Caring for Colorado Foundation

Financial Statements

September 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Kundinger, Corder & Engle, P.C.

Certified Public Accountants
475 Lincoln Street, Suite 200
Denver, Colorado 80203

Phone (303) 534-5953
Fax (303) 892-7776
www.kcedenver.com

Independent Auditor's Report

Board of Directors
Caring for Colorado Foundation

We have audited the accompanying statements of financial position of Caring for Colorado Foundation (the Foundation) which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kundinger, Corder & Engle, P.C.

January 25, 2019

Caring for Colorado Foundation
Statements of Financial Position
September 30, 2018 and 2017

		2018	2017
Assets:			
Cash and cash equivalents	$	51,740	139,436
Restricted cash and investments (notes 4 and 7)		1,306,244	1,560,686
Accounts receivable (note 11)		50,441	49,937
Investments (notes 2 and 3)		203,846,704	199,794,308
Prepaid expenses and deposits		56,366	19,366
Furniture and equipment, net (note 5)		33,401	40,849
Investments--deferred compensation (notes 3 and 9)		71,509	65,602
Total assets	$	205,416,405	201,670,184
Liabilities and Net Assets:			
Grants payable (note 6)	$	1,082,977	961,883
Accounts payable and accrued expenses		216,485	174,007
Deferred revenue		-	6,805
Investments--deferred compensation (notes 3 and 9)		71,509	65,602
Funds held in trust (note 4)		217,272	214,232
Total liabilities		1,588,243	1,422,529
Net Assets:			
Unrestricted - undesignated		181,217,193	178,703,717
Unrestricted - board designated (note 7)		21,521,997	20,197,484
Total unrestricted		202,739,190	198,901,201
Temporarily restricted (note 7)		1,088,972	1,346,454
Total net assets		203,828,162	200,247,655
Commitments and contingencies (notes 2 and 6, 8, 10 and 13)			
Total liabilities and net assets	$	205,416,405	201,670,184

See the accompanying notes to the financial statements.

Caring for Colorado Foundation

Statement of Activities

Year Ended September 30, 2018

Revenue, gains and support:	Unrestricted	Temporarily Restricted	Total
Grant income	$ -	85,200	85,200
Interest and dividends	1,136,056	1,144	1,137,200
Net realized and unrealized gains on investments	12,319,170	-	12,319,170
Less investment expenses	(125,000)	-	(125,000)
Other income (note 11)	196,585	-	196,585
Net assets released from restrictions	343,826	(343,826)	-
Total revenue, gains, and support	13,870,637	(257,482)	13,613,155
Expenses:			
Program services:			
Grants (note 6)	7,476,327	-	7,476,327
Grant making expenses	1,849,356	-	1,849,356
Total program service expenses	9,325,683	-	9,325,683
General and administrative expenses	706,965	-	706,965
Total expenses	10,032,648	-	10,032,648
Change in net assets	3,837,989	(257,482)	3,580,507
Net assets, beginning of year	198,901,201	1,346,454	200,247,655
Net assets, end of year	$ 202,739,190	1,088,972	203,828,162

See the accompanying notes to the financial statements.

Caring for Colorado Foundation

Statement of Activities

Year Ended September 30, 2017

Revenue, gains and support:	Unrestricted	Temporarily Restricted	Total
Grant income (note 4)	$ -	1,000,000	1,000,000
Interest and dividends	1,888,090	482	1,888,572
Net realized and unrealized gains on investments	21,944,887	-	21,944,887
Less investment expenses	(103,311)	-	(103,311)
Other income (note 11)	260,001	-	260,001
Net assets released from restrictions	555,000	(555,000)	-
Total revenue, gains and support	24,544,667	445,482	24,990,149
Expenses:			
Program services:			
Grants (note 6)	6,543,157	-	6,543,157
Grant making expenses	1,688,381	-	1,688,381
Total program service expenses	8,231,538	-	8,231,538
General and administrative expenses	632,774	-	632,774
Total expenses	8,864,312	-	8,864,312
Change in net assets	15,680,355	445,482	16,125,837
Net assets, beginning of year	183,220,846	900,972	184,121,818
Net assets, end of year	$ 198,901,201	1,346,454	200,247,655

See the accompanying notes to the financial statements.

