

# **Colorado Springs Health Foundation**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

**Colorado Springs Health Foundation**  
**December 31, 2018 and 2017**

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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, 2018 and 2017, and the related statements of activities, functional expenses (2018 only) 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, 2018 and 2017, 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.

**Emphasis of Matter**

As described in Note 2 to the financial statements, in 2018, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*BKD, LLP*

Colorado Springs, Colorado  
March 20, 2019

**Colorado Springs Health Foundation**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
Cash	\$ 1,884,398	\$ 6,650,679
Contributions receivable - related party	675,475	-
Investments	118,476,923	115,400,946
Prepaid expense and other	2,128	2,157
Total assets	<b>\$ 121,038,924</b>	<b>\$ 122,053,782</b>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 21,699	\$ 21,250
Grants payable	3,085,624	-
Total liabilities	3,107,323	21,250
Net assets		
Without donor restrictions		
Undesignated	117,931,601	122,032,532
Total liabilities and net assets	<b>\$ 121,038,924</b>	<b>\$ 122,053,782</b>

**Colorado Springs Health Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2018 and 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, Gains and Other Support</b>						
Contributions from the						
City of Colorado Springs	\$ 10,331,116	\$ -	\$ 10,331,116	\$ 9,219,972	\$ -	\$ 9,219,972
Investment income (loss), net	(7,100,382)	-	(7,100,382)	14,374,886	-	14,374,886
Net assets released from restriction	-	-	-	25,000,000	(25,000,000)	-
	<u>3,230,734</u>	<u>-</u>	<u>3,230,734</u>	<u>48,594,858</u>	<u>(25,000,000)</u>	<u>23,594,858</u>
Total revenues, gains and other support						
<b>Expenses</b>						
Program	7,200,014	-	7,200,014	3,472,082	-	3,472,082
General and administrative	131,651	-	131,651	55,977	-	55,977
	<u>7,331,665</u>	<u>-</u>	<u>7,331,665</u>	<u>3,528,059</u>	<u>-</u>	<u>3,528,059</u>
Total expenses						
<b>Change in Net Assets</b>	(4,100,931)	-	(4,100,931)	45,066,799	(25,000,000)	20,066,799
<b>Net Assets, Beginning of Year</b>	<u>122,032,532</u>	<u>-</u>	<u>122,032,532</u>	<u>76,965,733</u>	<u>25,000,000</u>	<u>101,965,733</u>
<b>Net Assets, End of Year</b>	<u>\$ 117,931,601</u>	<u>\$ -</u>	<u>\$ 117,931,601</u>	<u>\$ 122,032,532</u>	<u>\$ -</u>	<u>\$ 122,032,532</u>

**Colorado Springs Health Foundation**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2018**

	<u>Program Services</u>	<u>Support Services</u>	
	<u>Grants</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and benefits	\$ 207,646	\$ 51,912	\$ 259,558
Community education and outreach	15,303	-	15,303
Grants	6,932,408	-	6,932,408
Professional services	-	65,774	65,774
Equipment and supplies	-	5,864	5,864
Utilities and occupancy	8,136	8,101	16,237
Professional development and training	36,521	-	36,521
	<u>\$ 7,200,014</u>	<u>\$ 131,651</u>	<u>\$ 7,331,665</u>

**Colorado Springs Health Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Activities</b>		
Change in net assets	\$ (4,100,931)	\$ 20,066,799
Items not providing (requiring) operating activities cash flows		
Net realized and unrealized loss (gain) on investments	9,329,458	(12,702,191)
Changes in		
Contributions receivable - related party	(675,475)	-
Prepaid expense and other	29	(61)
Accounts payable and accrued expenses	449	4,023
Grants payable	3,085,624	-
	<u>7,639,154</u>	<u>7,368,570</u>
Net cash provided by operating activities		
	<u>7,639,154</u>	<u>7,368,570</u>
<b>Investing Activities</b>		
Purchases of investments	(16,359,573)	(44,719,408)
Proceeds from sales of investments	3,954,138	9,136,832
Proceeds from sale of assets whose use is limited - escrow funds	-	25,000,000
	<u>(12,405,435)</u>	<u>(10,582,576)</u>
Net cash used by investing activities		
	<u>(12,405,435)</u>	<u>(10,582,576)</u>
<b>Decrease in Cash</b>	(4,766,281)	(3,214,006)
<b>Cash, Beginning of Year</b>	<u>6,650,679</u>	<u>9,864,685</u>
<b>Cash, End of Year</b>	<u>\$ 1,884,398</u>	<u>\$ 6,650,679</u>



# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### 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 the 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 9), 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, 2018, the Foundation's cash accounts exceeded federally insured limits by approximately \$1,650,000. Money market accounts held primarily for investment, purchase and sale transactions are classified as investments.

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

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### **Contributions**

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue and net assets without donor restrictions.

### **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. In 2018, in accordance with the adoption of ASU 2016-14, the 2018 statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and general and administrative categories benefited based on the relative efforts expended on each activity.

### **Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The Foundation currently holds no net assets with donor restrictions.

### **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.

### **Reclassifications**

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation due to the adoption of ASU 2016-14 as described in Note 2. These reclassifications had no effect on the change in net assets.

### **Subsequent Events**

Subsequent events have been evaluated through March 20, 2019, which is the date the financial statements were available to be issued.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 2: Change in Accounting Principle

In 2018, the Foundation adopted the Financial Accounting Standards Board Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes to the Foundation's financial statements are as follows:

#### **Statements of Financial Position and Statements of Activities**

The statements of financial position and statements of activities distinguish between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously presented unrestricted and temporarily restricted net assets.

The statements of activities present investment income net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

#### **Statement of Functional Expenses**

2018 expenses are reported by both nature and function in one location.

#### **Notes to the Financial Statements**

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the 2018 statement of financial position.

This change had no impact on previously reported total change in net assets.

### Note 3: Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs and grant commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash, receivables and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its role of grantmaker, including board-approved grant commitments and operating expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates receiving a consistent level of contributions from the City of Colorado Springs through 2052 pursuant to the terms of the City of Colorado Springs – UCHealth lease described in Note 1. These funds are invested and, along with the other investments, used to cover general expenditures and grants committed. The Foundation also operates within the Colorado Springs City Council-approved parameter that limits the annual payout (grants paid and total operating expenses) to no more than 5% of the average 12-quarter total rolling asset value.

**Colorado Springs Health Foundation**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

The following table shows financial assets held at December 31, 2018 that could be made available during the year ended December 31, 2019 to meet general expenditures:

	<b>2018</b>
<b>Financial Assets Available to be Used Within One Year</b>	
Cash	\$ 1,884,398
Contributions receivable - related party	675,475
Investments	118,476,923
	\$ 121,036,796

**Note 4: Disclosures About Fair Value of 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. 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, 2018 and 2017

### 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, 2018 and 2017:

	<b>2018</b>				
	<b>Fair Value Measurements Using</b>				
	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>		<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments</b>					
Money Market	\$ 496,812	\$ 496,812	\$ -	\$ -	
Domestic Mutual Funds					
Large Cap	29,116,078	29,116,078	-	-	
Small Cap	3,111,203	3,111,203	-	-	
International Mutual Funds					
Large Cap	25,375,876	25,375,876	-	-	
Emerging Market	9,702,637	9,702,637	-	-	
Fixed Income Mutual Funds	33,529,470	33,529,470	-	-	
Alternative Strategy Mutual Funds	11,082,436	11,082,436	-	-	
Alternative Investments, measured at net asset value	6,062,411	(A)	(A)	(A)	
	<u>\$ 118,476,923</u>	<u>\$ 112,414,512</u>	<u>\$ -</u>	<u>\$ -</u>	

