
The Denver Health and Hospitals Foundation

Financial Report
December 31, 2019

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Independent Auditor's Report

To the Board of Directors
The Denver Health and Hospitals Foundation

We have audited the accompanying financial statements of The Denver Health and Hospitals Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities and changes in net assets, functional expenses, 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.

Auditor's 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 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.

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, 2019 and the results of its operations, functional expenses, and 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 Denver Health and Hospitals Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

June 30, 2020

The Denver Health and Hospitals Foundation

Statement of Financial Position

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 6,169,819	\$ 3,489,299
Beneficial interest in assets held by third party	11,306,428	10,081,474
Investments	2,342,650	5,141,171
Contributions and grants receivable - Net	3,201,069	1,886,461
Inventory	236,196	295,213
Prepaid expenses and other assets	16,000	3,128
	<u>\$ 23,272,162</u>	<u>\$ 20,896,746</u>
Total assets		
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 107,990	\$ 31,329
Deferred revenue	12,499	39,306
Note payable	1,000,000	282,145
Amounts due to Denver Health and Hospital Authority	1,342,261	1,862,067
	<u>2,462,750</u>	<u>2,214,847</u>
Total liabilities		
Net Assets (Deficiency in Net Assets)		
Without donor restrictions	181,790	(416,034)
With donor restrictions	20,627,622	19,097,933
	<u>20,809,412</u>	<u>18,681,899</u>
Total net assets		
	<u>\$ 23,272,162</u>	<u>\$ 20,896,746</u>
Total liabilities and net assets		

The Denver Health and Hospitals Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue, Gains, and Other Support				
Contributions and grants	\$ 1,270,334	\$ 4,314,373	\$ 5,584,707	\$ 3,559,413
Special event revenue:				
Special events	1,154,035	-	1,154,035	1,483,673
Less direct event costs	(1,127,908)	-	(1,127,908)	(1,108,565)
Total special event revenue	26,127	-	26,127	375,108
Change in beneficial interest in assets held by third party	-	1,593,330	1,593,330	(333,741)
Investment return - Net	180,822	-	180,822	109,505
In-kind gifts and services	1,753,995	148,286	1,902,281	1,633,922
Net assets released from restrictions	4,526,300	(4,526,300)	-	-
Total revenue, gains, and other support	7,757,578	1,529,689	9,287,267	5,344,207
Expenses				
Program services:				
Trauma and emergency medicine	117,302	-	117,302	131,417
Women, children, and adolescents	255,664	-	255,664	200,531
Community health	1,669,999	-	1,669,999	1,797,518
Behavioral health	262,153	-	262,153	1,030,941
Volunteer services	565,562	-	565,562	557,956
Medicine	634,466	-	634,466	943,967
Orthopedics	89,050	-	89,050	83,239
Patient assistance	232,791	-	232,791	256,905
Other	961,493	-	961,493	301,123
Total program services	4,788,480	-	4,788,480	5,303,597
Support services:				
Management and general	976,644	-	976,644	1,150,286
Fundraising	1,394,630	-	1,394,630	548,448
Total support services, including in-kind services	2,371,274	-	2,371,274	1,698,734
Total expenses	7,159,754	-	7,159,754	7,002,331
Increase (Decrease) in Net Assets	597,824	1,529,689	2,127,513	(1,658,124)
Net Assets (Deficiency in Net Assets) - Beginning of year	(416,034)	19,097,933	18,681,899	20,340,023
Net Assets - End of year	\$ 181,790	\$ 20,627,622	\$ 20,809,412	\$ 18,681,899

The Denver Health and Hospitals Foundation

Statement of Functional Expenses

Year Ended December 31, 2019
(with comparative totals for 2018)

