

Colorado Health Institute

Financial Statements

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

**Board of Trustees
Colorado Health Institute:**

We have audited the accompanying financial statements of Colorado Health Institute (the Institute), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Colorado Health Institute as of December 31, 2016 and 2015, 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.

April 6, 2017

Colorado Health Institute
Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
Assets:		
Cash and cash equivalents	\$ 1,725,448	719,622
Accounts receivable	499,784	148,468
Prepaid expenses	58,412	45,717
Contributions receivable (note 2)	4,260,012	3,467,413
Investments (notes 3 and 4)	1,703,821	537,096
Property and equipment:		
Leasehold improvements	212,478	212,478
Furniture and fixtures	268,759	254,661
Office equipment and computer software	599,326	566,572
Website	89,909	70,097
	1,170,472	1,103,808
Less accumulated depreciation and amortization	784,791	647,051
	385,681	456,757
Deposits	13,946	13,946
	13,946	13,946
Total assets	\$ 8,647,104	5,389,019
Liabilities and Net Assets:		
Accounts payable	\$ 390,912	9,785
Accrued payroll liabilities	66,433	126,545
Deferred rent	202,269	256,495
Deferred revenue	711,833	-
	1,371,447	392,825
Total liabilities	1,371,447	392,825
Net assets:		
Unrestricted	2,061,308	1,459,231
Temporarily restricted (note 5)	5,214,349	3,536,963
	7,275,657	4,996,194
Total net assets	7,275,657	4,996,194
Commitments (notes 6 and 7)		
	8,647,104	5,389,019
Total liabilities and net assets	\$ 8,647,104	5,389,019

The accompanying notes are an integral part of the financial statements.

Colorado Health Institute
Statements of Activities
Years Ended December 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Revenue and Support:		
Contract revenue	\$ 1,077,636	480,346
Grant revenue	318,000	1,009,000
Investment return (note 3)	67,119	(3,244)
Miscellaneous income	49,379	20,305
Net assets released from restrictions (note 5)	2,964,665	1,877,889
Total revenue	4,476,799	3,384,296
Expenses:		
Program services:		
Health information	3,265,170	3,076,140
Total program services	3,265,170	3,076,140
Supporting services:		
Management and general	353,614	380,504
Fundraising	255,938	159,799
Total supporting services	609,552	540,303
Total expenses	3,874,722	3,616,443
Increase (decrease) in unrestricted net assets	602,077	(232,147)
Changes in temporarily restricted net assets:		
Revenue and Support:		
Grants and contributions	4,642,051	796,900
Net assets released from restrictions (note 5)	(2,964,665)	(1,877,889)
Increase (decrease) in temporarily restricted net assets	1,677,386	(1,080,989)
Change in net assets	2,279,463	(1,313,136)
Net assets at beginning of year	4,996,194	6,309,330
Net assets at end of year	\$ 7,275,657	4,996,194

The accompanying notes are an integral part of the financial statements.

Colorado Health Institute
Statement of Functional Expenses
Year Ended December 31, 2016

	Program	Supporting Services		Total Supporting Services	Total
	Health Information	Manage- ment and General	Fund- raising		
Salaries	\$ 1,660,810	193,863	111,481	305,344	1,966,154
Benefits	233,221	27,223	15,655	42,878	276,099
Payroll taxes	115,527	13,485	7,755	21,240	136,767
Professional fees	541,191	46,854	87,792	134,646	675,837
Rent	158,282	18,475	10,625	29,100	187,382
Depreciation and amortization	116,349	13,581	7,810	21,391	137,740
Insurance	19,074	2,227	1,280	3,507	22,581
Supplies	28,447	3,320	1,910	5,230	33,677
Telephone and internet	26,089	3,046	1,751	4,797	30,886
Printing and publications	19,314	—	—	—	19,314
Postage	711	31	18	49	760
Professional development and training	20,691	2,415	1,389	3,804	24,495
Travel and meals	65,026	7,590	4,365	11,955	76,981
Marketing and communications	28,957	—	—	—	28,957
Conferences, sponsorships and dues	186,932	1,942	1,117	3,059	189,991
Miscellaneous	44,549	19,562	2,990	22,552	67,101
	<u>\$ 3,265,170</u>	<u>353,614</u>	<u>255,938</u>	<u>609,552</u>	<u>3,874,722</u>

The accompanying notes are an integral part of the financial statements.

