



University of Colorado
Foundation

**Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2018 and 2017**

EKS&H

UNIVERSITY OF COLORADO FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
University of Colorado Foundation
Denver, Colorado

We have audited the accompanying consolidated financial statements of the University of Colorado Foundation (a Colorado non-profit corporation), which are comprised of the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

To the Board of Directors
University of Colorado Foundation
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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Colorado Foundation as of June 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.

EKS+H LLLP
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Denver, Colorado
October 25, 2018

UNIVERSITY OF COLORADO FOUNDATION

Consolidated Statements of Financial Position

	June 30,	
	2018	2017
Assets		
Current assets		
Cash and cash equivalents (Note 1)	\$ 29,860,831	\$ 26,012,951
Contributions receivable, net (Note 2)	28,853,127	31,933,997
Other assets	723,668	539,520
Total current assets	59,437,626	58,486,468
Non-current assets		
Contributions receivable, net (Note 2)	151,080,448	90,994,064
Investments (Notes 3 and 4)	1,847,549,273	1,689,100,350
Assets held under split-interest agreements (Notes 3 and 6)	42,573,159	42,750,319
Beneficial interest in charitable trusts held by others (Notes 3 and 6)	8,406,228	8,016,375
Property and equipment, net (Note 7)	1,434,853	1,582,627
Total non-current assets	2,051,043,961	1,832,443,735
Total assets	\$ 2,110,481,587	\$ 1,890,930,203
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 390,347	\$ 480,426
Accounts payable and accrued liabilities - University	4,831,892	13,295,063
Liabilities under split-interest agreements (Note 6)	2,619,384	2,603,773
Custodial funds (Notes 1 and 8)	16,659,795	15,719,309
Total current liabilities	24,501,418	32,098,571
Non-current liabilities		
Funds held in trust for others	2,292,780	2,114,705
Liabilities under split-interest agreements, net of current portion (Note 6)	20,318,507	21,060,458
Custodial funds, net of current portion (Notes 1 and 8)	418,291,910	379,743,579
Total non-current liabilities	440,903,197	402,918,742
Total liabilities	465,404,615	435,017,313
Commitments and contingencies (Notes 8, 9, 12, and 13)		
Net assets (Notes 5, 10, and 11)		
Unrestricted		
Designated	46,880,417	28,300,008
Undesignated	21,477,801	33,180,242
Total unrestricted	68,358,218	61,480,250
Temporarily restricted	970,306,257	847,611,075
Permanently restricted	606,412,497	546,821,565
Total net assets	1,645,076,972	1,455,912,890
Total liabilities and net assets	\$ 2,110,481,587	\$ 1,890,930,203

See notes to consolidated financial statements.

UNIVERSITY OF COLORADO FOUNDATION

Consolidated Statements of Activities

	For the Year Ended June 30, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions (Note 1)	\$ 7,242	\$ 185,642,063	\$ 47,508,402	\$ 233,157,707
Net investment return (Notes 1 and 4)	20,928,164	107,551,927	17,400	128,497,491
Advancement support assessment (Notes 1, 5, and 14)	17,396,482	(13,855,157)	-	3,541,325
Change in value of split-interest agreements	(1,595)	114,352	978,000	1,090,757
Transfers from the University (Note 1)	-	3,442,773	12,012,256	15,455,029
Other revenue	20,258	598,766	25,607	644,631
Other changes in net assets	(2,291,535)	3,242,268	(950,733)	-
Net assets released from purpose restrictions (Notes 1, 5, 10, and 11)	164,041,810	(164,041,810)	-	-
Total support and revenue	200,100,826	122,695,182	59,590,932	382,386,940
Distributions and expenses				
Transfers to the University	166,738,960	-	-	166,738,960
Supporting services				
Advancement support to the University (Notes 1 and 14)	21,579,000	-	-	21,579,000
Administrative	4,904,898	-	-	4,904,898
Total supporting services	26,483,898	-	-	26,483,898
Total distributions and expenses	193,222,858	-	-	193,222,858
Total change in net assets	6,877,968	122,695,182	59,590,932	189,164,082
Net assets, beginning of year	61,480,250	847,611,075	546,821,565	1,455,912,890
Net assets, end of year	\$ 68,358,218	\$ 970,306,257	\$ 606,412,497	\$1,645,076,972

See notes to consolidated financial statements.

UNIVERSITY OF COLORADO FOUNDATION

Consolidated Statements of Activities

	For the Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Contributions (Note 1)	\$ 30,472	\$ 146,801,073	\$ 39,771,112	\$ 186,602,657
Net investment return (Notes 1 and 4)	25,842,186	131,502,109	(204,701)	157,139,594
Advancement support assessment (Notes 1, 5, and 14)	17,485,150	(13,970,301)	-	3,514,849
Change in value of split-interest agreements	3,402	(375,180)	(195,395)	(567,173)
Transfers from the University (Note 1)	-	286,942	1,330,750	1,617,692
Other revenue	(357)	243,680	20,701	264,024
Net change in endowments below historical gift value (Notes 5 and 10)	763,260	(763,260)	-	-
Other changes in net assets	(1,190,964)	(9,831,387)	11,022,351	-
Net assets released from purpose restrictions (Notes 1, 5, 10, and 11)	127,694,572	(127,694,572)	-	-
Total support and revenue	170,627,721	126,199,104	51,744,818	348,571,643
Distributions and expenses				
Transfers to the University	139,450,916	-	-	139,450,916
Supporting services				
Advancement support to the University (Notes 1 and 14)	20,749,000	-	-	20,749,000
Administrative	4,386,672	-	-	4,386,672
Total supporting services	25,135,672	-	-	25,135,672
Total distributions and expenses	164,586,588	-	-	164,586,588
Total change in net assets	6,041,133	126,199,104	51,744,818	183,985,055
Net assets, beginning of year	55,439,117	721,411,971	495,076,747	1,271,927,835
Net assets, end of year	\$ 61,480,250	\$ 847,611,075	\$ 546,821,565	\$1,455,912,890

See notes to consolidated financial statements.