Caring for Colorado Foundation

Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 3,580,507	16,125,837
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	18,440	16,853
Net realized and unrealized gains on investments	(12,319,170)	(21,944,887)
(Increase) decrease in operating assets:		
Restricted cash and investments	257,482	(445,482)
Accounts receivable	(504)	(11,549)
Prepaid expenses and deposits	(37,000)	5,170
(Decrease) increase in operating liabilities:		
Grants payable	121,094	(160,282)
Accounts payable and accrued expenses	42,478	(69,951)
Deferred revenue	(6,805)	6,805
Net cash used in operating activities	(8,343,478)	(6,477,486)
Cash flows from investing activities:		
Purchases of investments	(31,892,256)	(87,804,698)
Sales of investments	40,159,030	93,602,194
Purchases of furniture and equipment	(10,992)	(11,702)
Net cash provided by investing activities	8,255,782	5,785,794
Net decrease in cash and cash equivalents	(87,696)	(691,692)
Cash and cash equivalents at beginning of year	139,436	831,128
Cash and cash equivalents at end of year	$ 51,740	139,436

See the accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The mission of the Caring for Colorado Foundation (the Foundation) is to provide grants and develop programs that help meet and serve the health care needs of the citizens of Colorado utilizing funds received as a result of the conversion of Blue Cross and Blue Shield of Colorado and Blue Cross and Blue Shield of Nevada (BCBS) into a for-profit corporation. Pursuant to Colorado Revised Statute Section 10-16-324, the proceeds from the sale of BCBS to Anthem Insurance Company were transferred to the Foundation.

The Foundation is not a private foundation as defined by the IRS. However, the Foundation is required by its Articles of Incorporation to make distributions (as defined) each year in an amount equal to or greater than 5% of the aggregate fair market value of all assets. This calculated distribution can be adjusted by the board of directors if it determines that, because of the depressed condition of the market for investment securities in any one or more years, it would be ill-advised to make such distributions. The Foundation must provide written notification of changes to the Articles of Incorporation and bylaws to the Colorado Attorney General who will have 30 days from the date of such notification to object to the changes.

(b) Basis of Accounting

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. There are no permanently restricted net assets at September 30, 2018 or 2017.

(d) 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 and expenses during the reporting period. Actual results could differ from those estimates.

(1) Summary of Significant Accounting Policies, Continued

(e) Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of investment securities and cash and cash equivalents. At times, a significant portion of the cash and cash equivalents may exceed the amount insured by the FDIC or related institutions. The Foundation's investments are monitored by investment advisors who are engaged by the board of directors and are subject to the Foundation's investment policy. These investments are subject to the risk of fluctuations in market value but, in the opinion of management, the risk is appropriate in view of the amount and term of the investment funds.

(f) Cash and Cash Equivalents

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

(g) Investments

All investments are recorded at fair value. Fair value is determined as more fully described in note 3. Investment income consists of the distributable share of any interest, dividends, and capital gains and losses generated from investments. Gains and losses attributable to investments are realized and reported upon sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Investments in marketable equity and fixed income securities with readily determinable fair values are recorded at their publicly quoted market prices. The market values for alternative assets represent the Foundation's pro-rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by the Foundation. Alternative investments that are not publicly traded on national security exchanges, are generally illiquid and may be valued differently should readily available markets exist for such investments. Because of inherent uncertainties of the valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values. Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

The Foundation has adopted ASU 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent).* The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The standard is effective for years beginning after December 31, 2016. The Foundation has adopted ASU 2015-07 for the year ended September 30, 2018.

