

The Colorado Trust

Financial Statements

December 31, 2007 and 2006

(With Independent Auditor's Report Thereon)

Independent Auditor's Report

**Board of Trustees
The Colorado Trust:**

We have audited the accompanying statements of financial position of The Colorado Trust (The Trust) as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Colorado Trust as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Kundinger, Corder & Engle, P.C.

April 2, 2008

The Colorado Trust
Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
Assets:		
Cash and cash equivalents	\$ 219,460	185,732
Interest and real estate distributions receivable	1,382,966	872,182
Prepaid and other expenses	17,410	24,015
Investments (note 2)	509,865,623	480,133,622
Other assets	233,708	323,498
Cash held in custody for others (note 3)	87,279	94,908
Property and equipment:		
Building improvements	1,490,029	1,459,738
Machinery and equipment	375,737	371,182
Furniture and fixtures	354,771	326,966
	2,220,537	2,157,886
Accumulated depreciation	(1,179,021)	(1,099,063)
Property and equipment, net	1,041,516	1,058,823
Investments held under deferred compensation agreements (note 4)	535,907	396,120
Total Assets	\$ 513,383,869	483,088,900
Liabilities and Net Assets:		
Accounts payable and accrued expenses	\$ 35,413	37,543
Accrued investment management fees	562,489	331,230
Cash held in custody for others (note 3)	87,279	94,908
Grants payable (note 6)	27,019,878	22,457,439
Deferred compensation (note 4)	535,907	396,120
Accrued excise taxes payable	275,255	89,403
Deferred excise tax liability (note 7)	852,794	805,348
Total Liabilities	29,369,015	24,211,991
Net assets - Unrestricted	484,014,854	458,876,909
Commitments (notes 4, 5, 6 and 8)		
Total Liabilities and Net Assets	\$ 513,383,869	483,088,900

See accompanying notes to financial statements.

The Colorado Trust
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2007 and 2006

	2007	2006
Revenues, Gains and Support:		
Interest and dividend income	\$ 12,120,155	12,124,603
Net realized and unrealized gain on investments	41,332,984	46,275,884
Income from real estate activities	1,246,694	1,330,730
Other investment income - Sherman Street Properties, Inc.	(289,789)	(152,634)
Other income	43,998	58,738
Investment management fees	(1,410,682)	(1,278,227)
Total revenues, gains and support	53,043,360	58,359,094
Expenses:		
Program services:		
Strengthening Families Initiatives	10,379,065	4,991,306
Accessible and Affordable Healthcare Initiatives	9,587,599	5,230,746
Other grant expense	3,084,984	4,060,426
Grant administration	2,226,944	2,079,471
Total program services	25,278,592	16,361,949
Management and general	1,621,653	1,801,950
Excise tax expense (note 7)	1,005,170	369,643
Total expenses	27,905,415	18,533,542
Change in net assets	25,137,945	39,825,552
Net assets at beginning of year	458,876,909	419,051,357
Net assets at end of year	\$ 484,014,854	458,876,909

See accompanying notes to financial statements.

The Colorado Trust
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 25,137,945	39,825,552
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	89,108	98,282
Net realized and unrealized gain on investments	(41,332,984)	(46,225,330)
(Increase) decrease in operating assets:		
Dividends and interest receivable	(510,784)	(208,402)
Prepaid and other expenses	6,605	(4,743)
Other assets	89,790	152,634
Increase (decrease) in operating liabilities:		
Accounts payable	(2,130)	2,242
Accrued liabilities	231,259	30,234
Grants payable	4,562,439	(5,492,216)
Accrued federal excise taxes - current	185,852	(6,562)
Deferred excise taxes	47,446	(235,109)
Net cash used in operating activities	<u>(11,495,454)</u>	<u>(12,063,418)</u>
Cash flows from investing activities:		
Purchases of investments	(102,344,556)	(143,651,045)
Proceeds from sales of investments	113,945,540	155,605,869
Purchase of property and equipment	(71,802)	(33,983)
Net cash provided by investing activities	<u>11,529,182</u>	<u>11,920,841</u>
Net change in cash and cash equivalents	<u>33,728</u>	<u>(142,577)</u>
Cash and cash equivalents, beginning of year	<u>185,732</u>	<u>328,309</u>
Cash and cash equivalents, end of year	<u>\$ 219,460</u>	<u>185,732</u>

See accompanying notes to financial statements.

The Colorado Trust

Notes to Financial Statements

December 31, 2007

(1) Summary of Significant Accounting Policies

(a) General

The Colorado Trust (The Trust) was established in 1985 and endowed by the proceeds of the sale of PSL Healthcare Corporation, a Colorado not-for-profit corporation. The Trust was formed as a not-for-profit charitable foundation whose mission is to improve the health and well-being of the people of the State of Colorado by advancing accessible and affordable health care, and providing resources to strengthen families. The Trust carries out this mission through initiative-based grant making.