	Program Services									Support Services			2018	
	Trauma and Emergency Medicine	Women, Children, and Adolescents	Community Health	Behavioral Health	Volunteer Services	Medicine	Orthopedics	Patient Assistance	Other	Total	Management and General	Fundraising		Total
Salaries and wages	\$ 19,418	\$ 186,091	\$ 1,024,738	\$ 208,982	\$ 28,126	\$ 133,710	\$ 53,045	\$ -	\$ 363,581	\$ 2,017,691	\$ 437,559	\$ 677,887	\$ 3,133,137	\$ 3,594,771
Contracted services	528	1,594	249,792	8,302	2,883	56,702	-	-	167,922	487,723	282,490	529,076	1,299,289	597,151
Grants to individuals	5,317	3,045	15,780	519	2,509	151,873	11,400	231,363	77,290	499,096	492	-	499,588	522,897
Investment and interest	76,996	-	75,178	-	-	183,932	-	-	-	336,106	-	-	336,106	337,323
Advertising and promotion	-	-	-	-	-	-	-	-	-	-	-	537	537	10,943
Office supplies	-	11,354	29,739	23,678	93,307	1,894	8,745	798	98,809	268,324	9,042	9,472	286,838	479,660
Information technology	5,822	-	121,478	-	124	1,070	9,149	-	64,234	201,877	81,844	63,270	346,991	73,955
Travel and entertainment	-	10,949	7,745	470	1,269	6,944	1,797	-	12,084	41,258	12,503	-	53,761	89,522
Conferences, conventions, and meetings	232	-	1,822	-	851	13,669	-	293	101,156	118,023	27,450	3,540	149,013	99,872
Donor recognition	-	-	2,497	-	669	48,341	-	-	23,340	74,847	1,929	-	76,776	12,336
Donated gifts and services	460	-	-	-	430,500	-	-	-	1,000	431,960	55,480	-	487,440	502,358
Membership and other fees	1,250	-	1,503	-	5,024	3,101	3,117	337	10,304	24,636	57,417	-	82,053	133,664
Sponsorships	-	-	-	-	-	2,000	-	-	6,500	8,500	-	-	8,500	109,362
Other	-	19,278	38,815	3,523	300	2,619	-	-	7,894	72,429	10,438	-	82,867	250,916
Grant administrative fees to the Authority	7,279	23,353	100,912	16,679	-	28,611	1,797	-	27,379	206,010	-	-	206,010	187,601
Write-off of uncollectible contributions receivable	-	-	-	-	-	-	-	-	-	-	-	110,848	110,848	-
Total functional expenses	\$ 117,302	\$ 255,664	\$ 1,669,999	\$ 262,153	\$ 565,562	\$ 634,466	\$ 89,050	\$ 232,791	\$ 961,493	\$ 4,788,480	\$ 976,644	\$ 1,394,630	\$ 7,159,754	\$ 7,002,331

The Denver Health and Hospitals Foundation

Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 2,127,513	\$ (1,658,124)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Changes in beneficial interest in assets held by third party	(1,593,330)	333,741
Noncash contributions of stock	(18,162)	(32,195)
Net realized and unrealized gains on investments	(133,217)	(82,658)
Allowance for uncollectible receivables	(110,848)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Contributions and grants receivable	(1,203,860)	87,240
Inventory	59,017	(77,006)
Prepaid expenses and other assets	(12,872)	100,660
Accounts payable and accrued liabilities	76,661	(13,690)
Amounts due to Denver Health and Hospital Authority	(519,806)	718,000
Deferred revenue	(26,807)	(88,296)
Net cash and cash equivalents used in operating activities	(1,355,711)	(712,328)
Cash Flows from Investing Activities		
Distributions of assets held by third party	368,376	365,054
Proceeds from sales of investments	2,950,000	600,000
Net cash and cash equivalents provided by investing activities	3,318,376	965,054
Cash Flows from Financing Activities		
Principal payments on note payable	(282,145)	(335,564)
Proceeds from note payable	1,000,000	-
Net cash and cash equivalents provided by (used in) financing activities	717,855	(335,564)
Net Increase (Decrease) in Cash and Cash Equivalents	2,680,520	(82,838)
Cash and Cash Equivalents - Beginning of year	3,489,299	3,572,137
Cash and Cash Equivalents - End of year	\$ 6,169,819	\$ 3,489,299
Supplemental Cash Flow Information - Cash paid for interest	\$ 1,295	\$ 4,619

December 31, 2019

Note 1 - Nature of Business

The Denver Health and Hospitals Foundation (the "Foundation") is a nonprofit 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.

Note 2 - Significant Accounting Policies

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, 2018, from which the summarized information was derived.

Adoption of New Accounting Pronouncement

As of January 1, 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The Foundation elected to apply the new ASU on a modified prospective basis. Adoption of the standard did not result in a change in the recognition of contributions in the current year or restatement of prior year amounts.

Classification of Net Assets

Net assets of the Foundation are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Foundation.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

December 31, 2019

Note 2 - Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an original maturity of three months or less, which are not held by investment managers as part of an investment portfolio, to be cash equivalents. From time to time throughout the year, the Foundation's cash and cash equivalents may exceed the Federal Deposit Insurance Corporation (FDIC)-insured limit. The Foundation's investment policy requires management to maintain certificates of deposit at a balance of \$250,000 or less to ensure that the certificates of deposit are fully insured under the FDIC. As of December 31, 2019, there were no certificates of deposit with balances greater than \$250,000 at any one institution.