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

	2017			
	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	\$ 455,653	\$ 455,653	\$ -	\$ -
Domestic Mutual Funds				
Large Cap	28,596,532	28,596,532	-	-
Small Cap	3,589,111	3,589,111	-	-
International Mutual Funds				
Large Cap	27,234,249	27,234,249	-	-
Emerging Market	11,430,254	11,430,254	-	-
Fixed Income Mutual Funds	31,127,385	31,127,385	-	-
Alternative Strategy Mutual Funds	9,592,537	9,592,537	-	-
Alternative Investments, measured at net asset value	3,375,225	(A)	(A)	(A)
	<u>\$ 115,400,946</u>	<u>\$ 112,025,721</u>	<u>\$ -</u>	<u>\$ -</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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. There have been no significant changes in the valuation techniques during the year ended December 31, 2018. The Foundation has reported no liabilities recorded at fair market value on a recurring basis or assets and liabilities recorded at fair market value on a non-recurring basis.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. At December 31, 2018 and 2017, the Foundation held no investments classified as Level 2 or 3 in the hierarchy.

### Alternative Investments

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient consist of the following:

	<b>2018</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Limited partnership	\$ 2,955,987	\$ -	Quarterly	45 days
Multi-strategy hedge fund	3,106,424	-	Quarterly	60 days
	<u>\$ 6,062,411</u>	<u>\$ -</u>		
	<b>2017</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Limited partnership	\$ 1,782,930	\$ -	Quarterly	45 days
Multi-strategy hedge fund	1,592,295	-	Quarterly	60 days
	<u>\$ 3,375,225</u>	<u>\$ -</u>		

### Note 5: Net Assets

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

During 2017, the Foundation released \$25,000,000 from assets whose use is limited – escrow funds. No funds were remitted by the Foundation in the release of restriction on these funds.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 6: Grants

The Trustees of the Foundation follow a City Council-approved policy whereby annual distributions of grants must not exceed 5% of the Foundation's average net assets over 12 fiscal quarters. During 2018 and 2017, the Trustees authorized grants in the amount of \$6,932,408 and \$3,088,709, respectively.

Various Trustees or their family members are related parties to other organizations that received grants from the Foundation during 2018 and 2017. 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 \$1,495,000 and \$1,002,000 during 2018 and 2017, respectively, to organizations to which members of the Board of Trustees are related and are included in the grant totals above.

Grants approved by the Trustees during 2017 were wholly distributed during the fiscal year. Certain grants approved during 2018 include payments subsequent to the fiscal year. Future payments on grants approved and expensed on or before December 31, 2018 are expected to be:

2019	\$ 1,736,579
2020	1,299,045
2021	<u>50,000</u>
	<u>\$ 3,085,624</u>

### Note 7: Related-party Transactions

The Foundation and the City of Colorado Springs are related parties that are financially interrelated organizations. The Foundation recognized the following contributions without donor restrictions from the City of Colorado Springs:

	<u>2018</u>	<u>2017</u>
<b>Contributions Received from Colorado Springs</b>		
Monthly contributions	\$ 5,447,885	\$ 5,424,683
Margin sharing	675,475	1,214,210
UCH revenue audit disbursements	<u>4,207,756</u>	<u>2,581,079</u>
	<u>\$ 10,331,116</u>	<u>\$ 9,219,972</u>

Note that the margin sharing contribution of \$675,475, noted above, was committed for distribution to the Foundation but had not been received as of December 31, 2018. As a result, this balance is recognized as a contribution receivable in the statements of financial position.



# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 8: 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 2018 and 2017 was \$11,109 and \$10,580, respectively.

### Note 9: Commitments and Contingencies

#### *Guaranty*

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 Guaranty and Indemnification Agreement, dated October 1, 2012, the Foundation was named as guarantor on certain claims as defined in the lease agreement until termination of the lease agreement. UCH can make claims 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 10: Significant Estimates and Concentrations

#### *Contributions*

100% of contributions were received from the City of Colorado Springs during 2018 and 2017.

#### *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.