

**Delta Dental Plan of Colorado
Foundation, Inc.**

Financial Statements

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Delta Dental Plan of Colorado Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Delta Dental Plan of Colorado Foundation, Inc. d/b/a Delta Dental of Colorado Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Delta Dental Plan of Colorado Foundation, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta Dental Plan of Colorado Foundation, Inc. d/b/a Delta Dental of Colorado Foundation as of December 31, 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.

Emphasis of Matter

As discussed in note 1(n), the Foundation adopted the Financial Accounting Standard Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively for all periods presented. Our opinion is not modified with respect to this matter.

Kundinger, Corder & Engle, P.C.

May 13, 2019

Delta Dental of Colorado Foundation
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 692,242	2,635,858
Contributions receivable (notes 3, 7 and 9)	6,440,000	5,750,000
Prepaid expenses and other	24,589	3,013
Investments (notes 4 and 5)	26,219,112	26,376,599
Total assets	\$ 33,375,943	34,765,470
 Liabilities and Net Assets:		
Accounts payable	\$ 191,879	162,868
Due to Delta Dental of Colorado (note 9)	255,820	540,176
Grants payable (note 6)	-	162,272
Total liabilities	447,699	865,316
 Net assets:		
Without donor restrictions	22,234,267	22,805,916
With donor restrictions (notes 7 and 8)	10,693,977	11,094,238
Total net assets	32,928,244	33,900,154
Total liabilities and net assets	\$ 33,375,943	34,765,470

See the accompanying notes to the financial statements.

Delta Dental of Colorado Foundation
Statement of Activities
Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Gains and Support:			
Contributions:			
Delta Dental of Colorado (note 9)	\$ –	6,440,000	6,440,000
Investment return, net	(1,626,001)	(340,261)	(1,966,262)
Net assets released from restrictions (note 7)	<u>6,500,000</u>	<u>(6,500,000)</u>	<u>-</u>
Total revenue, gains and support	<u>4,873,999</u>	<u>(400,261)</u>	<u>4,473,738</u>
Expenses:			
Program services:			
Grants	4,009,034	–	4,009,034
Program expense:			
Public Will Building for Children's Oral Health	97,877	–	97,877
Colorado Medical-Dental Integration Project	254,567	–	254,567
Other program expenses	<u>588,363</u>	<u>–</u>	<u>588,363</u>
Total program services	<u>4,949,841</u>	<u>–</u>	<u>4,949,841</u>
Supporting services:			
General and administrative	<u>495,807</u>	<u>–</u>	<u>495,807</u>
Total supporting services	<u>495,807</u>	<u>–</u>	<u>495,807</u>
Total expenses	<u>5,445,648</u>	<u>–</u>	<u>5,445,648</u>
Change in net assets	(571,649)	(400,261)	(971,910)
Net assets, beginning of year	<u>22,805,916</u>	<u>11,094,238</u>	<u>33,900,154</u>
Net assets, end of year	<u>\$ 22,234,267</u>	<u>10,693,977</u>	<u>32,928,244</u>

See the accompanying notes to the financial statements.

Delta Dental of Colorado Foundation
Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains and Support:			
Contributions (note 9)	\$	6,500,000	6,500,000
Investment return, net	2,832,150	608,871	3,441,021
Net assets released from restrictions (note 7)	3,546,720	(3,546,720)	-
Total revenue, gains and support	<u>6,378,870</u>	<u>3,562,151</u>	<u>9,941,021</u>
Expenses:			
Program services:			
Grants, less returned grant funds of \$16,137	1,348,937	-	1,348,937
Program expense:			
Public Will Building for Children's Oral Health	1,489,865	-	1,489,865
Colorado Medical-Dental Integration Project	195,984	-	195,984
Other program expenses	191,680	-	191,680
Total program services	<u>3,226,466</u>	<u>-</u>	<u>3,226,466</u>
Supporting services:			
General and administrative	608,431	-	608,431
Total supporting services	<u>608,431</u>	<u>-</u>	<u>608,431</u>
Total expenses	<u>3,834,897</u>	<u>-</u>	<u>3,834,897</u>
Change in net assets	2,543,973	3,562,151	6,106,124
Net assets, beginning of year	<u>20,261,943</u>	<u>7,532,087</u>	<u>27,794,030</u>
Net assets, end of year	<u>\$ 22,805,916</u>	<u>11,094,238</u>	<u>33,900,154</u>

See the accompanying notes to the financial statements.