Investments

The Foundation reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with unrealized gains and losses are included in the statement of activities and changes in net assets. Certificates of deposit are reported at amortized cost.

The Foundation's investments consist primarily of certificates of deposit and government bonds (see Note 6) with redemptions between one and three years. At times, investments may include donated stock and other donated equity securities until the donated asset is liquidated.

Contributions and Grant Receivables

In accordance with generally accepted accounting principles and the recommendations of the Fiscal & Administrative Officers Group (FAOG) Report, contributions are recorded as net assets without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Foundation. Amounts of contributions with donor restrictions are subsequently released to net assets without donor restrictions when expenses have been incurred in satisfaction of those restrictions.

The Foundation recognizes a set revenue percentage of 15 percent for special events.

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. As of December 31, 2019, the allowance was \$110,848.

Conditional contributions are recognized when the conditions on which they depend are substantially met. As of December 31, 2019, there were no conditional contributions.

Special Events Revenue and Deferred Revenue

Special events revenue represents ticket sales to the annual Gala. The ticket sales are divided between contributions and revenue from exchange transactions for financial reporting purposes. The exchange portion of the ticket is measured at the fair value of the direct donor benefits, and the excess of the ticket price over the fair value of the direct donor benefits is the contribution portion. The contribution portion of the ticket is considered conditional upon the event occurring, as the donor has not waived his or her right to a refund. Both the fair value of the direct donor benefits and the contribution is recorded into revenue when the event occurs. Prepayments for special events are recorded as deferred revenue in the statement of financial position and recognized as revenue in the applicable future period when the related event occurs.

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.

December 31, 2019

Note 2 - Significant Accounting Policies (Continued)

In 2019, the Foundation received the following donated gifts and services: \$196,000 in Refugee Outreach Clothing for Kids (ROCK) inventory; \$147,636 of Newborns in Need inventory; \$1,494,640 from the Authority for in-kind office space, event reimbursement, and employees; and \$64,005 of other in-kind gift and services, totaling \$1,902,281.

Functional Expenses

Expenses incurred directly for a program are charged to such program. Certain costs have been allocated between programs and support services on several bases and estimates. Certain wages and benefits have been allocated based on time and effort. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Inventory

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

Significant Group 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 and grants receivable.

The Foundation has deposited funds with The Denver Foundation (a third party) as assets with beneficial interest. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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 2019.

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.

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, 2019.

December 31, 2019

Note 2 - Significant Accounting Policies (Continued)

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

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 30, 2020, which is the date the financial statements were available to be issued.

In 2020, the Foundation received significant donations, specifically related to COVID-19 pandemic support, of approximately \$2.5 million. These monies are directly related to relief for the Authority and hospital staff and includes 2020 Gala funds raised and then redirected by individual donors to help with the pandemic. The 2020 Gala has been canceled due to COVID-19 concerns, and cash received has been held as deferred revenue. The Foundation has worked with individual donors to determine if the donations can be redirected to COVID-19 support or if the donations were to be refunded. The funds were recognized as revenue if the donors allowed a redirection of use.

At this time, the Foundation plays a critical role in the donations and community support for the Authority, as the Foundation has more requests and programs to support as a result of the pandemic. The Foundation will continue to fund the Authority as funds are available. The Foundation does not expect any changes in administrative support from the Authority due to the COVID-19 pandemic.

Subsequent to year end, the Foundation's investments and beneficial interest in assets held by a third party have been subject to volatility, which has been consistent with the general volatility in the financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. No impairments were recorded as of the statement of financial position date; due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Foundation's results of operations, cash flows, and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Note 3 - Liquidity and Availability of Resources

The Foundation is substantially supported by restricted contributions and in-kind donations by the Authority of all personnel and office space. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

The Board shall designate a portion of any operating surplus to a liquidity reserve whose maximum may be calculated as \$450,000 as of December 31, 2019. A fund shall be established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Foundation also could solicit additional amounts from the Authority.