UNIVERSITY OF COLORADO FOUNDATION

Consolidated Statements of Cash Flows

	For the Years Ended	
	June 30,	
	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 189,164,082	\$ 183,985,055
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization expense	147,774	157,814
Net realized and unrealized gains	(124,047,709)	(151,570,759)
Change in beneficial interest in charitable trusts held by others	(389,853)	(585,987)
Permanently restricted contributions	(47,508,402)	(39,771,112)
Contribution of property	-	(1,306,746)
Change in value of split-interest agreements	(1,090,757)	567,173
Other changes in operating assets and liabilities		
Contributions receivable, net	(57,005,514)	(11,393,888)
Other assets	(184,148)	38,218
Accounts payable and accrued liabilities (including University)	(8,553,250)	4,485,447
Custodial funds	39,488,817	53,416,659
Funds held in trust for others	178,075	(476,985)
Net cash (used in) provided by operating activities	(9,800,885)	37,544,889
Cash flows from investing activities		
Net purchases of investments	(34,401,214)	(89,369,476)
Net contributions under split-interest agreements	3,408,449	6,030,063
Net cash used in investing activities	(30,992,765)	(83,339,413)
Cash flows from financing activities		
Permanently restricted contributions	47,508,402	39,771,112
Payments on split-interest agreement obligations	(2,866,872)	(2,656,826)
Net cash provided by financing activities	44,641,530	37,114,286
Net increase (decrease) in cash and cash equivalents	3,847,880	(8,680,238)
Cash and cash equivalents, beginning of year	26,012,951	34,693,189
Cash and cash equivalents, end of year	\$ 29,860,831	\$ 26,012,951

See notes to consolidated financial statements.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The University of Colorado Foundation (the "Foundation") is the financial portal for philanthropic giving to the University of Colorado (the "University"). Private support for the University, given to the Foundation for the benefit of the University, enables the University to transform lives through education, research, clinical care, and community engagement. The Foundation focuses its efforts on donor stewardship through customer service and assurance in gift acceptance, administration, and reporting and on prudent investment management. The University directs and executes front-line fundraising operations and strategy.

The Foundation is a 501(c)(3) charitable organization incorporated in 1967. The Foundation is governed by a Board of Directors and operates with a staff of approximately 25 employees. The Foundation has been authorized by the Board of Regents of the University to receive, hold, invest, and transfer funds for the benefit of the University. The Foundation:

- Receives, accepts, and processes gifts and bequests for the University's benefit;
- Establishes and accounts for current funds, endowed funds, and split-interest agreements;
- Administers and distributes gift funds to University programs, ensuring that donor intent is honored; and
- Stewards gift assets by prudently managing and investing gift funds.

Reporting Entity and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the University of Colorado Foundation; CU Foundation Holdings, Inc.; and The University of Colorado UK Foundation Limited ("UCUK") because the University of Colorado Foundation has both control and an economic interest in each of these organizations. There was no activity in CU Foundation Holdings, Inc. during the years ended June 30, 2018 and 2017. All significant intercompany balances and transactions have been eliminated in consolidation. Collectively, these consolidated entities are hereinafter referred to as the "Foundation" unless otherwise noted.

UCUK, a charitable company limited by shares, was formed under the laws of England and Wales and incorporated February 25, 2010. The Foundation is the sole shareholder. UCUK's purpose is to advance and promote education for the public benefit, in particular for any educational and charitable purposes connected with the University, its affiliates, and its past and present students and staff. UCUK owns property in London for the use of the University's faculty and graduate students conducting scholarly research in the United Kingdom. UCUK was gifted to the Foundation during the year ended June 30, 2017. UCUK's net assets at June 30, 2018 and 2017 were \$1,227,034 and \$1,285,590, respectively.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

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

Basis of Presentation (continued)

The consolidated financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB"). The net assets, support and revenue, program services, and supporting services in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions (Note 10).

Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are generally not subject to donor-imposed restrictions. In general, the unrestricted net assets of the Foundation may be used at the discretion of the Foundation's Board of Directors, acting on the recommendations of the Foundation's management and/or the President of the University to support the Foundation's purposes, operations, and mission.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that may or will be met either through actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statements of activities as net assets released from purpose restrictions.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that are maintained permanently by the Foundation.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for the Foundation's June 30, 2019 fiscal year-end with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

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

Recently Issued Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition on the income statement. The new standard is effective for the Foundation's June 30, 2020 fiscal year-end, including interim periods within those fiscal years. The Foundation can elect to record a cumulative effect adjustment as of the beginning of the year of adoption or apply a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available.

The Foundation is currently evaluating the impact of these standards on its consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support, revenue, expenses, and distributions during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Foundation considers all unrestricted cash and highly liquid investments with an initial maturity of three months or less and that are not held as components of the Foundation's investment portfolio to be cash equivalents.

Financial Instrument Risk

Potential concentrations of credit risk include cash and cash equivalents, investments, and contributions receivable. The Foundation places temporary cash and money market accounts with creditworthy, high-quality financial institutions. A significant portion of the funds are not insured by the FDIC or related entity. Investments are made primarily by investment managers engaged by the Foundation's Outsourced Chief Investment Officer ("OCIO"), who has been delegated discretion of manager selection by the Investment Policy Committee ("IPC") of the Board of Directors. Investments are regularly monitored by the OCIO, with oversight by management and the IPC. 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 Foundation. Collection risk associated with contributions receivable is limited due to the large number of contributors comprising the Foundation's contributor base and historical high-collectibility experience.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

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

Contributions and Contributions Receivable

Contributions are recognized when a donor makes a gift or an unconditional promise to give and are recorded as contributions on the consolidated statements of activities.

Contributions receivable are recorded at their estimated net realizable values, discounted using risk-free interest rates effective at the date of the promise to give, if expected to be collected in more than one year. Amortization of the discount is included in contribution revenue. Subsequent to the initial recording of the contribution receivable, the Foundation uses the allowance method to record amounts estimated to be uncollectible. The allowance is based on the historical collectibility of contributions promised to the Foundation and on management's analysis of specific promises outstanding.

Donated Property

Donated marketable securities are recorded at the average of the high and low price per share on the date of receipt. Other non-cash donations, including land, buildings, and equipment, are recorded as contributions at their estimated fair values at the date of donation.

Investments

The Foundation records investment purchases at cost, or when contributed to the Foundation, at the fair values of the investment assets received at the date of contribution. The majority of investments are held in a long-term investment pool ("LTIP") and a short-term investment pool ("STIP"), both of which are managed by the Foundation's OCIO.