(1) Summary of Significant Accounting Policies, Continued

(h) Furniture and Equipment

Purchases of furniture, equipment and leasehold improvements in excess of $5,000 are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which are generally 3-7 years.

(i) Grant Expense

Grant awards are recorded as expense by the Foundation when the awards are approved by the board of directors and the grant recipients have met the conditions of the grant award. Grants payable are reported at net realizable value if, at the time the promise is made, the Foundation expects to make payment in one year or less.

(j) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program and supporting services.

(k) Grant and Contribution Income

Income from grants and contributions is 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 is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities are net assets released from restrictions.

(l) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. However, income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. During 2018, the Foundation incurred a net operating loss of approximately $260,000 consisting of unrelated business activities arising from investment funds and transportation fringe benefits.

(1) Summary of Significant Accounting Policies, Continued

(l) Income Taxes, Continued

Management is required to evaluate tax positions taken by the Foundation and to recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not 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 asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Foundation is no longer subject to income tax examinations for years prior to September 30, 2015.

(m) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Foundation's financial statements were available to be issued on January 25, 2019, and this is the date through which subsequent events were evaluated. See note 14.

(2) Investments

The Foundation's investment assets, which include private and publicly held investments, are dedicated to providing the financial resources needed to meet the Foundation's grant-making and other charitable objectives. The Foundation's investments are managed by independent professional investment management firms and are held in various investment structures such as commingled mutual funds and trusts, foreign domiciled hedge funds and limited partnerships.

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment.

The values of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions. Certain investment managers retained by the Foundation are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes. Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio.

(2) Investments, Continued

At September 30, 2018, the Foundation had total unexpended commitments of approximately $28 million for investments in the alternative investment class. The Foundation's commitments involve partnership investment structures which have limited liquidity features, fixed terms and commitment periods ranging from 1 to 12 years.

Investments are stated at fair value and consisted of the following at September 30:

	2018	2017
Domestic equity funds	$ 77,176,659	69,196,531
International equity funds	38,654,386	43,823,428
Absolute return funds	29,518,046	27,388,057
Fixed income funds	17,628,741	22,319,036
Hedged equity funds	22,032,530	20,484,925
Private equity funds	14,062,664	10,702,622
Real asset funds	3,258,909	3,546,069
Money market funds	1,514,769	2,333,640
	$ 203,846,704	199,794,308

(3) Fair Value Measurement

The carrying amount reported in the statements of financial position for cash and cash equivalents, prepaid expenses, and liabilities approximate fair value because of the immediate or short term maturities of these financial instruments.

The Foundation reports its investments in accordance with fair value 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. This standard requires 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. In addition, the Foundation reports certain investments using the net asset value per share as determined by investment managers under the "practical expedient" method. The practical expedient allows net asset value per share, or its equivalent, to represent fair value for reporting purposes when the criteria for using this method are met.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, with the exception of those valued at net asset value per share, based on the priority of inputs to the valuation techniques.

(3) Fair Value Measurements, Continued

Investments 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. The types of investments included in Level 1 include mutual funds, listed equities, 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 which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities, and certain over-the-counter derivatives. The Foundation has no Level 2 investments at September 30, 2018 and 2017.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Foundation has no Level 3 investments at September 30, 2018 and 2017.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment'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 (Level 1, 2 and 3) are intended to reflect the observability of the 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.

