

# **Colorado Springs Health Foundation**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

**Colorado Springs Health Foundation**  
December 31, 2016 and 2015

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## Independent Auditor's Report

Board of Trustees  
Colorado Springs Health Foundation  
Colorado Springs, Colorado

We have audited the accompanying financial statements of Colorado Springs Health Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees  
Colorado Springs Health Foundation

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Springs Health Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Colorado Springs, Colorado  
March 20, 2017

**Colorado Springs Health Foundation**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
Cash	\$ 9,864,685	\$ 3,832,188
Contributions receivable - related party	-	1,809,542
Investments	67,116,179	57,370,033
Assets whose use is limited - escrow funds	25,000,000	25,000,000
Prepaid expense and other	2,096	2,096
Total assets	\$ 101,982,960	\$ 88,013,859

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 17,227	\$ 16,942
Total liabilities	17,227	16,942
Net assets		
Unrestricted, undesignated	76,869,322	38,161,875
Board-designated	96,411	-
Total unrestricted net assets	76,965,733	38,161,875
Temporarily restricted	25,000,000	49,835,042
Total net assets	101,965,733	87,996,917
Total liabilities and net assets	\$ 101,982,960	\$ 88,013,859

**Colorado Springs Health Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, Gains (Losses) and Other Support</b>						
Contributions from the City of Colorado Springs	\$ 13,732,494	\$ -	\$ 13,732,494	\$ 9,803,139	\$ -	\$ 9,803,139
Investment income						
Interest	318,674	-	318,674	95,631	-	95,631
Dividends	829,424	-	829,424	394,271	-	394,271
Net gain (loss) on investments						
Realized	185,145	-	185,145	747,371	-	747,371
Change in unrealized	1,901,935	-	1,901,935	(2,795,281)	(164,958)	(2,960,239)
Net assets released from restriction	24,835,042	(24,835,042)	-	-	-	-
Total revenues, gains and other support	<u>41,802,714</u>	<u>(24,835,042)</u>	<u>16,967,672</u>	<u>8,245,131</u>	<u>(164,958)</u>	<u>8,080,173</u>
<b>Expenses</b>						
Grants	2,596,939	-	2,596,939	-	-	-
Program	261,246	-	261,246	140,735	-	140,735
Investment expenses	25,735	-	25,735	48,750	-	48,750
General and administrative	114,936	-	114,936	91,984	-	91,984
Total expenses	<u>2,998,856</u>	<u>-</u>	<u>2,998,856</u>	<u>281,469</u>	<u>-</u>	<u>281,469</u>
<b>Change in Net Assets</b>	38,803,858	(24,835,042)	13,968,816	7,963,662	(164,958)	7,798,704
<b>Net Assets, Beginning of Year</b>	<u>38,161,875</u>	<u>49,835,042</u>	<u>87,996,917</u>	<u>30,198,213</u>	<u>50,000,000</u>	<u>80,198,213</u>
<b>Net Assets, End of Year</b>	<u>\$ 76,965,733</u>	<u>\$ 25,000,000</u>	<u>\$ 101,965,733</u>	<u>\$ 38,161,875</u>	<u>\$ 49,835,042</u>	<u>\$ 87,996,917</u>

**Colorado Springs Health Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ 13,968,816	\$ 7,798,704
Items not requiring (providing) operating activities cash flows		
Net unrealized loss (gain) on investments	(1,901,935)	2,960,239
Changes in		
Accounts receivable - related party	1,809,542	(1,809,542)
Prepaid expense and other	-	(2,096)
Accounts payable and accrued expenses	285	12,082
	<u>13,876,708</u>	<u>8,959,387</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Purchases of investments	(35,297,007)	(36,451,317)
Proceeds from sales of investments	27,452,796	30,132,152
	<u>(7,844,211)</u>	<u>(6,319,165)</u>
Net cash used by investing activities		
<b>Increase in Cash</b>	6,032,497	2,640,222
<b>Cash, Beginning of Year</b>	<u>3,832,188</u>	<u>1,191,966</u>
<b>Cash, End of Year</b>	<u>\$ 9,864,685</u>	<u>\$ 3,832,188</u>

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

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

#### ***Nature of Operations***

Colorado Springs Health Foundation (the Foundation) was established in 2012 under the provisions of the City of Colorado Springs' City Council (City Council) resolution 121-12, resulting from the lease of City of Colorado Springs-owned Memorial Health System (Health System) to UCH-MHS (UCH), a Colorado nonprofit corporation of which the University of Colorado Hospital Authority is the sole member. As further provided in the City Council resolution, and subject to any obligations payable by the Foundation under the Guaranty and Indemnification Agreement (see Note 8), the Foundation receives distributions of the funds related to the lease payments for the purpose of making grants or distributions to address health issues in the Health System's service area. On September 27, 2012, the Foundation was incorporated in the State of Colorado as a not-for-profit organization. The Foundation is a component unit of the City of Colorado Springs as it is a separate legal entity for which the City of Colorado Springs is financially accountable.

