

# **Colorado Springs Health Foundation**

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

**Colorado Springs Health Foundation**  
**December 31, 2019 and 2018**

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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, 2019 and 2018, and the related statements of activities, functional expenses 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, 2019 and 2018, 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 18, 2020

**Colorado Springs Health Foundation**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

**Assets**

	<b>2019</b>	<b>2018</b>
Cash	\$ 1,782,604	\$ 1,884,398
Contributions receivable - City of Colorado Springs	1,384,091	675,475
Investments	143,354,507	118,476,923
Prepaid expense and other	1,880	2,128
Total assets	<b>\$ 146,523,082</b>	<b>\$ 121,038,924</b>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 22,114	\$ 21,699
Grants payable	2,836,980	3,085,624
Total liabilities	2,859,094	3,107,323
Net assets		
Without donor restrictions		
Undesignated	143,663,988	117,931,601
Total liabilities and net assets	<b>\$ 146,523,082</b>	<b>\$ 121,038,924</b>

**Colorado Springs Health Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Revenues, Gains and Other Support</b>		
Contributions, without donor restrictions, from the		
City of Colorado Springs	\$ 6,928,060	\$ 10,331,116
Investment return, net	23,390,859	(7,100,382)
Total revenues, gains and other support	30,318,919	3,230,734
<b>Expenses</b>		
Program services	4,455,287	7,200,014
Support services	131,245	131,651
Total expenses	4,586,532	7,331,665
<b>Change in Net Assets, Without Donor Restrictions</b>	25,732,387	(4,100,931)
<b>Net Assets, Without Donor Restrictions, Beginning of Year</b>	117,931,601	122,032,532
<b>Net Assets, Without Donor Restrictions, End of Year</b>	\$ 143,663,988	\$ 117,931,601

**Colorado Springs Health Foundation**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>		
	<b>Program Services</b>	<b>Support Services</b>	
		<b>General and Administrative</b>	<b>Total Expenses</b>
Salaries and benefits	\$ 217,498	\$ 54,374	\$ 271,872
Community education and outreach	9,503	-	9,503
Grants approved	4,184,920	-	4,184,920
Professional services	-	65,437	65,437
Equipment and supplies	12,677	3,169	15,846
Utilities and occupancy	8,665	8,265	16,930
Professional development and training	22,024	-	22,024
	<u>\$ 4,455,287</u>	<u>\$ 131,245</u>	<u>\$ 4,586,532</u>

	<b>2018</b>		
	<b>Program Services</b>	<b>Support Services</b>	
		<b>General and Administrative</b>	<b>Total Expenses</b>
Salaries and benefits	\$ 207,646	\$ 51,912	\$ 259,558
Community education and outreach	15,303	-	15,303
Grants approved	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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Change in net assets	\$ 25,732,387	\$ (4,100,931)
Items not providing (requiring) operating activities cash flows		
Net realized and unrealized loss (gain) on investments	(21,151,783)	9,329,458
Changes in		
Contributions receivable - City of Colorado Springs	(708,616)	(675,475)
Prepaid expense and other	248	29
Accounts payable and accrued expenses	415	449
Grants payable	<u>(248,644)</u>	<u>3,085,624</u>
Net cash provided by operating activities	<u>3,624,007</u>	<u>7,639,154</u>
<b>Investing Activities</b>		
Purchases of investments	(6,175,866)	(16,359,573)
Proceeds from sales of investments	<u>2,450,065</u>	<u>3,954,138</u>
Net cash used in investing activities	<u>(3,725,801)</u>	<u>(12,405,435)</u>
<b>Decrease in Cash</b>	(101,794)	(4,766,281)
<b>Cash, Beginning of Year</b>	<u>1,884,398</u>	<u>6,650,679</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,782,604</u></u>	<u><u>\$ 1,884,398</u></u>



# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

### 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, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$1,600,000. Cash equivalents held for investment purposes are classified as investments for financial reporting purposes.

#### ***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.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

### Contributions

Contributions are provided to the Foundation without restrictions placed on the gift by the donor. The value recorded for each contribution is recognized as follows:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

Should gifts or investment income be received having donor stipulations, such revenues would be recorded as revenue and net assets with 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. The statements of functional expenses present 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.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

### Subsequent Events

Subsequent events have been evaluated through March 18, 2020, which is the date the financial statements were available to be issued.