(3) Fair Value Measurements, Continued

The following table summarizes the fair value hierarchy levels used by the Foundation for financial instruments measured at fair value on a recurring basis as of September 30, 2018:

	Fair Value	Assets Measured at NAV (a)	Level 1
Domestic equity funds	$ 77,176,659	38,705,511	38,471,148
International equity funds	38,654,386	19,054,546	19,599,840
Absolute return funds	29,518,046	29,518,046	–
Fixed income funds	17,628,741	7,050,956	10,577,785
Hedged equity funds	22,032,530	22,032,530	–
Private equity funds	14,062,664	14,062,664	–
Real asset funds	3,258,909	3,258,909	–
Money market funds	1,514,769	–	1,514,769
	$ 203,846,704	133,683,162	70,163,542
Deferred compensation plan	$ 71,509	–	71,509

The following table summarizes the fair value hierarchy levels used by the Foundation for financial instruments measured at fair value on a recurring basis as of September 30, 2017:

	Fair Value	Assets Measured at NAV (a)	Level 1
Domestic equity funds	$ 69,196,531	32,594,781	36,601,750
International equity funds	43,823,428	23,989,542	19,833,886
Absolute return funds	27,388,057	27,388,057	–
Fixed income funds	22,319,036	8,161,555	14,157,481
Hedged equity funds	20,484,925	20,484,925	–
Private equity funds	10,702,622	10,702,622	–
Real asset funds	3,546,069	3,546,069	–
Money market funds	2,333,640	–	2,333,640
	$ 199,794,308	126,867,551	72,926,757
Deferred compensation plan	$ 65,602	–	65,602

(3) Fair Value Measurements, Continued

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position

Level 1 assets have been valued using a market approach. All other investments have been valued at net asset value per share, or its equivalent. There were no changes in the valuation techniques during the current year.

The following table summarizes the significant information related to investments measured at NAV, or its equivalent, as of September 30, 2018:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return (a), (h)	$29,518,046	N/A	Monthly to annual	45 – 65 days for those funds with liquidity
Domestic Equity (b)	38,705,511	N/A	Monthly to quarterly	8 – 60 days
Hedged Equity (c), (h)	22,032,530	N/A	Monthly to every three years	30 – 60 days
Private Equity (d)	14,062,664	26,717,952	N/A	N/A
International Funds (e)	19,054,546	N/A	Monthly to Quarterly	10 – 30 days
Real Assets (f), (h)	3,258,909	1,330,974	N/A	N/A
Fixed Income (g)	7,050,956	N/A	Any business day	2 days

(3) Fair Value Measurements, Continued

(a) Approximately 60% of this portfolio is invested in two partnerships in which the Foundation is a limited partner. These partnerships invest in and sell short securities and instruments including investments in restructuring companies that are undergoing significant corporate events such as spin-offs, recapitalizations, and strategic realignments; credit investments such as bank debt and corporate bonds; merger arbitrage involving corporate takeovers; real estate investments, and other investments in securities or instruments that the General Managers believe are under- or overvalued or are likely to appreciate or depreciate. These partnership investments are subject to quarterly, annual, or biennial redemption frequencies upon 45 to 90 day notice.

Another 26% of this portfolio consists of an investment in a passive foreign investment corporation whose investment strategy is broadly defined as global long/short credit and event-driven by investing in instruments that include bank debt, corporate bonds, trade claims, convertible securities, equities, credit default swaps, options and other derivatives across a broad spectrum of companies, industries, and asset classes. Quarterly redemptions may be made upon 65 days notice if withdrawing less than 25% of the Foundation's shares or within 180 days notice for full account redemptions.

The remaining 14% of this portfolio consists of an investment in one Delaware LLC. The LLC employs a quantitative global investment strategy. The company actively trades its portfolio of equity instruments on a daily basis utilizing predictive signals that are long term in nature. Monthly redemptions may be made upon 45 days notice in $100,000 increments.

Less than 2% of this portfolio is currently in the liquidation process.

(b) This category consists of investments in one domestic and one foreign partnership in which the Foundation is a limited partner. The domestic partnership holds long and short positions primarily in equity securities of companies within and outside of the S&P 500 Index. Derivative instruments, such as forward contracts, futures, options and swaps may be used to attempt to hedge existing long and short positions in order to maximize returns and reduce risks. This fund has a quarterly redemption frequency upon 60 days notice. The foreign partnership, which has an investment balance of $8,443,487 at September 31, 2018, is organized as a feeder fund in which substantially all of its assets are invested in a master fund. The master fund's investment objective is to achieve to tier absolute returns and outperform the S&P 500 Health Care Total Return Index by generating capital appreciation primarily through investments in securities of publicly listed healthcare companies. Quarterly redemptions are allowed upon at least 45 days' prior written notice and are limited to 25% of the net asset value of the partnership at the withdrawal date.

