

THE DENVER HEALTH AND HOSPITALS FOUNDATION

**Financial Statements
and
Independent Auditors' Report
December 31, 2015 and 2014**



THE DENVER HEALTH AND HOSPITALS FOUNDATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Denver Health and Hospitals Foundation
Denver, Colorado

We have audited the accompanying financial statements of The Denver Health and Hospitals Foundation (the "Foundation"), which are comprised of the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 The Denver Health and Hospitals Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

REPORT ON SUMMARIZED COMPARATIVE INFORMATION

We have previously audited the Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

EKS&H LLLP

EKS&H LLLP

May 24, 2016
Denver, Colorado

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Statements of Financial Position

	December 31, 2015	Summarized Financial Information as of December 31, 2014
	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 4,083,371	\$ 4,127,114
Short-term investments	4,077,555	3,827,169
Contributions and grants receivable	2,835,825	2,092,554
Beneficial interest in assets held by third party	9,563,154	9,737,824
Inventory	91,831	109,027
Prepaid expenses and other assets	<u>149,386</u>	<u>103,487</u>
Total assets	<u>\$ 20,801,122</u>	<u>\$ 19,997,175</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 27,600	\$ 24,336
Amounts due to Denver Health and Hospital Authority	815,302	719,932
Note payable, current portion	322,318	227,746
Deferred revenues	<u>160,646</u>	<u>108,150</u>
Total current liabilities	1,325,866	1,080,164
Note payable, less current portion	<u>949,936</u>	<u>1,272,254</u>
Total liabilities	<u>2,275,802</u>	<u>2,352,418</u>
Net assets		
Unrestricted	406,281	1,065,488
Temporarily restricted	13,304,202	11,764,932
Permanently restricted	<u>4,814,837</u>	<u>4,814,337</u>
Total net assets	<u>18,525,320</u>	<u>17,644,757</u>
Total liabilities and net assets	<u>\$ 20,801,122</u>	<u>\$ 19,997,175</u>

See notes to financial statements.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Statements of Activities

	For the Year Ended December 31, 2015				Summarized Financial Information for the Year Ended December 31, 2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues, gains, and support					
Contributions and grants	\$ 420,088	\$ 5,963,645	\$ 500	\$ 6,384,233	\$ 5,065,867
Special events	1,120,993	183,484	-	1,304,477	1,537,571
Less direct event costs	(916,301)	(81,761)	-	(998,062)	(780,514)
Net revenue from special events	204,692	101,723	-	306,415	757,057
Change in beneficial interest in assets held by third party	16,269	(144,163)	-	(127,894)	545,744
In-kind gifts and services	833,561	419,698	-	1,253,259	1,073,235
Net assets released from restrictions	4,801,633	(4,801,633)	-	-	-
Total revenues, gains, and support	6,276,243	1,539,270	500	7,816,013	7,441,903
Expenditures					
Program services					
Trauma prevention and care	82,271	-	-	82,271	87,821
Women, children, and adolescents	69,473	-	-	69,473	252,299
Community health services	1,882,245	-	-	1,882,245	1,904,829
Behavioral health	314,665	-	-	314,665	358,196
Other	263,599	-	-	263,599	164,618
Patricia A. Gabow Endowment for Vulnerable Populations	-	-	-	-	76,711
Volunteer	624,354	-	-	624,354	495,825
Social work	878	-	-	878	-
Emergency medicine	15,461	-	-	15,461	2,822
Medicine	781,856	-	-	781,856	569,539
Orthopedics	164,310	-	-	164,310	73,055
Pediatrics	12,669	-	-	12,669	27,749
Poison center	13,228	-	-	13,228	14,338
Managed care	139,470	-	-	139,470	181,782
Nursing	6,225	-	-	6,225	6,134
Public health	786,488	-	-	786,488	1,276,782
Southwest Health Clinic	-	-	-	-	3,000,000
Patient assistance	176,903	-	-	176,903	190,633
Total program services	5,334,095	-	-	5,334,095	8,683,133
Supporting services, including in-kind services					
General and administrative	716,837	-	-	716,837	769,700
Capital Campaign expenses	233,209	-	-	233,209	124,475
Fundraising	651,309	-	-	651,309	592,305
Total supporting services	1,601,355	-	-	1,601,355	1,486,480
Total expenditures	6,935,450	-	-	6,935,450	10,169,613
Change in net assets	(659,207)	1,539,270	500	880,563	(2,727,710)
Net assets at beginning of year	1,065,488	11,764,932	4,814,337	17,644,757	20,372,467
Net assets at end of year	\$ 406,281	\$ 13,304,202	\$ 4,814,837	\$ 18,525,320	\$ 17,644,757