Colorado Health Institute
Statement of Functional Expenses
Year Ended December 31, 2015

	<u>Program</u>	<u>Supporting Services</u>		Total Supporting Services	Total
	Health Information	Manage- ment and General	Fund- raising		
Salaries	\$ 1,409,707	186,950	87,580	274,530	1,684,237
Benefits	204,804	27,160	12,724	39,884	244,688
Payroll taxes	89,170	11,825	5,540	17,365	106,535
Professional fees	782,270	77,263	21,784	99,047	881,317
Rent	148,448	19,686	9,223	28,909	177,357
Depreciation and amortization	110,170	14,610	6,845	21,455	131,625
Insurance	14,766	1,959	917	2,876	17,642
Supplies	24,978	3,312	1,552	4,864	29,842
Telephone and internet	23,889	3,168	1,484	4,652	28,541
Printing and publications	22,206	2,944	1,380	4,324	26,530
Postage	4,528	601	281	882	5,410
Professional development and training	17,844	2,365	1,109	3,474	21,318
Travel and meals	63,307	8,396	3,933	12,329	75,636
Marketing and communications	28,130	-	-	-	28,130
Conferences, sponsorships and dues	84,018	5,277	2,472	7,749	91,767
Miscellaneous	47,905	14,988	2,975	17,963	65,868
	<u>\$ 3,076,140</u>	<u>380,504</u>	<u>159,799</u>	<u>540,303</u>	<u>3,616,443</u>

The accompanying notes are an integral part of the financial statements.

Colorado Health Institute
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 2,279,463	(1,313,136)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	137,740	131,625
Realized and unrealized losses (gains) on investments	(60,481)	25,329
Loss on disposal of fixed assets	—	11,423
Decrease (increase) in operating assets:		
Accounts receivable	(351,316)	(26,017)
Contributions receivable	(792,599)	790,743
Prepaid expenses and deposits	(12,695)	(429)
Increase (decrease) in operating liabilities:		
Accounts payable	381,127	(8,704)
Accrued payroll liabilities	(60,112)	29,407
Deferred rent	(54,226)	(51,629)
Deferred revenue	711,833	—
	2,178,734	(411,388)
Cash flows from investing activities:		
Payments for purchases of property and equipment	(66,664)	(55,886)
Net sales (purchases) of investments	(1,106,244)	307,980
	(1,172,908)	252,094
Net (decrease) increase in cash and cash equivalents	1,005,826	(159,294)
Cash and cash equivalents at beginning of year	719,622	878,916
Cash and cash equivalents at end of year	\$ 1,725,448	719,622

The accompanying notes are an integral part of the financial statements.

Colorado Health Institute
Notes to Financial Statements
December 31, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) General

Colorado Health Institute (the Institute) is a not-for-profit corporation established on November 12, 2002 to advance the overall health of the people of Colorado by serving as an independent and impartial source of reliable and relevant health related information to policy makers, funding organizations, health planners, the business and nonprofit communities, consumer groups, health care providers, and the media. The Institute was established through three equal grants totaling \$5,700,000 from Caring for Colorado Foundation, The Colorado Trust, and Rose Community Foundation. These foundations and The Colorado Health Foundation (collectively, the Four Foundations) continue to provide funding for future operations.

(b) Basis of Accounting

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

(c) Financial Statement Presentation

Information regarding the financial position and activities of the Institute is reported according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Institute did not have any permanently restricted net assets at December 31, 2016 and 2015.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Institute considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents unless intended by management to be held for long-term purposes.

(e) Investments

The Institute reports investments at fair value. Fair value is determined as more fully described under the fair value measurement footnote (Note 4). The Institute's management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable. Investment income consists of the Institute's distributive share of any interest, dividends, realized and unrealized gains or losses, generated from the Institute's investments.

Gains and losses attributable to the Institute's investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Colorado Health Institute
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Contributions and Contributions Receivable

The Institute accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

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 reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

Unconditional contributions receivable are recognized as revenue when the pledge is received. Conditional pledges are recognized as receivables and revenue when the conditions on which they depend are substantially met. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Contributions receivable are expected to be collected in full.

(g) Contract Revenue

Contract revenue is recognized as related expenses are incurred and work is performed. Funding received in advance is recorded as deferred income.

(h) Accounts Receivable

The Institute considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. Accounts deemed uncollectible are charged to bad debt expense when that determination is made.

(i) Property and Equipment

The Institute follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$500. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

(j) Deferred Rent

Deferred rent represents the unamortized portion of lessor incentives (free rent and reimbursed tenant expenses) received in conjunction with the Institute's office lease. The Institute is amortizing deferred rent over the life of the lease. See note 6.

Colorado Health Institute
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Concentrations of Credit Risk

Financial instruments which potentially subject the Institute to concentrations of credit risk consist of cash and cash equivalents, money market accounts, certificates of deposit, and investment securities. The Institute places its cash and cash equivalents, money market accounts and certificates of deposit with creditworthy, high quality financial institutions. At times, a portion of these cash balances may not be insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC).

The Institute has significant investments in cash and cash equivalents. Investments are made by investment managers engaged by the Institute and the investments are monitored by management. Although the market values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Institute.

The Institute receives substantially all of its support from the Four Foundations. If a significant reduction in the level of this support occurs, it may have an effect on the Institute's programs and activities.

(l) 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 financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

(m) Functional Allocation of Expenses

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

(n) Income Taxes

The Institute 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 its tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income in 2016 and 2015. Accordingly, the accompanying financial statements contain no provision for income taxes.