(3) Fair Value Measurements, Continued

(b) This portfolio also includes a collective trust fund with a fair value of $4,471,696 at September 31, 2018. The collective trust fund seeks to generate long-term compounded returns with less volatility and risk of loss than the overall market by owning a concentrated portfolio of U.S. mid-cap equities. The fund generally offers monthly liquidity provided notification of withdrawal is received by the 22nd day of the preceding month.

(c) The overall objective of this portfolio is to achieve maximum capital appreciation commensurate with reasonable risk. The portfolio is invested in hedge funds that pursue multiple strategies to diversify risk and reduce volatility by investing across all sectors and market capitalizations globally, including investments in equities and equity related instruments. The goal is to maintain a low net exposure and a low long/short ratio within every region and industry sector. Redemption frequency restrictions vary from quarterly to every three years upon 30 to 60 days' notice.

(d) This category includes investments in limited domestic and foreign partnerships. Generally, these funds allocate capital across a variety of industries including distressed and undervalued middle market companies, less liquid and/or longer-duration securities, equity-related securities and obligations of entities (i) formed to effect or that are the subject of leveraged buy-out transactions, (ii) that are being capitalized, or (iii) that require capital for operations or business expansion, and acquisition, holding, and distribution or other disposition of portfolio securities in companies that have primary business activities in the Asia Pacific Region. This category also includes a passive foreign investment corporation that seeks opportunities that have emerged as a result of dislocations and illiquidity in global capital markets with a specific focus on credit-related strategies. In addition, this category includes a Delaware limited partnership that was formed to acquire a diversified portfolio of interests in established small and middle market U.S. buyout funds that are less than 50% invested through secondary market purchases. The funds in this category are subject to lockup periods that expire over the next 1 to 12 years. Certain of these lockup periods are subject to multiple one or two-year extensions.

(e) This category includes one domestic partnership, one foreign private company and one Delaware Statutory Trust. The principal objective of the portfolio is investing in equity securities of non-U.S. domiciled issuers to take opportunistic advantage of market inefficiencies by trading securities with a shorter time horizon, investing in a diversified portfolio of small and mid-capitalization equity securities and companies located outside the United States and Canada, and to invest in the securities of companies located in the Asia-Pacific region, including Japan, Hong Kong/China, Singapore, South Korea, Taiwan, Malaysia, Thailand, Indonesia, the Philippines, Australia and New Zealand. Investments in securities of foreign companies involve special risks and considerations not typically associated with investing in U.S. companies. These funds have monthly or quarterly redemption frequencies upon 10 to 30 days' notice.

(3) Fair Value Measurements, Continued

(f) This category includes limited interests in five partnership funds and one private corporation which is in liquidation. The principal objective of the portfolio is appreciation of capital primarily through investment in equity and equity-related securities of worldwide energy sector companies and investment vehicles that generally focus on investments in real estate assets or natural resources, and sometimes also hold publicly traded securities. All of the partnership investment funds, valued at $3,258,869 (or 99% of this category), are subject to lockup periods that expire over the next 1 to 5 years. The lockup periods are subject to 3 or 7 one-year extensions.

(g) This category includes investment in one Delaware LLC whose investment objective is to outperform the Barclays Aggregate Bond Index by utilizing a disciplined, bottom-up investment approach to seek inefficiently priced securities with strong fundamentals. This fund offers redemption on any business day with 2 days' notice.