See notes to financial statements.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Statements of Cash Flows

	For the Year Ended December 31, 2015	Summarized Financial Information for the Year Ended December 31, 2014
Cash flows from operating activities		
Change in net assets	\$ 880,563	\$ (2,727,710)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Changes in beneficial interest in assets held by third party	144,559	(541,529)
Proceeds for permanently restricted endowment	(500)	(200)
Changes in assets and liabilities		
Contributions and grants receivable	(743,271)	2,843,094
Inventory	17,196	(27,633)
Prepaid expenses and other assets	(45,899)	(93,326)
Accounts payable and accrued liabilities	3,264	(39,753)
Amounts owed to Denver Health and Hospital Authority	95,370	49,038
Deferred revenue	<u>52,496</u>	<u>96,850</u>
Net cash provided by (used in) operating activities	<u>403,778</u>	<u>(441,169)</u>
Cash flows from investing activities		
Distributions of assets held by third party	368,898	353,741
Transfers to third party	(338,787)	(170,000)
Net purchases of short-term investments	<u>(250,386)</u>	<u>(1,798,657)</u>
Net cash used in investing activities	<u>(220,275)</u>	<u>(1,614,916)</u>
Cash flows from financing activities		
Contributions for permanently restricted endowment	500	200
Proceeds from note payable	-	1,500,000
Principal payments on note payable	<u>(227,746)</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(227,246)</u>	<u>1,500,200</u>
Net decrease in cash and cash equivalents	(43,743)	(555,885)
Cash and cash equivalents at beginning of year	<u>4,127,114</u>	<u>4,682,999</u>
Cash and cash equivalents at end of year	<u>\$ 4,083,371</u>	<u>\$ 4,127,114</u>

Supplemental disclosure of cash flow information:

Cash paid for interest was \$2,200 for the year ended December 31, 2015.

See notes to financial statements.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

General

The Denver Health and Hospitals Foundation (the "Foundation") is a non-profit corporation organized to support Denver Health and Hospital Authority (the "Authority") in its mission to sustain and advance the health and well-being of Denver, Colorado, and the Rocky Mountain region, including its educational and research activities to improve the quality and management of patient care provided by the Authority. Significant areas of support include, but are not limited to, maternal and child health, community health, volunteer auxiliary, trauma prevention and care, Rocky Mountain Poison and Drug Center, behavioral health, orthopedics, and pediatrics. Fundraising efforts for other program areas are pursued as needs and funding opportunities arise.

The Foundation is governed by a volunteer Board of Directors (the "Board"). The Authority may appoint up to two members of its Board of Directors to the Foundation's Board. The CEO of the Authority holds an ex-officio position on the Foundation's Board; however, the Foundation's bylaws stipulate that the Authority's representatives may not constitute a majority of the Foundation's Board. A majority of the administrative, accounting, and clerical functions of the Foundation are performed at no charge by the employees of the Authority.

Prior-Year Comparative Information

The financial statements include certain prior-year summarized, comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Financial Statement Presentation

Information regarding the financial position and activities of the Foundation is reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are those currently available at the discretion of the Board for use in the Foundation's operations.

Temporarily restricted net assets are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted net assets are assets that must be maintained permanently by the Foundation as required by the donor, but the Foundation is permitted to use or expend part or all of any income derived from those assets for specific or general purposes.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Foundation considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

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

Contributions and Grants

Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor, including pledges, is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires (that is, when a 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.

