 and effective for one year with certain renewal options, currently expires on June 30, 2017. This line of credit provides UPI with the ability to borrow amounts up to $5,000,000, subject to certain limitations, covenants, and restrictions. Any funds drawn under the line of credit accrue interest at an annual rate of 1.70% plus one-month LIBOR. The line of credit includes undrawn facility fees of 0.18% or $9,000 per year. No amounts were outstanding on the line of credit as of June 30, 2016 or 2015.

Insurance

The SOM provides medical malpractice coverage for its employees, students, and volunteers through a combination of self-insurance and commercial insurance. The coverage is subject to the terms of the University of Colorado Self-Insurance and Risk Management Trust Coverage Document (the "Trust"). The Trust was authorized by Regent resolution dated June 23, 1977 and may be amended, altered, or revoked by the SOM, "but only if such revocation, alteration, or amendment is consistent with and in furtherance of the purpose of this Trust."

The participants in the Trust are the University of Colorado, including the SOM and its agencies, administrators, faculty, and employees. Assets and liabilities of the Trust cannot be separated into amounts attributable to any of the participants. As a result, the assets and liabilities of the Trust are not included in the accompanying financial statements.

The Trust provides coverage to certain parties up to statutory limitations relating to malpractice claim immunity for government entities ($350,000 per claimant and $990,000 per occurrence for claims after June 30, 2013; $150,000 per claimant and $600,000 per occurrence between January 1, 1993 and June 30, 2013; and $400,000 per occurrence for claims prior to January 1, 1993 arising from activities of covered persons and entities within the state of Colorado). It further provides secondary coverage through a commercial policy for claims greater than limits of $500,000 per claimant and $1,500,000 arising at approved sites of service outside the state of Colorado for which the limits of governmental immunity may not apply. The policy provides $8,000,000 coverage, in the aggregate, annually. UPI paid premiums of $2,677,676 and $2,827,238 to the Trust in fiscal years 2016 and 2015, respectively. In addition, charges of $840,309 and $635,137 were recognized related to risk management administration expenses paid to the Trust in fiscal years 2016 and 2015, respectively.

Note 8 - Commitments and Contingencies (continued)

Insurance (continued)

On July 1, 2010, UPI, UCH, and the University of Colorado each approved by resolution the establishment of a self-insurance trust, known as the Colorado Health and Welfare Trust, for the benefit of eligible employees of UPI, UCH, and the University of Colorado and their dependents. This trust is managed by a third-party administrator and provides healthcare coverage for eligible employees and manages the healthcare flexible spending plans of these institutions. For the years ended June 30, 2016 and 2015, UPI expensed premiums of $4,696,242 and $4,402,162, respectively, into the healthcare plan.

UPI is insured for other business risks through commercial insurance providers. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Coverage limits are deemed sufficient by management to protect UPI's assets and are reviewed and updated annually.

Industry Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that UPI is in substantial compliance with fraud, abuse, and other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Litigation

UPI is periodically subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of any such claims and lawsuits will not have a material adverse effect on the financial position of UPI.