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at their fair values on the consolidated statements of financial position. The fair values of alternative investments not publicly traded on national security exchanges 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, subject to review, evaluation, and adjustment by the OCIO and management of the Foundation. Because of inherent uncertainties in the valuation of alternative investments, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed. Included in the investment portfolio are real estate and note receivable assets. These assets are stated at cost and present value.

Net investment return reported on the consolidated statements of activities consists of the Foundation's distributive share of interest and dividends, realized and unrealized capital gains and losses generated from the Foundation's investments, less investment and custodial fees and the OCIO's fees. Restricted gains and investment income are generally reported as increases to temporarily restricted net investment return and are reclassified to unrestricted investment income upon expiration of the restrictions.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

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

Property and Equipment

Property and equipment is stated at cost, or fair value if donated, and depreciated over the following estimated useful lives using the straight-line method:

	<u>Estimated Useful Lives</u>
Furniture, fixtures, equipment, and other	3-7 years
Leasehold improvements	5-30 years

Expenditures for maintenance, repairs, and minor replacements are charged to operations, and expenditures for major replacements and betterments in excess of \$5,000 are capitalized.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the asset's fair value. No impairment was considered necessary as of June 30, 2018 and 2017.

Custodial Funds

The Foundation holds and invests certain endowment and other funds in the LTIP in trust on behalf of the University. The Foundation also holds funds on behalf of separate non-profit corporations.

Fair Value Measurements

The Foundation follows FASB guidance surrounding fair value measurements. This guidance requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value (Note 3).

Transfers from the University

The University periodically sends the Foundation certain funds approved to be added to Foundation endowments and invested in the LTIP. The amounts received by the Foundation were \$3,244,853 and \$980,000 in years ended June 30, 2018 and 2017, respectively. The University also has authority from the Board of Regents to convert Custodial endowments to Foundation endowments when doing so enhances operational efficiencies or allows for stronger donor stewardship. The total custodial endowments converted were \$12,210,176 and \$637,692 in years ended June 30, 2018 and 2017, respectively. All transfers from the University are included in Other Reclassifications and Additions in Note 5.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

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

Supporting Services

The Foundation's general operations are supported through two main income sources: an advancement support assessment on endowment balances and the earnings on unrestricted and temporarily restricted invested assets. The majority of this income is transferred to the University to support fundraising operations on each of the University's campuses and the central Office of Advancement and is shown on the consolidated statements of activities as advancement support to the University. Administrative expenses represent the general operating costs of the Foundation.

Income Taxes

The Foundation and CU Foundation Holdings, Inc. are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, each entity qualifies for the charitable contribution deduction under Code Section 170 and has been classified as an organization other than a private foundation under Code Sections 509(a)(1) and 509(a)(3), respectively. Accordingly, no provision for income taxes is made for federal, state, or local taxes.

The Foundation applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax provisions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2018 or 2017.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No interest or penalties have been assessed as of June 30, 2018 or 2017.

Income from activities not directly related to each entity's tax-exempt purpose is subject to taxation as unrelated business taxable income. During fiscal years 2018 and 2017, the unrelated business income tax liability was insignificant.

Subsequent Events

The Foundation has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure in the consolidated financial statements.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 2 - Contributions Receivable

Contributions receivable, net of allowance for uncollectibles and unamortized discount, are summarized as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ 197,474,427	\$ 135,621,561
Less allowance for uncollectibles	(10,051,830)	(10,402,822)
Less unamortized discount	(7,489,022)	(2,290,678)
Net contributions receivable	\$ 179,933,575	\$ 122,928,061

Discount rates used by the Foundation to determine the net present value of contributions receivable are based on the duration over which payments are received and are commensurate with United States Treasury zero-coupon bond rates for the same period. Discount rates used for outstanding contributions receivable range from 0.41% to 2.97%.

Scheduled estimated collections of contributions receivable, net of allowance for uncollectibles and unamortized discount, are as follows:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Amount due in		
Less than one year	\$ 53,378,721	\$ 46,217,372
One to five years	118,346,793	73,826,309
More than five years	8,208,061	2,884,380
Net contributions receivable	\$ 179,933,575	\$ 122,928,061

Contributions receivable related to long-term purposes, such as for an endowment, are classified as non-current assets due to the long-term nature of the underlying purpose.

Note 3 - Fair Value Measurements

The carrying amounts of cash, receivables, accounts payable, and accrued liabilities approximate fair value due to the short-term nature of the items. The carrying amounts of contributions receivable due in more than one year and the liabilities associated with split-interest agreements are based on the discounted net present value of the expected future cash flows, which approximates fair value. The fair value of the Foundation's investments, including custodial funds, is determined based on quoted market prices or, in the absence thereof, other third-party and internally developed estimates of fair value using pricing methodologies appropriate in the circumstances.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

The Foundation has adopted FASB guidance surrounding fair value measurements. The guidance defines fair value as an exit price representing the amount 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. In addition, the guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date.
- 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.
- Level 3: Pricing inputs are unobservable for the investment and include situations in which there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

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 (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of quality, risk, or liquidity.

As required by GAAP, the Foundation uses net asset value ("NAV") per share or its equivalent ("practical expedient"), such as member units or an ownership interest in partners' capital, to estimate the fair value of an alternative investment and requires additional fair value disclosures for the Foundation's alternative investments.

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

Equities – Valued at the closing price reported on the active market on which the individual securities are traded (other than investments in certain entities that calculate NAV per share).

Fixed income – Valued based on yields currently available on comparable securities of the issuer or other issuers with similar credit ratings (other than investments in certain entities that calculate NAV per share).

Alternative investments – Valued using the NAV per share of the investments.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

No changes were made to the valuation methodologies during the years ended June 30, 2018 and 2017, and certain 2017 fair value classifications have been revised based on additional information received. The following tables summarize the Foundation's fair value of assets using fair value hierarchy levels.

In accordance with FASB Codification Subtopic 820-10, certain investments that are measured at fair value using the NAV practical expedient are not classified in the fair value hierarchy. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated statements of financial position.