Contributions and Grants Receivable

The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible contributions receivable as of December 31, 2015 because management believes that all contributions will be received.

Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. There were no conditional contributions as of December 31, 2015.

Investments

Investments are recorded at fair value. Fair value is determined as more fully described in Note 5. The Foundation's short-term investments consist of non-marketable Certificates of Deposit ("CDs"), which are valued at amortized cost.

Inventory

Inventory consists of items used for the Foundation's Newborns in Need program and is valued at the lower of cost for purchased items or estimated market value if donated. Cost is determined using the first-in, first-out method of accounting.

Donated inventory items totaled \$314,942 during the year ended December 31, 2015.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, short-term investments, beneficial interest in assets held by third party, and contributions receivable. The Foundation places its cash and cash equivalents and short-term investments with creditworthy, high-quality financial institutions, and accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. From time to time, the Foundation's cash and cash equivalents may exceed the FDIC insured limit. The Foundation's investment policy requires management to maintain CDs at a balance of \$250,000 or less to ensure that CDs are fully insured under the FDIC. There were no CD balances greater than \$250,000 at any one institution at December 31, 2015.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

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

Concentrations of Credit Risk (continued)

The Foundation has deposited funds with The Denver Foundation in a "beneficial interest in assets held by third party." Investment managers engaged by The Denver Foundation make investments and are monitored on an ongoing basis. Though the market value of the underlying investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

Credit risk related to contributions and grants receivable is limited due to the number and creditworthiness of the individuals and organizations from which amounts are due.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Gifts and Services

Volunteers from the community have donated a significant number of hours in assisting the Foundation in achieving the goals of its various service programs. The value of this contributed time is not reflected in the accompanying financial statements.

The Foundation received the following donated gifts and services in 2015:

Newborns in Need inventory	\$ 314,942
Authority in-kind office space and employees (Note 9)	778,524
Other in-kind gifts and services	<u>159,793</u>
	<u>\$ 1,253,259</u>

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. However, income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There was no tax on unrelated business income in 2015.

Management is required to evaluate tax positions taken by the Foundation and to recognize a tax liability if the Foundation has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. The Foundation believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

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

Income Taxes (continued)

If incurred, interest and penalties associated with tax positions would be recorded in the period assessed as general and administrative expenses. No interest or penalties have been assessed as of December 31, 2015.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Recently Adopted Accounting Pronouncements

During the year ended December 31, 2015, the Foundation adopted the provisions of Accounting Standards Update ("ASU") No. 2013-06, *Not-for-Profit Entities: Services Received from Personnel of an Affiliate*, an amendment to Accounting Standards Codification Topic 958, *Not-for-Profit Entities*. This standard requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The Foundation has been accounting for services received in this manner prior to the issuance of ASU No. 2013-06. As such, there was no impact to the financial statements for the year ended December 31, 2015.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Subsequent Events

The Foundation's financial statements were available to be issued May 24, 2016 and this is the date through which subsequent events were evaluated. Based upon this evaluation, no events require adjustment to or disclosure in the financial statements.

Note 2 - Short-Term Investments

The Foundation's short-term investments consist primarily of CDs with redemptions between one and twelve months. At times, short-term investments may include donated stock and other donated equity securities until the donated asset is liquidated.

Short-term investments consisted of CDs in the amount of \$4,077,555 at December 31, 2015.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 3 - Contributions and Grants Receivable

Contributions and grants receivable consisted of the following at December 31, 2015:

Due in less than one year	\$ 1,929,817
Due in one to five years	<u>906,008</u>
	<u>\$ 2,835,825</u>

The discount on contributions and grants receivable due in one to five years is considered de minimis.

Note 4 - Beneficial Interest in Assets Held by Third Party

The Denver Foundation, a Colorado non-profit corporation, holds all of the Foundation's investments included in "beneficial interest in assets held by third party" in the accompanying financial statements, including those that are endowments and were formed for the benefit of the Foundation. The Denver Foundation has no variance power and pays distribution amounts from the funds as required by virtue of the existing and future endowment fund agreements and as directed by the Foundation in writing. The Denver Foundation also distributes all or part of the income and principal of the advised funds for the benefit of the Foundation, which is calculated using a formula developed and approved by the Foundation's Board and in accordance with The Denver Foundation's guidelines for advised funds.