Colorado Health Institute
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(n) Income Taxes, Continued

The Institute is required to report uncertain tax positions. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2016 and 2015. If incurred, interest and penalties associated with uncertain tax positions would be recorded in the period assessed as other operating expenses. No interest or penalties have been assessed as of December 31, 2016 and 2015. The tax years for 2015, 2014 and 2013 remain subject to examination.

(o) Subsequent Events

The Institute's management has evaluated, through the date the financial statements were available to be issued, events or transactions that may require recognition or disclosure in the financial statements. The Institute's financial statements were available to be issued April 6, 2017 and there were no subsequent events that required recognition or disclosure in the financial statements.

(2) Contributions Receivable

Contributions receivable are from certain of the Four Foundations and consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 3,374,512	1,636,413
Due in one to five years	<u>885,500</u>	<u>1,831,000</u>
Net contributions receivable	<u>\$ 4,260,012</u>	<u>3,467,413</u>

During 2014, the Institute recognized a \$3,765,000 grant to be received over a 5-year period in which each subsequent annual payment will increase at the rate of the Denver/Boulder/Greeley metro consumer price index (CPI) not to exceed 3%. Due to the fact that the rate increase is contingent upon the annual CPI, increases will be recognized in the year that they are received. In 2016, the increase received and recognized was \$45,858. There is no allowance for uncollectible contributions because management believes that the pledges are fully collectible.

(3) Investments

At December 31, 2016 and 2015, the Institute's investments, stated at fair value, consisted of the following:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 1,703,821	27,335
Exchange-traded funds invested in equities	-	467,765
Mortgage-back securities	<u>-</u>	<u>41,996</u>
	<u>\$ 1,703,821</u>	<u>537,096</u>

Colorado Health Institute
Notes to Financial Statements, Continued

(3) Investments, Continued

Investment return is summarized as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 6,638	22,085
Net realized and unrealized gains	<u>60,481</u>	<u>(25,329)</u>
Total investment return	\$ <u>67,119</u>	<u>(3,244)</u>

(4) Fair Value Measurements

The Institute reports investments 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 minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Institute to classify these financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying fund. The carrying amount reported in the statements of financial position for cash and cash equivalents, receivables, and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments. Accordingly, it is the Institute's investments that fall under the disclosure requirements of this standard.

The Institute's 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 type of investments included in Level 1 includes mutual funds, listed equities, 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 which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. Level 2 also includes other practical expedient investments with notice periods for redemptions of 90 days or less.

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 fair value of Level 3 investments is based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by the Institute. The Institute has no Level 3 investments.

Colorado Health Institute
Notes to Financial Statements, Continued

(4) Fair Value Measurements, Continued

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 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 change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

The following table summarizes the Institute's investments by the above fair value hierarchy levels as of December 31, 2016:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 1,703,821	1,703,821	-	-
Exchange-traded funds	-	-	-	-
Mortgage-backed securities	-	-	-	-
Total	<u>\$ 1,703,821</u>	<u>1,703,821</u>	<u>-</u>	<u>-</u>

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

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 27,335	27,335	-	-
Exchange-traded funds	467,765	467,765	-	-
Mortgage-backed securities	41,996	-	41,996	-
Total	<u>\$ 537,096</u>	<u>495,100</u>	<u>41,996</u>	<u>-</u>

Level 1 assets have been valued using a market approach. Level 2 assets have been valued through the use of models or other valuation techniques. There were no changes in the valuation techniques during the current year.

(5) Temporarily Restricted Net Assets

At December 31, the Institute's temporarily restricted net assets consisted of pledges and contributions restricted by donors for particular purposes as follows:

	<u>2016</u>	<u>2015</u>
Contributions receivable	\$ 2,531,000	3,416,500
Grants for specific projects	<u>2,683,349</u>	<u>120,463</u>
Temporarily restricted net assets	<u>\$ 5,214,349</u>	<u>3,536,963</u>

Colorado Health Institute
Notes to Financial Statements, Continued

(5) Temporarily Restricted Net Assets, Continued

In 2016 and 2015 net assets were released from donor restrictions upon satisfaction of the following purposes:

	<u>2016</u>	<u>2015</u>
Receipt of payments from the Four Foundations	\$ 2,223,858	1,102,850
Expenditures of funds for specific projects	<u>549,283</u>	<u>775,039</u>
Total net assets released	\$ <u>2,773,141</u>	<u>1,877,889</u>

(6) Lease

The Institute has a non-cancelable operating lease for office space that expires April 30, 2020. Additionally the Institute has a non-cancelable operating lease for a copier that expires February, 28, 2021. Total rent expense for operating leases was \$212,295 in 2016 and \$198,368 in 2015.

Future minimum lease payments at December 31 were:

2017	\$ 249,953
2018	251,437
2019	254,776
2020	98,973
2021	<u>3,512</u>
	\$ <u>858,651</u>

(7) Retirement Plan

The Institute has a defined contribution plan (the Plan) that covers substantially all full-time employees who are at least twenty-one years old. Employer contributions were 7% of employee compensation for 2016 and 2015. Plan benefits vest 100% after three years of service. Institute contributions to the Plan totaled \$140,218 in 2016 and \$117,006 in 2015.