As of June 30, 2018:

	Fair Value	Level 1	Level 2	Level 3	Carried at Net Asset Value
Investments at fair value					
Cash and cash equivalents	\$ 13,960,909	\$ 13,960,909	\$ -	\$ -	\$ -
Domestic equities	410,213,755	289,969,755	-	50,400,000	69,844,000
International equities	484,964,577	334,672,295	-	-	150,292,282
Fixed income	197,905,572	140,875,711	24,846,157	-	32,183,704
Alternative					
Real estate	73,673,010	-	-	-	73,673,010
Private equity	297,737,009	-	-	-	297,737,009
Absolute return	257,316,421	-	-	-	257,316,421
Venture capital	96,752,739	-	-	436,828	96,315,911
Commodities	12,238,913	1,199	-	-	12,237,714
Other	711,301	-	487,778	223,523	-
Total investments at fair value	1,845,474,206	779,479,869	25,333,935	51,060,351	989,600,051
Assets held under split- interest agreements					
Charitable remainder trusts	36,339,322	36,339,322	-	-	-
Charitable lead trusts	2,737,771	2,737,771	-	-	-
Pooled income fund	166,066	166,066	-	-	-
Total assets held under split-interest agreements	39,243,159	39,243,159	-	-	-
Beneficial interest in charitable trusts held by others	8,406,228	-	-	8,406,228	-
	\$ 1,893,123,593	\$ 818,723,028	\$ 25,333,935	\$ 59,466,579	\$ 989,600,051

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

As of June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carried at Net Asset Value</u>
Investments at fair value					
Cash and cash equivalents	\$ 31,068,549	\$ 31,068,549	\$ -	\$ -	\$ -
Domestic equities	399,958,175	295,625,640	-	44,100,000	60,232,535
International equities	443,189,440	314,159,352	-	-	129,030,088
Fixed income	205,381,641	141,544,105	42,281,136	-	21,556,400
Alternative					
Real estate	70,818,052	-	-	-	70,818,052
Private equity	238,712,087	-	-	-	238,712,087
Long/short hedged equity	23,789,292	-	-	-	23,789,292
Absolute return	176,028,610	-	-	-	176,028,610
Venture capital	67,476,549	-	-	332,863	67,143,686
Commodities	30,423,740	19,030,665	-	-	11,393,075
Other	727,647	-	504,125	223,522	-
Total investments at fair value	1,687,573,782	801,428,311	42,785,261	44,656,385	798,703,825
Assets held under split-interest agreements					
Charitable remainder trusts	36,198,008	36,198,008	-	-	-
Charitable lead trusts	3,054,086	1,824,786	1,229,300	-	-
Pooled income fund	168,225	168,225	-	-	-
Total assets held under split-interest agreements	39,420,319	38,191,019	1,229,300	-	-
Beneficial interest in charitable trusts held by others	8,016,375	-	-	8,016,375	-
	\$ 1,735,010,476	\$ 839,619,330	\$ 44,014,561	\$ 52,672,760	\$ 798,703,825

In addition to the total investments at fair value, the Foundation holds investment assets at cost or present value at June 30, 2018 and 2017 totaling \$2,075,067 and \$1,526,568, respectively. In addition to total assets held under split-interest agreements at fair value, the Foundation has \$3,330,000 of real estate held at the appraised value at the date of donation at both June 30, 2018 and 2017.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

The changes in the financial assets for which the Foundation has used Level 3 inputs to determine fair value are as follows:

	<u>Investments</u>	<u>Beneficial Interest in Charitable Trusts Held by Others</u>
June 30, 2017	\$ 44,656,385	\$ 8,016,375
Net unrealized gains	6,161,153	389,853
Dividend income	1,350,000	-
Purchases	242,813	-
Transfers out	(1,350,000)	-
June 30, 2018	\$ 51,060,351	\$ 8,406,228

	<u>Investments</u>	<u>Beneficial Interest in Charitable Trusts Held by Others</u>
June 30, 2016	\$ 38,608,617	\$ 7,430,388
Net unrealized gains	6,000,000	585,987
Dividend income	1,230,000	-
Purchases	47,768	-
Transfers out	(1,230,000)	-
June 30, 2017	\$ 44,656,385	\$ 8,016,375

Net unrealized gains of \$6,551,006 and \$6,585,987 are included in net investment return on the accompanying consolidated statements of activities, which are attributable to Level 3 investments held at June 30, 2018 and 2017, respectively.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

Investments in certain entities that calculate NAV per share are as follows:

<u>Fund Description</u>	Unfunded Commitments June 30, 2018	Fair Value June 30, 2018	Fair Value June 30, 2017	Redemption Frequency	Redemption Notice Period
Domestic equities	\$ -	\$ 69,844,000	\$ 60,232,535	Quarterly	90 days
International equities	-	150,292,282	129,030,088	Quarterly	30 days
Fixed income	-	32,183,704	21,556,400	Varies	45 to 60 days
Real estate	50,530,672	73,673,010	70,818,052	None	N/A
Private equity	147,088,546	297,737,009	238,712,087	None	N/A
Long/short hedged equity	-	-	23,789,292	None	N/A
Absolute return	6,315,757	257,316,421	176,028,610	Varies	45 to 90 days
Venture capital	52,642,507	96,315,911	67,143,686	None	N/A
Commodities	13,416,761	12,237,714	11,393,075	None	N/A
Ending balance	\$269,994,243	\$989,600,051	\$798,703,825		

As of June 30, 2018, the fair values of these investments have been provided by the underlying general partner.

Domestic equities include publicly traded U.S. stocks; an investment in a privately held bank holding company; and a fund that may invest in vehicles including equity-related, hybrid, and credit securities that are traded publicly and privately in U.S. and non-U.S. markets.

International equities primarily include equities and equity-related securities, including securities of emerging and frontier markets, which are listed or traded on recognized exchanges. Some funds may also employ non-equity investments, including fixed-income securities, futures, spot and forward currency contracts, repurchase and reverse repurchase agreements, over-the-counter options, other derivatives, and exchange-traded funds.

Fixed income includes a diversified portfolio of fixed income securities, including bonds, bank loans and securitized assets. Some funds may utilize derivative instruments, including futures, swaps, forwards, and options for both hedging and investment purposes.

Real estate includes private equity funds that focus on real estate assets primarily located in the U.S. These investments are not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. The term of each of these investments ranges from 1 to 10 years.