The Foundation's investments at The Denver Foundation consist of units purchased of The Denver Foundation's total investment portfolio. The fair value of these investments represents the Foundation's pro rata interest in The Denver Foundation's total investment portfolio and is based on monthly statements received from The Denver Foundation.

The Denver Foundation's investment portfolio consists of mutual funds invested in fixed income securities, mutual funds invested in domestic and international equity securities, cash equivalents, and alternative investments. Alternative investments in The Denver Foundation's portfolio include hedged equity funds, private equity funds, absolute return funds, and real estate. Alternative investments are not publicly traded on national security exchanges, are generally illiquid, and may be valued differently than if readily available markets existed for such investments. Because of inherent uncertainties in the valuation of alternative investments, the reported fair values of such investments may differ significantly from the realized values.

Realized and unrealized gains and losses and investment income are recognized based upon the Foundation's pro rata share of The Denver Foundation's realized and unrealized gains and losses and investment income. In addition, distributive shares of income or loss from "pass-through" entities such as partnerships and trusts are recorded as income or loss in the year such items are recognized by the Foundation.

The Denver Foundation endowment funds totaled \$9,563,154 at December 31, 2015.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 5 - Fair Value Measurements

The Foundation reports required types of financial instruments in accordance with fair value accounting standards. 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. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and to minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. Instruments that are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, and cash and cash equivalents.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate and government bonds, less liquid and restricted equity securities, and certain over-the-counter derivatives.
- Level 3: Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interest in corporate private equity and real estate funds, funds of hedge funds, distressed debt, and the fair value for beneficial interest in remainder trusts.

In some instances, the inputs used to measure fair value may fall in to different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on 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.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest, and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Foundation's financial statements.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 5 - Fair Value Measurements (continued)

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

Beneficial interest in assets held by third party: Valued based upon information determined and reported by The Denver Foundation and corroborated to The Denver Foundation's audited financial statements by management.

There were no changes in valuation methodologies during the year ended December 31, 2015.

The following table summarizes the Foundation's investments by the above fair value hierarchy level as of December 31, 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in assets held by third party	\$ -	\$ -	\$ 9,563,154	\$ 9,563,154

The changes in Level 3 investments measured at fair value during the year ended December 31, 2015 are as follows:

Beginning balance	\$ 9,737,824
Transfers	338,787
Change in beneficial interest	(144,559)
Distributions	<u>(368,898)</u>
	<u>\$ 9,563,154</u>

Note 6 - Note Payable

On September 1, 2014, the Foundation signed a five-year loan agreement with The Colorado Health Foundation in support of the Federico F. Peña Southwest Family Health Center Capital Campaign for \$1,500,000. Principal payments of \$27,778 began on May 1, 2015 and continued for the next six months of the loan. No interest will accrue for the first twelve months of the loan. Payments of principal and interest of \$28,348 are due November 1, 2015 and continue until maturity on October 31, 2019.

The Foundation's minimum maturities of long-term debt obligations are as follows:

For the Year Ending December 31,

2016	\$ 322,318
2017	332,204
2018	335,541
2019	<u>282,191</u>
	<u>\$ 1,272,254</u>

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following programs at December 31, 2015:

Community health services	\$ 5,391,783
Surgery	1,512,596
Managed care	183,826
Women, children, and adolescents	527,961
Orthopedics	158,617
Volunteer auxiliary	150,675
Behavioral health	867,493
Medicine	949,192
Emergency medicine	178,174
Endowment earnings	1,695,838
Other	<u>1,688,047</u>
Total	<u>\$ 13,304,202</u>

During the year ended December 31, 2015, there was \$4,801,633 in temporarily restricted net assets released from restriction upon satisfaction of expenditures for specific programs.