### Note 2: 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.

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

	<u>2019</u>	<u>2018</u>
<b>Financial Assets Available to be Used Within One Year</b>		
Cash	\$ 1,782,604	\$ 1,884,398
Contributions receivable - City of Colorado Springs	1,384,091	675,475
Investments	<u>143,354,507</u>	<u>118,476,923</u>
	<u>\$ 146,521,202</u>	<u>\$ 121,036,796</u>

### Note 3: 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

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

- 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

### 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, 2019 and 2018:

	<b>2019</b>			
	<b>Total Fair Value</b>	<b>Fair Value Measurements Using</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	\$ 6,433,687	\$ 6,433,687	\$ -	\$ -
Domestic Mutual Funds				
Large Cap	60,846,171	60,846,171	-	-
Small Cap	4,778,107	4,778,107	-	-
International Mutual Funds				
Large Cap	10,991,508	10,991,508	-	-
Emerging Market	12,667,740	12,667,740	-	-
Fixed Income Mutual Funds	29,332,973	29,332,973	-	-
Alternative Strategy Mutual Funds	11,832,808	11,832,808	-	-
Alternative Investments, measured at net asset value	<u>6,471,513</u>	<u>(A)</u>	<u>(A)</u>	<u>(A)</u>
	<u>\$ 143,354,507</u>	<u>\$ 136,882,994</u>	<u>\$ -</u>	<u>\$ -</u>

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

	2018			
	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	\$ 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	<u>6,062,411</u>	<u>(A)</u>	<u>(A)</u>	<u>(A)</u>
	<u>\$ 118,476,923</u>	<u>\$ 112,414,512</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, 2019. 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, 2019 and 2018

### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. At December 31, 2019 and 2018, the Foundation held no investments classified as Level 2 or Level 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>2019</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Limited partnership	\$ 3,151,170	\$ -	Quarterly	45 days
Multi-strategy hedge fund	3,320,343	-	Quarterly	60 days
	<u>\$ 6,471,513</u>			
	<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>			

### Note 4: Grants Approved

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 2019 and 2018, the Trustees approved grants in the amount of \$4,184,920 and \$6,932,408, respectively.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

Various Trustees or their family members are related parties to other organizations that received grants from the Foundation during 2019 and 2018. 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 \$1,433,000 and \$1,495,000 during 2019 and 2018, respectively, to organizations to which members of the Board of Trustees are related and are included in the grant totals above. Of these amounts, \$775,000 and \$470,000 are payable at December 31, 2019 and 2018, respectively.

Certain grants approved during 2019 and 2018 include payments subsequent to the fiscal year. 2019 and 2018 grants approved, paid, and payable as of the end of the year consist of the following:

	Grants Approved	Grants Paid / Payable			
		2018	2019	2020	2021
2018	\$ 6,932,408	\$ 3,846,784	\$ 1,736,579	\$ 1,299,045	\$ 50,000
2019	4,184,920	-	2,696,985	1,087,935	400,000
	<u>\$ 11,117,328</u>	<u>\$ 3,846,784</u>	<u>\$ 4,433,564</u>	<u>\$ 2,386,980</u>	<u>\$ 450,000</u>

### Note 5: Conditional Grants

The Foundation has made conditional grants of \$85,000 at December 31, 2019 that are not recognized in the financial statements, as the grantees have not yet satisfied the performance requirements of the related grants agreements.

### Note 6: 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:

	2019	2018
<b>Contributions Received from Colorado Springs</b>		
Monthly contributions	\$ 5,543,969	\$ 5,447,885
UCH operating margin share	1,384,091	675,475
UCH revenue audit disbursements	-	4,207,756
	<u>\$ 6,928,060</u>	<u>\$ 10,331,116</u>

UCH operating margin sharing, above, results from a contractual formula based on UCH's operating results, which is due and payable annually, and includes contributions of \$1,384,091 and \$675,475, as of December 31, 2019 and 2018, respectively, which were committed for distribution to the Foundation but had not been received as of year-end. As a result, these contributions are recognized as receivables in the statements of financial position.

# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

### Note 7: 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 2019 and 2018 was \$11,665 and \$11,109, respectively.

### Note 8: 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, as of the date of this report, management is not aware of any such claims that have been submitted for indemnification pursuant to the lease agreement. It is possible that this estimate may change in the future.



# Colorado Springs Health Foundation

## Notes to Financial Statements

December 31, 2019 and 2018

### Note 9: Significant Estimates and Concentrations

#### ***Contributions***

100% of contributions were received from the City of Colorado Springs during 2019 and 2018.

#### ***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. There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a decline in the value of our investment portfolio.