Private equity funds focus on buyout, growth equity, and/or distressed debt. These investments are not readily redeemable, but a secondary market does exist. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. The terms of these investments range from 1 to 12 years.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurements (continued)

Long/short hedged equity are funds that can invest in both long and short positions, primarily in common stocks. Management of these funds may invest in value, growth, or event-driven equity opportunities and are typically not restricted by market capitalization, sector, or geography. The underlying portfolios may, at times, have a net short position and may utilize leverage.

Absolute return are funds that seek to generate returns through the implementation of specialized strategies that have historically exhibited a low correlation to the broad equity markets. These managers may employ strategies such as long/short hedged equity or credit, distressed debt, merger arbitrage, litigation, direct lending, or event-driven strategies, among others, and the allocation to these strategies may vary over time. As of June 30, 2018, all of the investments in this category are subject to certain lock-up restrictions, which may limit the amount of capital eligible for redemption at certain time periods.

Venture capital includes private equity funds that focus on venture capital. These investments are not readily redeemable, but a secondary market does exist in some cases. The nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. The term of these investments ranges from 0.5 to 12 years.

Commodities may consist of investments related to food products, energy, metals, and other natural resources. These investments are not readily redeemable. Instead, the nature of these investments relies on interest income and principal repayment from loans made to agricultural firms based in North America. The loans are fully collateralized by the underlying agricultural product or commodity. The term of the investment is generally three to five years.

Note 4 - Investments

The Foundation has entered into an investment advisory agreement with a third party to provide investment management services as an OCIO. The Foundation may terminate this arrangement at any time provided it gives 90 days' written notice. The OCIO has investment discretion within the framework of the Foundation's Investment Policy Statement ("IPS"). The IPS was drafted by and is reviewed annually by the Foundation's IPC and approved by the Board of Directors. The Foundation's management and IPC meet regularly with the OCIO to discuss asset class allocations and to review the LTIP's performance over 1-, 3-, 5-, 7-, and 10-year time horizons. All investment management fees, including the OCIO's, are netted in the investment returns.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 4 - Investments (continued)

The Foundation's investments include privately and publicly held investments and are structured to provide the financial resources needed to meet the Foundation's charitable objectives. They include a variety of investment products, 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 investments to fluctuate from period to period and could result in material changes 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, general business and industry market conditions, and the state and perceived direction of the economy. The values of bond investments and other fixed income securities fluctuate in response to changing interest rates, creditworthiness of issuers, and overall economic policies that impact market conditions. Investments in private equity and real estate funds can fluctuate in response to direct market conditions and other factors that may or may not have a high correlation to overall market direction.

Certain investment managers selected by the OCIO are permitted to use investment strategies and techniques designed to achieve higher investment returns with volatility that may be either higher or lower than traditional strategies but exhibit lower 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. Certain investments contain liquidity restrictions ranging from less than one month to more than one year.

Many of the investments held in the portfolio have management cost components that may or may not be discretely reported and that can vary depending on the timing of capital investments, lifecycle of the fund, accounting methodology followed by the fund, flows of investments and redemptions within the accounting period, and the degree to which a manager charges an incentive fee. Discrete investment management fees, as well as OCIO and custodial services expenses, are generally paid through the investments held in the LTIP and STIP and are included in the following net investment return tables.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 4 - Investments (continued)

Investments consisted of the following:

	June 30,	
	2018	2017
Cash and cash equivalents	\$ 13,960,909	\$ 31,068,549
Equities		
Domestic	410,213,755	399,958,175
International	484,964,577	443,189,440
Fixed income	197,905,572	205,381,641
Alternative		
Real estate	75,668,076	72,068,880
Private equity	297,737,009	238,712,087
Long/short hedged equity	-	23,789,292
Absolute return	257,316,421	176,028,610
Venture capital	96,752,739	67,476,549
Commodities	12,238,913	30,423,740
Other	791,302	1,003,387
Total investments	\$1,847,549,273	\$1,689,100,350

Net investment return (net of custodial funds) for the year ended June 30, 2018 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net realized gains	\$ 9,298,529	\$ 44,937,361	\$ 13,540	\$ 54,249,430
Net unrealized gains	8,754,891	61,039,528	3,860	69,798,279
Interest, dividends, and other income	5,405,993	14,718,046	-	20,124,039
Investment management and custodial fees	(2,531,249)	(13,143,008)	-	(15,674,257)
Net investment return	\$ 20,928,164	\$ 107,551,927	\$ 17,400	\$ 128,497,491

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 4 - Investments (continued)

Net investment return (net of custodial funds) for the year ended June 30, 2017 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net realized gains (losses)	\$ 5,583,060	\$ 35,887,254	\$ (224,620)	\$ 41,245,694
Net unrealized gains	17,972,016	92,341,559	11,490	110,325,065
Interest, dividends, and other income	4,284,356	14,340,860	8,429	18,633,645
Investment management and custodial fees	(1,997,246)	(11,067,564)	-	(13,064,810)
Net investment return	\$ 25,842,186	\$ 131,502,109	\$ (204,701)	\$ 157,139,594

Note 5 - Endowments

Total managed endowments at the Foundation were \$1,360,520,982 and \$1,220,204,323 at June 30, 2018 and 2017, respectively. Included in these totals are custodial endowments (Notes 1 and 8) totaling \$210,202,443 and \$200,068,929 at June 30, 2018 and 2017, respectively. Foundation endowments consist of various individual funds established for a variety of purposes.

The composition of endowments (net of custodial endowments) by type of fund as of June 30, 2018 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 217,996,769	\$ 552,871,829	\$ 770,868,598
Quasi-endowment funds	-	361,001,431	-	361,001,431
Board-designated endowment funds	18,448,510	-	-	18,448,510
Total	\$ 18,448,510	\$ 578,998,200	\$ 552,871,829	\$ 1,150,318,539

The composition of endowments (net of custodial endowments) by type of fund as of June 30, 2017 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 171,597,227	\$ 500,505,782	\$ 672,103,009
Quasi-endowment funds	-	330,602,622	-	330,602,622
Board-designated endowment funds	17,429,763	-	-	17,429,763
Total	\$ 17,429,763	\$ 502,199,849	\$ 500,505,782	\$ 1,020,135,394

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 5 - Endowments (continued)