Delta Dental of Colorado Foundation
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Expenses				Total program services	Manage- ment and general	Total expenses
	Public Will Building	CO-MDI Project	Responsive Grants	Other Programs			
Personnel	\$ —	114,186	—	587,067	701,253	136,682	837,935
Grants	—	1,562,939	1,061,218	1,384,877	4,009,034	—	4,009,034
Occupancy	—	—	—	—	—	43,691	43,691
Office expenses	1,138	—	—	—	1,138	17,478	18,616
Travel, conferences & meetings	739	40,119	—	—	40,858	33,804	74,662
Professional fees	90,000	100,262	—	—	190,262	52,855	243,117
Administrative expenses	—	—	—	—	—	77,112	77,112
Board of Directors expenses	—	—	—	—	—	57,254	57,254
Fees, dues & licenses	—	—	—	—	—	18,234	18,234
Miscellaneous	6,000	—	—	1,296	6,000	58,697	64,697
Total expenses	\$ 97,877	1,817,506	1,061,218	1,973,240	4,948,545	495,807	5,444,352

See the accompanying notes to the financial statements.

Delta Dental of Colorado Foundation
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (971,910)	6,106,124
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	2,481,161	(3,018,422)
(Increase) decrease in operating assets:		
Contributions receivable	(690,000)	(2,273,084)
Prepaid expenses and other	(21,576)	5,306
Increase (decrease) in operating liabilities:		
Accounts payable	29,011	67,907
Due to Delta Dental of Colorado	(284,356)	521,536
Grants payable	(162,272)	62,883
Net cash provided by operating activities	380,058	1,472,250
 Cash flows from investing activities:		
Net sales (purchases) of investments	(2,323,674)	75,499
Net cash provided by (used in) investing activities	(2,323,674)	75,499
 Net increase (decrease) in cash and cash equivalents	(1,943,616)	1,547,749
 Cash and cash equivalents, beginning of year	2,745,129	1,197,380
 Cash and cash equivalents, end of year	\$ 801,513	2,745,129

See the accompanying notes to the financial statements.

Delta Dental of Colorado Foundation

Notes to Financial Statements

December 31, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) General

Delta Dental Plan of Colorado Foundation, Inc. d/b/a Delta Dental of Colorado Foundation (the Foundation) was incorporated in 1997 as a not-for-profit organization under section 501(c)(3) of the Internal Revenue Code, described in section 509(a)(3) as a public charity. The Foundation is organized as a Type 1 supporting organization for Colorado Dental Service, Inc. d/b/a Delta Dental of Colorado (the Company), a tax exempt organization under section 501(c)(4) of the Internal Revenue Code. The Foundation is funded solely by annual contributions from the Company and investment income.

The mission of the Foundation is to elevate the well-being of all Coloradans by advancing oral health equity. The Foundation accomplishes its mission through providing grants to programs that prevent oral disease, increase education, increase access to preventive care, and system collaboration. The Foundation also conducts the following programs:

- Public Will Building for Children’s Oral Health – a communication approach to build public support for behavior change and lead to deeper public understanding and prioritization of oral health as a healthcare issue. This program provides key messages about the importance of children’s oral health through mass media and grass roots activities designed to lead to better individual oral health behaviors and stronger public policy regarding oral health.
- The Colorado Medical Dental Integration Project – a program to add preventive dental services provided by dental hygienists into primary care medical settings. The Foundation aims to reach individuals who have limited access to dental care due to location, insurance status or face other disparities. Hygienists placed in pediatric medical clinics throughout the state will provide preventive dental care and make referrals to local dentists when further treatment is necessary.

(b) Basis of Accounting

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

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Statement Presentation

The Foundation is required to present information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation. These net assets may be used at the discretion of the Foundation's management and the board of directors.

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

(d) Cash and Cash Equivalents

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

(e) Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents, and investments in money market accounts and debt and equity securities. The Foundation places its cash and cash equivalents with financial institutions that management has determined to be creditworthy, high quality, financial institutions. A significant portion of the funds are not insured by the FDIC or similar entity. The Foundation's management and board monitor the investments. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Foundation.

In 2018 and 2017, one hundred percent and eighty-eight percent, respectively, of the Foundation's contributions were received from the Company. A significant decrease in the level of funding from the Company could have an effect on the Foundation's ability to provide program services, however, the Foundation does have \$26 million in reserves that can be used to sustain program services.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Contributions and Contributions Receivable

Contributions are recognized when cash, securities or other assets, and unconditional promises to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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. The Foundation considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary.

(g) Investments

Investments are reported at their fair value in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities. Fair value is determined as more fully described in note 5.