Note 8 - Permanently Restricted Net Assets and Endowment

Endowment fund assets are to be held indefinitely, but the income earned on these assets may be used to support the following activities of the Foundation at December 31, 2015:

McNeil Research Endowment in Clinical Analgesia	\$ 1,500,500
Shana Glassman Memorial Endowed Chair in General Internal Medicine	1,212,300
Bruce M. Rockwell Distinguished Chair in Trauma Surgery	966,525
Patricia A. Gabow Endowment for Vulnerable Populations	<u>1,135,512</u>
Total permanently restricted	<u>\$ 4,814,837</u>

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. All of the Foundation's endowment funds are held by The Denver Foundation. The endowment consists of four individual funds established for a variety of purposes. The Foundation does not have any Board-designated endowment funds.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 8 - Permanently Restricted Net Assets and Endowment (continued)

The state of Colorado adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective September 1, 2008. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation and in the absence of explicit donor stipulations to the contrary, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the endowment and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources
7. The investment policies of the Foundation

Endowment net assets consist of donor-restricted endowment funds that are all permanently restricted at December 31, 2015.

Following are the changes in the endowment net assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at December 31, 2014	\$ -	\$ 2,158,636	\$ 4,814,337	\$ 6,972,973
Investment return				
Net depreciation - interest, realized and unrealized	-	(104,878)	-	(104,878)
Contributions	-	-	500	500
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(357,920)</u>	<u>-</u>	<u>(357,920)</u>
Endowment net assets at December 31, 2015	<u>\$ -</u>	<u>\$ 1,695,838</u>	<u>\$ 4,814,837</u>	<u>\$ 6,510,675</u>

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 8 - Permanently Restricted Net Assets and Endowment (continued)

Return Objectives and Risk Parameters

Endowment assets include donor-restricted funds that must be held in perpetuity. The Board has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable, and sustainable level of distribution to the Foundation that supports current needs and provides for growth in assets and income over time. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a long-term rate of return that is at least 5% plus the Consumer Price Index. The rate of return has been based upon the assumption that future real returns will approximate the long-term rates of return experienced for each asset class in the investment portfolio. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest). The Foundation targets a diversified asset allocation that places a greater emphasis on units purchased of The Denver Foundation's total asset portfolio to achieve its long-term return objectives within prudent risk constraints.

Distribution Policy and How the Investment Objectives Relate to Distribution Policy

Through December 31, 2015, the Board had a policy of appropriating for distribution each year 5% of the three-year average fair market value of permanent endowments held at The Denver Foundation. Four percent is distributed to the Authority endowment manager and 1% to the Foundation. These balances comprised approximately 5.07% of the total endowment funds of the Authority.

In establishing the distribution policy, the Board considered the long-term expected return on its investments. Accordingly, over the long term, the Board expects the current spending policy to allow its endowment to grow at an average of 5% plus the Consumer Price Index annually. This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

In determining the annual grant, the Board may make an exception to the distribution policy.

Note 9 - Denver Health and Hospital Authority

The Foundation's mission is to support the Authority. The Foundation's office space was donated by the Authority with a fair value of \$25,008 for the year ended December 31, 2015.

The Authority also provides significant management and administrative staff to the Foundation. The donated salaries and benefits totaled \$753,516 for the year ended December 31, 2015. Additionally, the Foundation reimbursed the Authority for approximately \$480,333 for certain leased personnel for 2015.

THE DENVER HEALTH AND HOSPITALS FOUNDATION

Notes to Financial Statements

Note 9 - Denver Health and Hospital Authority (continued)

The value of the in-kind rent and personnel costs were allocated between the following supporting services at December 31, 2015:

General and administrative	\$ 390,389
Fundraising	<u>388,135</u>
	<u>\$ 778,524</u>

The Foundation paid approximately \$3,402,000 in grants and contributions to the Authority. Although most of these grants and contributions are specifically designated by the donor to the Authority, these contributions are recorded as contribution revenue by the Foundation, as the Foundation and the Authority are financially interrelated entities.

At December 31, 2015, the Foundation owed the Authority \$815,302 for grants and reimbursement of salaries.