The endowments include donor-restricted endowment funds, quasi-endowments, and Board-designated endowment funds. Donor-restricted endowment funds are permanent charitable funds whose principal is treated in accordance with a defined spending policy or that must be preserved in perpetuity as a condition imposed by the donor. Quasi-endowments are those purpose-restricted gifts that are generally intended to be maintained in perpetuity; however, under specific circumstances defined by the donor, the principal may be invaded fully to meet the defined purpose. Board-designated endowments are unrestricted funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2006, the Uniform Law Commission approved the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which governs the investment and management of donor-restricted endowment funds by non-profit organizations. In 2008, the state of Colorado enacted UPMIFA, and the FASB issued FASB Staff Position No. 117-1 (codified as FASB Accounting Standards Codification Topic 958-205-45), which provides guidance on the net asset classification of donor-restricted endowment funds subject to UPMIFA as well as additional disclosure requirements for both donor-restricted and Board-designated endowments.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent donor stipulations to the contrary. As a result of this interpretation, the Foundation has classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 5 - Endowments (continued)

Interpretation of Relevant Law (continued)

Changes in endowment net assets (net of custodial endowments) for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 17,429,763	\$ 502,199,849	\$ 500,505,782	\$1,020,135,394
Investment return				
Investment income	251,623	14,593,250	-	14,844,873
Net appreciation (realized and unrealized)	1,638,835	92,948,719	-	94,587,554
Total investment return	1,890,458	107,541,969	-	109,432,427
Contributions received	12,000	13,560,764	40,995,483	54,568,247
Appropriation of endowment assets for expenditure	(864,344)	(49,923,852)	-	(50,788,196)
Other reclassifications and additions	(19,367)	5,619,470	11,370,564	16,970,667
Endowment net assets, end of year	\$ 18,448,510	\$ 578,998,200	\$ 552,871,829	\$1,150,318,539

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 5 - Endowments (continued)

Interpretation of Relevant Law (continued)

Changes in endowment net assets (net of custodial endowments) for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 15,916,212	\$ 421,612,792	\$ 449,639,621	\$ 887,168,625
Investment return				
Investment income	255,029	14,230,602	-	14,485,631
Net appreciation (realized and unrealized)	2,080,246	116,958,691	-	119,038,937
Total investment return	2,335,275	131,189,293	-	133,524,568
Contributions received	29,618	9,351,049	38,294,979	47,675,646
Appropriation of endowment assets for expenditure	(877,707)	(52,096,066)	-	(52,973,773)
Other reclassifications and additions	26,365	(7,857,219)	12,571,182	4,740,328
Endowment net assets, end of year	\$ 17,429,763	\$ 502,199,849	\$ 500,505,782	\$1,020,135,394

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, accumulated deficiencies of this nature are reported in unrestricted net assets. There were no endowment funds with deficiencies for the years ended June 30, 2018 and 2017. Disclosure of these deficiencies is required under GAAP; however, there is no legal obligation for the Foundation to fund these deficiencies.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 5 - Endowments (continued)

Return Objective and Risk Parameters

Nearly all endowments are invested in the LTIP. The Foundation has adopted an investment policy for the LTIP with an objective to provide a steady (and increasing) stream of funding to programs supported by the endowments while seeking to maintain the real (inflation-adjusted) purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an average annual total return in excess of a Policy Benchmark, net of investment management expenses, over a rolling five-year period. The Policy Benchmark is a blend of 80% MSCI All Country World Index and 20% Barclays Capital U.S. Aggregate Bond Index.

The risk objective is to attain a risk level (as measured by standard deviation over a rolling five-year period) at or below the Policy Benchmark. The LTIP is willing to have meaningful levels of illiquid assets within the overall portfolio in order to enhance the returns necessary to achieve investment goals and objectives.

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 an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy

The Foundation's Endowment Spending Policy, as approved by the Board of Directors, is comprised of three components: 1) a distribution formula and timing, 2) rules relating to the suspension of distributions in certain situations when an endowment's value declines, and 3) an advancement support assessment formula. The policy is intended to be consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional growth through investment returns.

Beginning in fiscal year 2018, the Foundation annually appropriates for distribution an amount equal to 4% of the endowment's trailing 36-month average market value. For fiscal year 2017, the appropriation was the greater of: (a) 4.0% of the current market value of the endowment or (b) 4.5% of the endowment's trailing 36-month average fair market value.

The Foundation's policy is to suspend distributions on any pure endowment if the endowment's fair market value is less than 90% of its historic gift value. Prior to fiscal year 2018, the Foundation's policy was to suspend distributions if the fair market value fell below 100% of a pure endowment's historic gift value. Upon the request of a University fund administrator, the Foundation may consider continuing distributions even when an endowment's fair market value falls below the specified threshold.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 5 - Endowments (continued)

Endowment Spending Policy (continued)

Endowment funds incur an annual assessment to support advancement operations. Unless otherwise approved, the amount of the assessment is equal to 1.9% on the first \$1 million in an endowment fund and 1.0% on amounts greater than \$1 million, or 1.0% on the entire amount in any endowment fund valued over \$60 million. Beginning in fiscal year 2019, the amount of the assessment will be equal to 1.5% of the fund's principal account as of December 31 for the year preceding the assessment. The proceeds from this advancement support assessment are used to support advancement services at the University, as discussed in Note 1.

Note 6 - Split-Interest Agreements

GAAP requires the recording of all unconditional, irrevocable split-interest agreements under which the Foundation is entitled to receive a benefit. With the exception of charitable gift annuities, split-interest agreements are carried out through the formation of charitable trusts, the trustees of which may be either the Foundation or third parties, such as commercial banks. A summary of the Foundation's split-interest agreements follows.

For the years ended June 30, 2018 and 2017, \$300,979 and \$2,567,138, respectively, was included in contributions revenue relating to new split-interest agreements.

Charitable Trusts Held by the Foundation

Charitable Remainder Trusts – The Foundation is the trustee and remainder beneficiary of approximately 80 charitable remainder trusts and as trustee is required to make annual distributions to the specified life income beneficiaries. Charitable remainder trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the trusts' terms and/or designated beneficiaries' lifetimes, respectively. At the end of the trusts' terms, the remaining assets are available for the Foundation's use. Certain trusts specify that payments to the beneficiaries are limited to total trust income. Other trusts require that the Foundation make fixed payments or payments based on a fixed percentage of the fair value of the trusts' assets. At the end of the trusts' terms, the remaining assets are available for the Foundation's use.