(b) Financial Statement Presentation

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, The Trust is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. There are no temporarily or permanently restricted net assets at December 31, 2007.

(c) Cash and Cash Equivalents

For the purposes of the statement of cash flows, The Trust considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held as part of an investment portfolio or on behalf of others, to be cash equivalents.

The Colorado Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Investments

Investments in marketable equity and fixed income securities with readily determinable market values are recorded at their publicly quoted market prices. The market values for alternative investments represent The Trust's pro-rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments are not publicly traded on national security markets exchanges, are generally illiquid and may be valued differently than if readily available markets existed for such investments. The Trust's alternative investments include investments in real estate which are valued at fair market value. The Trust's investment in Sherman Street Properties, Inc. is appraised every five years. The most recent appraisal of \$14,000,000 is dated October 14, 2005. The value of the building was increased at December 31, 2007 to \$21,500,000 to reflect the amount for which the building was subsequently sold. See note 10. All other real estate valuations are performed on an annual basis at various dates during the year. Because of inherent uncertainties of valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values.

Investment income consists of The Trust's distributive share of any interest, dividends, and capital gains and losses generated from The Trust's investments. Gains and losses attributable to The Trust'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 statement of activities.

(e) Concentrations of Credit Risk

Financial instruments which potentially subject The Trust to concentrations of credit risk consist of cash and temporary investments not insured by the FDIC, and investments in debt and equity securities. The Trust places its cash and temporary investments with creditworthy, high quality financial institutions. Investments are made by investment managers engaged by The Trust and are monitored by management and the Board of Trustees. Though the market value of investments is subject to fluctuations on a year to year basis, The Trust believes that the investment policy is prudent for the long-term welfare of The Trust.

(f) Property and Equipment

Property and equipment is stated at cost. The Trust capitalizes all expenditures for property and equipment in excess of \$1,000 and with a useful life exceeding one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 32 years.

The Colorado Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Grants

The Board of Trustees approves expenditures for specific initiatives in support of The Trust's mission. Grant expense is recognized when The Trust identifies a grantee and awards a grant contract. Grants authorized but unpaid at year-end are reported as liabilities in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Grants scheduled for payments more than one year in the future are discounted using an appropriate interest rate.

The Episcopal Diocese of Colorado and the Presbytery of Denver (the Churches) are beneficiaries of a 1985 agreement between The Trust and the PSL Healthcare Corporation. The agreement, which was subsequently amended in 1989 to clarify its provisions, requires a distribution to each organization equal to 5% of the total grants paid by The Trust each year. Distributions to each organization in 2007, based on grants paid in 2006, were \$900,678 for a total of \$1,801,357. Included in grants payable at December 31, 2007 is \$1,668,782, representing the payments due the Churches in 2008 for grants paid during 2007.

(h) 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.

(i) Functional Allocation of Expenses

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

The Colorado Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Excise and Income Taxes

The Trust has been classified as a private foundation as defined in Section 509(a) of the Internal Revenue Code (the Code), and is exempt from federal income tax under Section 501(c)(3) of the Code. Private foundations are subject to an excise tax on net investment income, which includes realized gains on the sale of assets. The tax is equal to 2% of net investment income, but can be reduced to 1% if qualifying grant payments exceed certain minimum amounts. The Trust paid taxes at the 2% tax rate in 2007 and at the 1% rate in 2006.

(2) Investments

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

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the Trust's investment assets to fluctuate from period to period and may result in a material change to the net assets of the Trust. 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. Some investment managers retained by the Trust 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 Trust's investment portfolio.

Investments are stated at fair market value (see note 9) and are comprised of the following at December 31:

	<u>2007</u>	<u>2006</u>
Short term investments	\$ 147,505	63,233
Domestic equities and equity funds	158,581,696	181,189,847
International equity funds	161,428,841	121,640,296
Fixed income funds	80,111,814	85,131,567
Alternative investments	38,386,940	32,598,033
Sherman Street Properties, Inc. (note 10)	21,500,000	14,000,000
Real estate investments	<u>49,708,827</u>	<u>45,510,646</u>
Total investments	<u>\$ 509,865,623</u>	<u>480,133,622</u>

The Trust has a 100% beneficial interest in Sherman Street Properties, Inc.

The Colorado Trust

Notes to Financial Statements, Continued

(3) Cash Held in Custody for Others

The Trust acts as an agent for the State of Colorado to administer the Homeless Prevention Activities Fund. The Trust has no discretionary authority over the use of the funds which totaled \$82,279 and \$94,908 at December 31, 2007 and 2006, respectively. The funds are recorded as both assets and liabilities in the accompanying financial statements.