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

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

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Investments, Continued

Investment income consists of the Foundation's distributive share of any interest, dividends, capital gains and losses generated from the Foundation's investments. Gains and losses attributable to the Foundation'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.

The Foundation follows the guidance of ASU 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

(h) Grants Payable

Unconditional program grants awarded by the Foundation are recorded as expenses and liabilities when they are approved by the Board of Directors of the Foundation. Grants scheduled for payment more than one year in the future are discounted to present value if the effect is significant to the financial statements. Conditional program grants are recorded as expenses and liabilities when the conditions are met.

(i) Functional Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of functional expenses. The Foundation incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Foundation also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction. However, income from activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. There was no unrelated business income in 2018 or 2017.

Foundation management is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, based solely on the technical merits of the position. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are significant to the financial statements. The Foundation's federal *Return of Organization Exempt From Income Tax* (Form 990) for the previous three years, are subject to examination by the IRS.

(l) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Foundation's financial statements were available to be issued on May 13, 2019 and this is the date through which subsequent events were evaluated.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets or the change in net assets.

(n) New Accounting Pronouncement

During 2018, the Foundation adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(2) Availability and Liquidity

The following represents the Foundation's financial assets as of December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 692,242
Contributions receivable	6,440,000
Investments	<u>26,219,112</u>
Total financial assets	33,351,354
Less net assets with donor restrictions	(10,693,977)
Plus net assets with time restrictions expected to be met in one year	<u>6,440,000</u>
Amounts not available to be used within one year	<u>(4,253,977)</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>29,097,377</u>

The Foundation's available financial assets at December 31, 2018 consist of cash, a contribution receivable from the Company, and investments which are primarily publicly traded securities with immediate liquidity. The contribution from the Company is received in quarterly installments the following year and the time restriction is released. There were no net assets with purpose restrictions at December 31, 2018.

(3) Contributions Receivable

Contributions receivable of \$6,440,000 at December 31, 2018 are due from the Company in 2019. The contributions are to fund future operations. Management has determined that the receivable is fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

(4) Investments

Marketable investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions, and the general economic environment. The value of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers, and overall economic policies that impact market conditions. Some investment managers are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes. Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the investment portfolio.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(4) Investments, Continued

Investments are stated at their fair values and consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Equity securities	\$ 16,386,247	17,337,249
Private equity funds	4,294,743	3,577,875
Fixed income securities and fixed income funds	5,242,423	4,541,998
Pooled funds	-	440,000
Money market funds	<u>295,699</u>	<u>479,477</u>
	\$ <u>26,219,112</u>	<u>26,376,599</u>

At December 31, 2018 and 2017, the portion of investments held for endowment totaled \$4,253,690 and \$4,594,238, respectively.

(5) Fair Value Measurements

The carrying amount reported in the statement of financial position for cash and cash equivalents, contributions receivable, prepaid expenses, accounts payable and accrued liabilities, approximate fair value because of the immediate or short-term maturities of these financial instruments.

The Foundation reports required types of financial instruments in accordance with fair value accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes mutual funds, listed equities, cash, and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds and less liquid and restricted equity securities. The Foundation has no Level 2 investments.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(5) Fair Value Measurements, Continued

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. Investments that are included in this category generally include limited partnership interests in corporate private equity and real estate funds, funds of hedge funds, and distressed debt. The Foundation has no Level 3 investments.

In certain cases, the inputs used to measure fair value may fall in to 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 Foundation's financial statements.

The following table summarizes the valuation of the Foundation's investments by the fair value hierarchy levels as of December 31, 2018:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>NAV (a)</u>
Equity securities	\$ 16,386,247	16,386,247	–
Private equity funds	4,294,743	–	4,294,743
Fixed income securities and funds	5,242,423	5,242,423	–
Money market funds	295,699	295,699	–
	<u>\$ 26,219,112</u>	<u>21,924,369</u>	<u>4,294,743</u>

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(5) Fair Value Measurements, Continued

The following table summarizes the valuation of the Foundation's investments by fair value hierarchy levels as of December 31, 2017:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>NAV (a)</u>
Equity securities	\$ 17,337,249	17,337,249	-
Private equity funds	3,577,875	-	3,577,875
Fixed income securities and funds	4,541,998	4,541,998	-
Pooled funds	440,000	440,000	-
Money market funds	<u>370,206</u>	<u>370,206</u>	<u>-</u>
Total	<u>\$ 26,267,328</u>	<u>22,689,453</u>	<u>3,755,875</u>

- (a) The assets are measured at fair value using the net asset value per share (or its equivalent) practical expedient, which is a reasonable estimate of fair value. In accordance with generally accepted accounting principles, these assets have not been classified in the fair value hierarchy. The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

All investments have been valued using a market approach. The fair value for assets in Level 1 is based on quoted prices in active markets. Private equity funds have been valued using the practical expedient method. There were no changes in the valuation techniques used during the year.