In the case of a charitable remainder annuity trust, the distribution is a fixed amount, whereas, in the case of a charitable remainder unitrust, the distribution is computed at a fixed percentage of the fair value of the trust's assets at rates ranging from 5% to 10%.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 6 - Split-Interest Agreements (continued)

Charitable Trusts Held by the Foundation (continued)

On the date each trust was established, the Foundation recorded a contribution equal to the difference between the fair value of the assets placed in trust and the amount of the estimated present value of the distributions to be made to the life income beneficiaries over the terms of the trusts, discounted at the then-current Applicable Federal Rate. After recording the initial contribution, the Foundation has been making the stipulated annual distributions, recording investment gains and losses on the assets held in the trusts, and amortizing the discounts to present value. On any given date, the Foundation's remainder interest is represented by the difference between the fair value of the assets held by the trust and the present value of the estimated remaining distributions to be made to the life income beneficiaries.

Charitable Lead Trusts – The Foundation is the trustee and beneficiary of two charitable lead trusts. The trusts are designed to make periodic payments to the Foundation for a fixed period of years, after which the trusts terminate and the assets pass to the designated individuals.

On the date the trusts were established, the Foundation recorded a contribution equal to the present value of the distributions to be made to the Foundation over the term of the trusts, using an estimated discount rate of 3%.

Life Interest in Real Estate – The Foundation is the beneficiary of real estate gifts subject to three retained life estates. These gifts are of a remainder interest in a personal residence where an individual irrevocably transfers title to the Foundation with a retained right to the use of the property for a term that is specified in the life estate agreement. At the conclusion of the measuring term, all rights in the property are transferred to the Foundation and it is used in accordance with the applicable gift instrument.

At the inception of real estate gifts subject to a retained life estate, the Foundation recorded a contribution equal to the fair value of the property less the estimated discounted present value of the use interest. The Foundation records the amortization of the life estate interest, initially recorded as deferred revenue, based upon the life expectancy of the youngest donor or other applicable term.

Pooled Life Income Fund – The Foundation manages a pooled life income fund whereby the contributions of many donors may be combined for investment purposes. Each donor receives actual investment earnings in proportion to his or her ownership interest in the fund. At the time of the donor's death, the value of the donor's ownership interest is assigned to the Foundation. On the date each pooled life income fund account was established, the Foundation recorded a contribution equal to the fair value of the assets received discounted for a term equal to the life expectancy of the donor at a rate mandated by the IRS based on the average of the monthly IRS discount rate over the past three calendar years.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 6 - Split-Interest Agreements (continued)

Charitable Trusts Held by the Foundation (continued)

Total split-interest agreements associated with trusts administered by the Foundation are as follows:

	June 30,	
	2018	2017
Assets held in charitable remainder trusts	\$ 36,339,322	\$ 36,198,008
Assets held in charitable lead trusts	2,737,771	3,054,086
Assets held in life interest in real estate	3,330,000	3,330,000
Assets held in pooled life income fund	166,066	168,225
	42,573,159	42,750,319
Less associated liabilities	(20,403,550)	(21,156,006)
Less associated deferred revenue	(1,067,026)	(1,146,605)
	\$ 21,102,583	\$ 20,447,708

Charitable Trusts Held by Others

Charitable Remainder Trusts – The Foundation is the remainder beneficiary of various charitable remainder trusts held by others. Charitable remainder trusts provide for the payment of distributions to the donor or other designated beneficiaries over the donor's or other designated beneficiaries' lifetimes. At the end of the trusts' terms, the remaining assets are available for the Foundation's use. At the inception of each trust, the Foundation recorded a contribution equal to the estimated discounted present value of the distribution expected to be received upon the termination of each trust. Thereafter, the Foundation has been recording adjustments to that estimate based on changes in the fair value of trust assets, changes in actuarial assumptions, and amortization of the discount to net present value.

The net present value of the Foundation's beneficial interest in these trusts is as follows:

	June 30,	
	2018	2017
Gross value of beneficial interests	\$ 20,896,432	\$ 21,036,851
Less unamortized discount	(12,637,090)	(13,163,502)
	\$ 8,259,342	\$ 7,873,349

Perpetual Trusts – Perpetual trusts provide for the distribution of the net income of the trusts to the Foundation; however, the Foundation will never receive the assets of the trusts. At June 30, 2018 and 2017, the fair value of assets held in perpetual trusts for the benefit of the Foundation was \$146,886 and \$143,026, respectively.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 6 - Split-Interest Agreements (continued)

Charitable Gift Annuities

The Foundation had approximately 60 charitable gift annuity contracts outstanding at June 30, 2018. These contracts require the Foundation to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Foundation are immediately available for use by the Foundation and, as such, are not held in trust separately from other investments of the Foundation. The obligation to make periodic disbursements to the beneficiaries becomes a general obligation of the Foundation. On the date each charitable gift annuity was established, the Foundation recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries using a discount rate equal to the then-current Applicable Federal Rate.

The Foundation had a liability for charitable gift annuities of \$1,467,315 and \$1,361,620 as of June 30, 2018 and 2017, respectively.

Note 7 - Property and Equipment

Property and equipment consisted of the following:

	June 30,	
	2018	2017
Land, building, and improvements	\$ 2,289,441	\$ 2,289,441
Furniture and fixtures	343,727	343,727
Equipment, software, and other	2,790,989	2,790,989
	5,424,157	5,424,157
Less accumulated depreciation	(3,989,304)	(3,841,530)
	\$ 1,434,853	\$ 1,582,627

Note 8 - Custodial Funds

Custodial funds held at June 30, 2018 consisted of the following:

	University of Colorado	Other Non- Profits	Total
Endowment	\$ 206,142,569	\$ 4,059,874	\$ 210,202,443
Non-endowed	222,166,756	2,582,506	224,749,262
	\$ 428,309,325	\$ 6,642,380	\$ 434,951,705

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 8 - Custodial Funds (continued)

Custodial funds held at June 30, 2017 consisted of the following:

	<u>University of Colorado</u>	<u>Other Non- Profit</u>	<u>Total</u>
Endowment	\$ 196,326,768	\$ 3,742,161	\$ 200,068,929
Non-endowed	195,393,959	-	195,393,959
Total	<u>\$ 391,720,727</u>	<u>\$ 3,742,161</u>	<u>\$ 395,462,888</u>