(h) Investment in several funds are currently in the liquidation process. Liquidity of these funds is available only as the underlying investments are liquidated and the funds expenses are paid. These liquidating funds are included in the following investment categories:

Absolute Return	$ 688,245
Hedged Equity	44,898
Real Assets	40
Total funds in liquidation	$ 733,183

(4) Restricted Cash and Investments

Beginning June 1, 2011, the Foundation entered into a memorandum of understanding with certain other local foundations to develop and undertake a statewide oral disease prevention project called "Colorado Partnership for Children's Oral Health" ("COPCOH"). Pursuant to the memorandum of understanding, the Foundation agreed to serve as the fiscal agent for the project and to establish a restricted fund for the project exclusively for the purposes of receiving funding for COPCOH from each of the funding foundations, and for making payments on behalf of COPCOH. As of September 30, 2018 and 2017, the amount of unspent cash and investments restricted for COPCOH totaled $217,272 and $214,232, respectively. This amount is reported as restricted cash and investments and funds held in trust on the statements of financial position. The Colorado Department of Public Health and Environment (CDPHE) is to assume full administration of the COPCOH project in the future.

During the year ended September 30, 2015, the Foundation was notified that it was awarded a $1,200,000 grant to support the planning and implementation activities associated with the Foundation's SMILES Dental Home initiative. The grant period is from October 1, 2015 through September 30, 2019. The amount of unspent cash and investments restricted for the SMILES initiative totaled $151,510 and $346,454 as of September 30, 2018 and 2017, respectively.

(4) Restricted Cash and Investments, Continued

During the year ended September 30, 2017, the Foundation received a $1,000,000 grant for the Colorado Collaborative to Reduce Unintended Pregnancies initiative. The initiative will begin in August 2017 and run through December 2020. The Foundation is charged with exercising expenditure responsibility on any sub-grants awarded to ensure the grant funds are used strictly for charitable purposes. Unspent cash and investments restricted for this initiative totaled $937,462 and $1,000,000 at September 30, 2018 and 2017, respectively.

(5) Furniture and Equipment

Furniture and equipment consisted of the following at September 30:

	2018	2017
Office furniture	$ 129,149	121,703
Equipment	96,289	92,743
Leasehold improvements	37,254	37,254
Software	34,029	34,029
	296,721	285,729
Less accumulated depreciation	(263,320)	(244,880)
	$ 33,401	40,849

(6) Grants

Grants awarded by the Foundation fall into two categories: *unconditional* grants, which are recorded as expense when approved by the board of directors; and *conditional* grants, which are not recorded as expense until the grantee fulfills the conditions associated with the grant award. Grant expense of $7,476,327 and $6,543,157 for the years ended September 30, 2018 and 2017, respectively, consists of unconditional grants awarded during the year plus conditional grants for which the grantee fulfilled all conditions.

Grants payable at September 30, 2018 and 2017 were $1,082,977 and $961,883, respectively, and consist of the unpaid portion of unconditional grants awarded by the Foundation. At September 30, 2018, all grants payable are scheduled for payment in fiscal 2019.

Conditional grants awarded by the Foundation generally fall into two categories: conditions requiring the grantee to obtain matching funds, and conditions requiring the grantee to submit performance reports to the Foundation for review before funding is approved for the subsequent installments of the grant. At September 30, 2018 and 2017, conditional grants outstanding totaled $116,819 and $234,607, respectively.

(7) Net Assets

Designated Net Assets
In May 2016, the Foundation received additional proceeds of $20,268,981 from Anthem, Inc. in connection with the 1999 for-profit conversion of BCBS. The Board has set aside these funds plus accumulated investment earnings and designated them for rapid response to urgent needs or high impact funding opportunities for Colorado communities. These funds will be included in the Foundation's distributable assets at the point in time when the Board identifies a specific funding opportunity.

At September 30, 2018 and 2017, board designated net assets total $21,521,997 and 20,197,484, respectively.