#### ***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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

#### ***Cash***

At December 31, 2016, the Foundation's cash accounts exceeded federally insured limits by approximately \$9,620,000. Money market accounts held primarily for investment, purchase and sale transactions are classified as investments.

#### ***Contributions Receivable – Related Party***

The Foundation's contributions receivable are comprised of amounts due from the City of Colorado Springs. The Foundation recognizes contributions receivable on the date the funds from the City of Colorado Springs are approved for transfer by City Council. At times, amounts are approved in one fiscal year and received the following year.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest, realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

### ***Assets Whose Use is Limited – Escrow Funds***

Assets whose use is limited include assets held by the Foundation in a separate escrow account under a Guarantee and Indemnification Agreement (see Note 8).

### ***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors, including City Council, to a specific time period or purpose.

### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program and general and administrative categories based on the relative efforts expended on each activity.

### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### **Income Taxes**

The Foundation is exempt from income taxes under Sections 501(c)(3) and 509 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

### **Note 2: Investments and Assets Whose Use Is Limited – Escrow Funds**

Investments at December 31, 2016 and 2015 consisted of the following:

	<b>2016</b>	<b>2015</b>
<b>Investments</b>		
Money Market	\$ 7,965,376	\$ 1,539,830
Domestic Mutual Funds		
Large Cap	16,872,788	9,139,532
Small Cap	2,247,751	1,130,414
International Mutual Funds		
Large Cap	16,506,882	8,858,993
Mid Cap	4,054,637	4,600,074
Emerging Market	6,429,880	3,744,428
Fixed Income Mutual Funds	7,882,365	1,799,080
Alternative Strategy Mutual Funds	3,512,361	1,722,640
Treasury Bills	11,540	24,835,042
Alternative Investments	1,632,599	-
	<u>\$ 67,116,179</u>	<u>\$ 57,370,033</u>
<b>Assets Whose Use is Limited - Escrow Funds</b>		
Treasury Bills	<u>\$ 25,000,000</u>	<u>\$ 25,000,000</u>

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 3: Net Assets

#### ***Board-designated***

Board-designated net assets established by the Board of Trustees total \$96,411 and \$0 at December 31, 2016 and 2015, respectively and are available for unanticipated, emergency grant making needs and/or co-funding opportunities.

#### ***Temporarily Restricted***

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes and periods:

	<b>2016</b>	<b>2015</b>
Temporarily restricted net assets represented by assets whose use is limited - escrow funds	\$ 25,000,000	\$ 25,000,000
Temporarily restricted net assets represented by investment accounts	<u>-</u>	<u>24,835,042</u>
Total temporarily restricted net assets restricted for contingencies as described in Note 7	<u>\$ 25,000,000</u>	<u>\$ 49,835,042</u>

#### ***Net Assets Released From Restriction***

During 2016, the Foundation released \$24,835,042 of net assets that were previously restricted by the City of Colorado Springs City Council. These funds were released following the resolution and dismissal of certain contingencies. No funds were remitted by the Foundation in the resolution of these contingencies.

### Note 4: Grants

The Trustees of the Foundation follow a City Council-approved policy whereby annual distributions of grants must not exceed 5% of the Foundations' average net assets over 12 fiscal quarters. During 2016, the Trustees authorized grants in the amount of \$2,596,939. Grants approved by the Trustees were wholly distributed during 2016. Various Trustees or their family members are related parties to other organizations that received grants from the Foundation during 2016. The Foundation follows a policy which requires individual Trustees to recuse themselves from any grant-related discussions and decisions associated with the related organization. The Board approved grants of approximately \$1,250,000 during 2016 to organizations which members of the Board of Trustees are related.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 5: Related-party Transactions

The Foundation and the City of Colorado Springs are related parties that are financially interrelated organizations. The Foundation recognized various unrestricted contributions from the City of Colorado Springs totaling \$13,732,494 and \$7,993,597 in cash and \$0 and \$1,809,542 in contributions receivable during the years ended December 31, 2016 and 2015, respectively.

### Note 6: Retirement Plan

The Foundation has a defined contribution 403(b) plan covering all employees who meet certain eligibility requirements. The Foundation matches employee contributions of up to 5%. The employer contribution expense for 2016 and 2015 was \$9,661 and \$1,769, respectively.