Note 9 - Line of Credit

The Foundation has a \$10 million unsecured revolving line of credit with a bank, which matures June 1, 2019. The interest rate on draws will be at the daily one-month LIBOR in effect from time to time plus 1.5%. The line of credit contains annual loan covenants. No amounts were outstanding at June 30, 2018 or 2017.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 10 - Net Assets

Unrestricted net assets are comprised of the following:

	June 30,	
	2018	2017
Designated		
University of Colorado Boulder - Student Mental Health Services and Research	\$ 10,000,000	\$ -
University of Colorado Colorado Springs - Engineering Building Renovations	6,000,000	-
University of Colorado Boulder - Biofrontiers Institute - Operating	3,044,972	3,787,253
University of Colorado Boulder - Biofrontiers Institute - Capital - Academic Wing	2,243,000	2,243,000
University of Colorado Anschutz Medical Campus - Advancement Startup Funds	1,700,000	-
University of Colorado System Central Advancement - Capacity Building	1,300,500	-
University of Colorado Anschutz Medical Campus - Gates Center for Regenerative Medicine	1,200,000	1,800,000
University of Colorado Denver - North Classroom	-	1,467,044
University of Colorado Colorado Springs - General	840,926	1,159,389
University of Colorado Colorado Springs - Alumni Engagement	802,280	-
University of Colorado Denver - Facilities Plan Implementation	500,000	-
University of Colorado Denver - City Center Project	450,000	-
University of Colorado Denver - Jake Jabs Center	318,175	318,175
University of Colorado Denver - Deming Center	95,071	95,071
Board-designated endowment to support advancement and Foundation operations	16,354,139	15,423,374
Board-designated funds held for Boulder Alumni Association	1,181,296	1,194,236
Board designation - undesignated bequests	850,058	812,466
Total designated	46,880,417	28,300,008
Undesignated	21,477,801	33,180,242
Total undesignated	21,477,801	33,180,242
Total unrestricted net assets	\$ 68,358,218	\$ 61,480,250

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 10 - Net Assets (continued)

Temporarily restricted net assets are comprised of the following:

	June 30,	
	2018	2017
Academic support	\$ 307,480,364	\$ 235,018,717
Athletics	5,267,295	6,131,611
Capital projects	45,262,524	50,155,164
Chairs, professorships, and other faculty support	249,687,592	215,467,615
Public service, administration, library, and other support	62,507,245	81,114,163
Research	113,574,332	95,475,457
Scholarships	186,526,905	164,248,348
Total temporarily restricted	\$ 970,306,257	\$ 847,611,075

Permanently restricted net assets are comprised of the following:

	June 30,	
	2018	2017
Academic support	\$ 62,420,227	\$ 54,831,786
Athletics	687,068	288,428
Capital projects	177,217	176,073
Chairs, professorships, and other faculty support	294,035,869	258,262,996
Public service, administration, library, and other support	29,997,606	29,270,312
Research	32,921,091	31,174,562
Scholarships	186,173,419	172,817,408
Total permanently restricted	\$ 606,412,497	\$ 546,821,565

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 11 - Net Assets Released from Purpose Restrictions

Net assets released from purpose restrictions are comprised of the following:

	For the Year Ended	
	June 30,	
	2018	2017
Academic support	\$ 55,985,677	\$ 45,164,814
Research	21,548,771	21,560,788
Scholarships	23,750,005	19,973,530
Chairs, professorships, and other faculty support	18,490,293	14,058,810
Public service, administration, library, and other support	14,966,344	9,682,233
Capital projects	23,795,117	12,356,156
Athletics	5,444,776	4,802,713
Distributed to other charitable entities	60,827	95,528
Total net assets released from purpose restrictions	\$ 164,041,810	\$ 127,694,572

Note 12 - Operating Leases

The Foundation leases office space and equipment under various non-cancelable operating lease agreements that expire at various dates through 2022. The approximate future minimum lease payments under these leases are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 217,000
2020	197,000
2021	154,000
2022	47,000
Total	\$ 615,000

Lease expense incurred during the years ended June 30, 2018 and 2017 was \$151,658 and \$152,095, respectively.

Note 13 - Commitments and Contingencies

Employee Benefit Plan

The Foundation sponsors a 401(k) plan for the benefit of its employees. Under the 401(k) plan, the Foundation matches employee contributions up to 6% of the employee's salary. For the years ended June 30, 2018 and 2017, the Foundation's matching contributions were \$139,964 and \$116,937, respectively.

UNIVERSITY OF COLORADO FOUNDATION

Notes to Consolidated Financial Statements

Note 13 - Commitments and Contingencies (continued)

Guarantees

The Foundation assists the University by guaranteeing a limited number of primary residence loans through a local federal credit union for qualified University full-time tenured and tenure-track faculty members under a program called the Faculty Housing Assistance Program ("FHAP"). The Foundation guarantees up to \$80,000 for each qualified loan. As of June 30, 2018, the Foundation guaranteed 100 FHAP loans totaling \$6,223,507. As a condition of the guarantees made by the Foundation, the sponsoring institution has required the Foundation to maintain a designated cash balance of approximately \$250,000. This balance is included in other assets.

Legal

The Foundation has been involved in various claims and other legal proceedings that arise from time to time in the ordinary course of business. The Foundation does not believe such matters will have a material adverse effect on its financial position, changes in net assets, or cash flows.

Note 14 - Related Party Transactions

In addition to amounts and transactions disclosed in the consolidated financial statements and the preceding notes to the consolidated financial statements, the following is a summary of related party transactions between the Foundation and the University:

The Foundation holds and invests certain endowment and other funds in the LTIP in trust on behalf of the University. The Foundation collects a 1% annual advancement support assessment on the fair market value of these funds and received approximately \$3,500,000 for both years ended June 30, 2018 and 2017. Beginning in fiscal year 2019, the Foundation will collect a 1.5% annual advancement support assessment on the University's endowments to align with the policy described in Note 5.

As discussed in Note 1, the Foundation transfers the majority of the advancement support assessment to the University to support fundraising costs on each of the University campuses and the central Office of Advancement. This is shown on the consolidated statements of activities as advancement support to the University and totaled \$21,579,000 and \$20,749,000 during the years ended June 30, 2018 and 2017, respectively.