Temporarily Restricted Net Assets
Temporarily restricted net assets consist of the following at September 30:

	2018	2017
SMILES Dental Home initiative	$ 151,510	346,454
Colorado Collaborative to Reduce Unintended Pregnancies initiative	937,462	1,000,000
Temporarily restricted net assets	$ 1,088,972	1,346,454

Temporarily restricted net assets of $343,826 and $555,000 were released for the years ended September 30, 2018 and 2017, respectively, upon satisfaction of time and purpose restrictions.

(8) Employee Retirement Plan

The Foundation provides a 401(k) plan for all eligible employees. Participants are eligible to contribute a fixed percentage of their earnings, not to exceed the annual limit set by the Internal Revenue Service. The Foundation matches 100% of the employee's contribution after six months of employment, up to 6% of the employee's compensation. Employer contributions vest immediately. During the years ended September 30, 2018 and 2017, Foundation contributions totaled $53,510 and $51,239, respectively.

(9) Deferred Compensation Plan

The Foundation provides a non-qualified deferred compensation plan under Section 457(f) of the Internal Revenue Code to the Foundation's president. Contributions to the plan consist of Foundation contributions up to $12,500 per year or such other amount determined by the Foundation, and employee contributions in the amount elected annually by the Foundation's president. The Foundation made no contributions to the plan during either fiscal year 2018 or 2017. At September 30, 2018 and 2017, the assets and liabilities of the plan were recorded at the fair values of $71,509 and $65,602, respectively.

(10) Lease Commitment

The Foundation is obligated under operating leases for rental of office space through April 30, 2021. Rent expense was $152,854 and $131,614 for the years ended September 30, 2018 and 2017, respectively. Future minimum lease payments required under this operating lease are as follows at September 30:

2019	$ 154,948
2020	134,581
2021	11,992
	$ 301,521

(11) Packard Foundation Fund for Pueblo

On January 20, 2016 the Foundation entered into a services agreement with the David and Lucile Packard Foundation ("Packard Foundation") whereby the Foundation operates and manages an office in Pueblo, Colorado for the purpose of administering Packard Foundation grants in that city. The name assigned to this office is the "Packard Foundation Fund for Pueblo". The Foundation is reimbursed for its costs associated with executing this services agreement. During the years ended September 30, 2018 and 2017, the Foundation earned $189,333 and $241,905, respectively, in cost reimbursements under the agreement, of which $50,441 and $49,937 is recorded as a receivable at September 30, 2018 and 2017, respectively. See note 14.

(12) Related Party Transactions

It is not uncommon for members of the Foundation's board of directors to be associated with grantees either as board members or paid staff of these organizations. In these instances, the impacted board member discloses the conflict of interest and recuses him/herself from grant award deliberations.

(13) Commitment

In September 2018 the Foundation entered into a contract for technical assistance related to the Colorado Collaborative to Reduce Unintended Pregnancies initiative. At September 30, 2018 the remaining commitment on this contract totaled $322,363.

(14) Subsequent Events

On December 6, 2018, the Foundation formed the Caring for Colorado Centennial Fund, dba CO Centennial Fund ("Fund"), a subordinate tax-exempt corporation for the purpose of distributing The Sperry S. and Ella Graber Packard Fund for Pueblo for charitable and educational activities in Pueblo, Colorado; and for conducting other charitable activities that advance the health and wellbeing of Colorado residents. The Foundation is the sole corporate member of the Fund.

(14) Subsequent Events, Continued

On December 14, 2018, the Fund received a $20,000,000 endowment grant from the Packard Foundation. The endowment grant is restricted as to time and purpose.

The Foundation must exercise expenditure responsible over grants awarded from the Fund until such time as the Fund receives its Internal Revenue Service public charity status.

If the Fund fails to acquire recognition from the Internal Revenue Service as a public charity described in Internal Revenue Code Sections 501(c)(3) and 509(a)(1) by December 1, 2019, the Fund will repay to the Packard Foundation the entire grant and any interest earned on the grant funds.