### Note 7: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	2016			
	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Money Market	\$ 7,965,376	\$ 7,965,376	\$ -	\$ -
Domestic Mutual Funds				
Large Cap	16,872,788	16,872,788	-	-
Small Cap	2,247,751	2,247,751	-	-
International Mutual Funds				
Large Cap	16,506,882	16,506,882	-	-
Mid Cap	4,054,637	4,054,637	-	-
Emerging Market	6,429,880	6,429,880	-	-
Fixed Income Mutual Funds	7,882,365	7,882,365	-	-
Alternative Strategy Mutual Funds	3,512,361	3,512,361	-	-
Treasury Bills	11,540	-	11,540	-
Alternative Investments	1,632,599	(A)	(A)	(A)
	<u>\$ 67,116,179</u>	<u>\$ 65,472,040</u>	<u>\$ 11,540</u>	<u>\$ -</u>
<b>Assets Whose Use is Limited -</b>				
<b>Escrow Funds</b>				
Treasury Bills	<u>\$ 25,000,000</u>	<u>\$ -</u>	<u>\$ 25,000,000</u>	<u>\$ -</u>

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

	2015			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments</b>				
Money Market	\$ 1,539,830	\$ 1,539,830	\$ -	-
Domestic Mutual Funds				
Large Cap	9,139,532	9,139,532	-	-
Small Cap	1,130,414	1,130,414	-	-
International Mutual Funds				
Large Cap	8,858,993	8,858,993	-	-
Mid Cap	4,600,074	4,600,074	-	-
Emerging Market	3,744,428	3,744,428	-	-
Fixed Income Mutual Funds	1,799,080	1,799,080	-	-
Alternative Strategy Mutual Funds	1,722,640	1,722,640	-	-
Treasury Bills	24,835,042	-	24,835,042	-
	<u>\$ 57,370,033</u>	<u>\$ 32,534,991</u>	<u>\$ 24,835,042</u>	<u>-</u>
<b>Assets Whose Use is Limited -</b>				
<b>Escrow Funds</b>				
Treasury Bills	<u>\$ 25,000,000</u>	<u>\$ -</u>	<u>\$ 25,000,000</u>	<u>\$ -</u>

- (A) In accordance with Accounting Standards Update (ASU) 2015-07, the Foundation is not required to classify investments in certain entities that calculate net assets value per share (or its equivalent) in the fair value hierarchy above.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. At December 31, 2016 and 2015, the Foundation had no liabilities recorded at fair market value on a recurring basis.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Traditional Investments and Assets Whose Use is Limited – Escrow Funds***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2016, the Foundation holds no assets classified as Level 3 in the hierarchy.

### ***Alternative Investments***

The Foundation's alternative investments consist of one limited partnership. The alternative investment invests in foreign and domestic commercial and residential real estate. The fund has a one-year lock-up period which expires in June 2017. Fair value is determined by the fund managers using various models, comparisons and assumptions. Consideration is given to several factors, including the type of investment, risks, marketability, restrictions on disposition, quotations from other market participants and values of similar investments.

The Net Asset Value (NAV) provided by the fund managers is supported by underlying audit reports of the alternative investments. The Executive Director's office evaluates the reasonableness of the assumptions used by the fund manager to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Alternative investments held at December 31, 2016 consist of the following:

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Limited partnership	\$ 1,632,599	\$ -	Quarterly	45 days
	<u>\$ 1,632,599</u>	<u>\$ -</u>		

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 8: Commitments and Contingencies

#### ***Guarantee***

As described in Note 1, during 2012, the City of Colorado Springs entered into a certain lease agreement with UCH. Pursuant to the lease agreement, the City of Colorado Springs leased facilities and transferred operations along with acquired assets and assumed liabilities to the lessee. The term of the lease is through September 2042 and stipulates monthly lease payments to the City of Colorado Springs, which will be transferred to the Foundation, net of any administrative expenses, upon approval by City Council.

As a result of the lease agreement, certain contingencies exist. Pursuant to the Guarantee and Indemnification Agreement, dated October 1, 2012, the Foundation was named as guarantor on any future settlements of PERA or other claims as defined in the lease agreement. In order to guarantee certain indemnification and other obligations to UCH under the lease agreement, the Foundation was required to set aside \$25,000,000 in an unencumbered and readily available escrow account to ensure the fund's availability. These funds are recorded in assets whose use is limited – escrow funds on the statements of net position. At any time before October 1, 2017, UCH could make claims on the escrow account for indemnifiable losses or obligations of the City of Colorado Springs or the Foundation pursuant to the lease agreement. Such claims are subject to a dispute resolution process.

Should any claims be approved through the dispute resolution process, the Foundation would be required to fund these contingencies and record a corresponding expense in the statements of activities. However, management believes these contingencies are remote and, thus, have not recorded any liability related to these matters. It is possible that this estimate may change in the future.

### Note 9: Significant Estimates and Concentrations

#### ***Contributions***

100% of contributions were received from the City of Colorado Springs during 2016.

#### ***Investments***

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

# **Colorado Springs Health Foundation**

## **Notes to Financial Statements**

**December 31, 2016 and 2015**

### **Note 10: Subsequent Events**

On January 1, 2017, \$1,500,000 of money market investment funds were released from a pending trade and were invested in an alternative investment.

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.