The following tables summarizes the significant information required by ASU No. 2009-12 as of December 31, 2018:

<u></u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<u>Ironwood International Ltd. (a)</u>	\$ 2,218,303	N/A	Semi-annual	95 days
<u>Lighthouse Global Long/Short fund(b)</u>	\$ 2,076,440	N/A	Monthly to Quarterly	60-90 days

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(5) Fair Value Measurements, Continued

- (a) The fund's investment objective is capital appreciation with limited variability of returns. The fund attempts to achieve this objective by allocating capital among a number of pooled investment vehicles. Each is managed by an independent investment manager pursuant to various alternative investments strategies, including relative value; market neutral and low net equity; event-driven; and distressed and credit securities. Liquidity is semi-annual after the first twelve months with 95 days written notice.
- (b) This fund is a multi-manager fund of funds that seeks to achieve its objective by deploying its assets primarily to managed accounts managed by sub-advisers who invest principally in global equity markets by employing an investing style known as "long/short". Liquidity is monthly with 90 days written notice or quarterly with 60 days written notice.

(6) Grants Payable

Conditional grants for which the conditions have not been met totaled \$2,224,015 at December 31, 2018. Future payments are conditional upon satisfaction of grant requirements by the grantees.

(7) Net Assets With Donor Restrictions

Net Assets with donor restrictions were as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Passage of time:		
Contributions receivable from Delta Dental of Colorado for future operations	\$ 6,440,000	5,750,000
Specific purpose:		
Cash received, restricted for the Colorado Medical-Dental Integration Project	-	750,000
Endowment (note 7):		
Endowment corpus	2,000,000	2,000,000
Unappropriated endowment fund earnings	<u>2,253,977</u>	<u>2,594,238</u>
Total net assets with donor restrictions	<u>\$ 10,693,977</u>	<u>11,094,238</u>

For the years ended December 31, 2018 and 2017, net assets of \$6,500,000 and \$3,546,720, respectively, were released from restrictions due to the purpose of the restrictions being accomplished or the passage of time.

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(8) Endowment Net Assets

The Foundation follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of the gift donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the 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 Foundation resources
- (7) The investment policies of the Foundation.

Earnings from the Foundation's endowment fund are available to support the general operations of the Foundation.

Following are the changes in the endowment net assets for the years ended December 31, 2017 and 2018:

Endowment net assets, January 01, 2017	\$ 3,985,367
Investment return	<u>608,871</u>
Endowment net assets, December 31, 2017	4,594,238
Investment return	<u>(340,261)</u>
Endowment net assets, December 31, 2018	\$ <u>4,253,977</u>

Delta Dental of Colorado Foundation

Notes to Financial Statements, Continued

(8) Endowment Net Assets, Continued

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a reasonable, predictable, stable and sustainable level of distribution that supports current needs while seeking to maintain the 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 maximize utilization of investments which preserve principal, maximize income commensurate with risk, provide liquidity to help ensure adequate reserves, and fit within the Foundation's preference of acceptable principal and interest risk.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Distribution Policy

The Foundation's spending policy allows for appropriating the investment earnings for distribution upon express written authority of Delta Dental of Colorado's board of directors and the super majority approval of the Foundation's board of directors.

(9) Related Party Transactions

The Company provides certain office space, legal, accounting, and administrative services to the Foundation for which the Foundation reimbursed the Company \$152,186 and \$127,340 in 2018 and 2017, respectively.

Certain Company employees spend a portion of their time on Foundation activities for which the Foundation reimburses the Company. In addition, the Company pays certain operating expenses of the Foundation for which it is reimbursed. Total compensation and operating expense incurred by the Company on behalf of the Foundation totaled \$959,552 and \$871,536 in 2018 and 2017, respectively. The Foundation owed the Company \$255,820 and \$540,176 for these expenditures at December 31, 2018 and 2017, respectively.

In 2018, the Foundation recorded contributions totaling \$6,440,000 from the Company. The amount is reflected as a contribution receivable at December 31, 2018. The Foundation recorded contributions totaling \$5,750,000 from the Company in 2017.