December 31, 2019

Note 4 - Contributions Receivable

Contributions and grants receivable consist of the following at December 31, 2019:

Due in less than one year	\$ 2,513,800
Due in one to five years	823,806
Discount on contribution revenue	(25,689)
Allowance for uncollectible contributions receivable	<u>(110,848)</u>
Contributions and grants receivable	<u>\$ 3,201,069</u>

Note 5 - Beneficial Interest in Assets Held by Third Parties

The Denver Foundation, a Colorado nonprofit corporation, holds all of the Foundation's investments reported in the category beneficial interest in assets held by third party in the accompanying statement of financial position, 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 from 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 endowment funds held at The Denver Foundation totaled \$11,306,428 as of December 31, 2019.

Note 6 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

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 by management to The Denver Foundation's audited financial statements.

December 31, 2019

Note 6 - Fair Value Measurements (Continued)

Government bonds: Valued based on yields currently available on comparable securities of the issuer or other issuers with similar credit ratings.

There were no changes in valuation methodologies during the year ended December 31, 2019.

The following table presents information about the Foundation’s assets measured at fair value on a recurring basis at December 31, 2019 and the valuation techniques used by the Foundation to determine those fair values:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Beneficial interest in assets held by third party	\$ -	\$ -	\$ 11,306,428	\$ 11,306,428
Government bonds	-	1,199,820	-	1,199,820
Total	\$ -	\$ 1,199,820	\$ 11,306,428	\$ 12,506,248

Certificates of deposit and other funds held as investments in the amount of \$1,142,830 are not subject to fair value disclosures and are, therefore, not included in the table above.

Changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2019 are as follows:

Balance at January 1, 2019	\$ 10,081,474
Change in beneficial interest	1,593,330
Distributions	(368,376)
Balance at December 31, 2019	<u>\$ 11,306,428</u>

Note 7 - Long-term Debt

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. The note was paid in full in 2019.

On October 31, 2019, the Foundation signed a new promissory note with an individual for \$1,000,000 at a 1.85 percent interest rate. All accrued interest and principal will be paid at maturity on October 31, 2029.

December 31, 2019

Note 8 - Donor-restricted Net Assets

Donor-restricted net assets are restricted for the following programs at December 31, 2019:

Community health services	\$ 6,248,114
Surgery	1,058,671
Managed care	231,122
Women, children, and adolescents	138,446
Orthopedics	180,219
Volunteer auxiliary	79,730
Behavioral health	2,061,270
Medicine	719,544
Emergency medicine	670,168
Endowment earnings	2,380,498
Other	2,045,003
Donor-restricted endowments held in perpetuity	<u>4,814,837</u>
Total	<u>\$ 20,627,622</u>

During the year ended December 31, 2019, there was \$4,526,300 in donor-restricted net assets released from restrictions upon satisfaction of expenditures for specific programs.

Note 9 - Donor-restricted Endowments

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, 2019:

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	<u>\$ 4,814,837</u>

The Foundation's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Foundation had interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund

Note 9 - Donor-restricted Endowments (Continued)

- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Following are the changes in the endowment net assets:

	With Donor Restrictions
Endowment net assets at December 31, 2018	\$ 6,524,108
Net appreciation - Interest, realized and unrealized	1,028,216
Appropriation of endowment assets for expenditure	(356,989)
Endowment net assets at December 31, 2019	\$ 7,195,335

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve a return of 5 percent net of inflation and investment expenses. The secondary investment objective is to earn a total return, net of expenses, at least equal to the portfolio's composite benchmark, as defined in its investment policy statement. 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 and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Through December 31, 2019, the Board has a policy of appropriating for distribution each year 5 percent of the three-year average fair market value of permanent endowments held at The Denver Foundation; 4 percent is distributed to the authority endowment manager and 1 percent to the Foundation. These balances comprised approximately 5.4 percent 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 percent plus the Consumer Price Index annually. This is consistent with the objective to maintain the purchasing power of the endowment assets held in perpetuity and 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.

December 31, 2019

Note 10 - 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 an estimated fair value of \$47,600 for the year ended December 31, 2019.

The Authority also provides significant management and administrative staff to the Foundation. The donated salaries and benefits totaled \$1,115,442 for the year ended December 31, 2019. Additionally, the Authority reimbursed the Foundation \$331,598 for employee appreciation events and software reimbursements in 2019.

The value of the in-kind rent and personnel costs were allocated between the following supporting services at December 31, 2019:

General and administrative	\$ 816,752
Fundraising	<u>677,888</u>
Total	<u>\$ 1,494,640</u>

The Foundation paid approximately \$3,600,000 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, 2019, the Foundation owed the Authority \$1,342,261 for grants and reimbursement of salaries.