(4) Deferred Compensation

Effective December 19, 2001, The Trust adopted a deferred compensation plan under Section 457(f) of the Code. The plan is available to the members of the Board of Trustees. Trustees may make an election each year to defer up to 100% of their trustee fees. There is no matching contribution by The Trust.

Effective January 1, 2002, The Trust adopted a non-qualified deferred compensation plan under Section 457(b) of the Code. The plan is available to certain eligible employees. Participants may make an election each year to defer up to the maximum amount permitted by law. There are no employer matching contributions. Participant contributions are not subject to vesting.

At December 31, 2007 and 2006, the assets and related liabilities for these deferred compensation plans were recorded at the fair market values of \$535,907 and \$396,120, respectively.

At its December 12, 2007 meeting, the Board of Trustees voted to terminate the 457(f) plan and to liquidate it through the payout of any remaining balance prior to December 31, 2008. The Board also voted to terminate the employee 457(f) plan, which currently has no participants.

(5) Employee Benefit Plans

The Trust provides a money purchase pension plan for all eligible employees. The Trust contributes an amount equal to 12.5% of the annual compensation of each employee enrolled in the plan. Contributions to the plan vest over a period of three years. There are no employee contributions. Employer contributions to the plan were \$255,316 and \$242,710 in 2007 and 2006, respectively.

The Trust has a tax sheltered annuity plan under Section 403(b) of the Code available to all employees. Under the plan, each participating employee has the option to contribute amounts, on a pre-tax basis, up to the maximum allowable by the Code. On January 1, 2006, under applicable provisions of the Code, a Roth provision was added to this plan. Contributions to the plan vest immediately. There are no employer matching contributions.

The Colorado Trust

Notes to Financial Statements, Continued

(6) Grant Commitments

Grants which have been approved but not paid are scheduled for payment as follows:

2008	\$ 15,272,150	
2009	5,920,531	
2010	4,648,496	
2011	1,995,650	
2012	118,050	
Thereafter	<u>100,000</u>	
	28,054,877	
Less present value of payments scheduled after 2007		<u>(1,034,999)</u>
	\$ <u>27,019,878</u>	

(7) Deferred Excise Tax

Deferred taxes are recognized in the financial statements for the excise tax on the unrealized gains on investments. The liability for deferred excise tax on unrealized gains at December 31, 2007 and 2006 was \$852,794 and \$805,348, respectively. Excise tax expense consists of the following at December 31:

	<u>2007</u>	<u>2006</u>
Current excise tax expense	\$ 957,724	604,752
Deferred excise tax expense	<u>47,446</u>	<u>(235,109)</u>
	\$ <u>1,005,170</u>	<u>369,643</u>

(8) Investment Commitments

At December 31, 2007, The Trust had committed to additional investments totaling \$8,476,068. The Trust's commitments involve partnership investment structures which have limited liquidity features and fixed terms.

(9) Fair Value of Financial Instruments

The carrying amount reported in the statement of financial position for cash and cash equivalents, interest and dividends receivable, accounts payable and accrued liabilities, approximate fair value because of the immediate or short term maturities of these financial instruments. The following methods and assumptions were used by the Trust in estimating the fair value of its other financial instruments.

The Colorado Trust

Notes to Financial Statements, Continued

(9) Fair Value of Financial Instruments, Continued

Investments – The fair value of investments in marketable equity and debt securities is based upon quoted market values. The fair value of alternative investments is based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by the Trust. The market value of Sherman Street Properties is based on the subsequent sales price. The market value of the remaining real estate investments is based on independent appraisals performed each year.

Grants payable – The carrying value of grants payable approximates the fair value as the amounts payable over future periods have been discounted to present value.

Deferred excise taxes payable – The carrying amount of deferred excise and income taxes payable is not discounted to present value because of the uncertainty of the timing of the payment of these taxes.

(10) Subsequent Event

On January 31, 2008, Sherman Street Properties sold its real estate investment in the Capitol Center at 225 E. Sixteenth Ave, Denver, Colorado, the adjacent parking structure, and The Colorado Trust Building at 1600 Sherman Street, Denver, Colorado, to Capitol Center LLC, a Colorado limited liability company, for \$21,500,000. At that time, the net proceeds of the sale were distributed to The Trust and were reinvested in its investment portfolio to support future grant making. Concurrently, The Trust leased back The Colorado Trust Building under a 20 year lease agreement with four, five-year renewal periods. Sherman Street Properties will continue as a Colorado corporation for a period of time in order to wind up its affairs, after which it is the intention of The Trust's Board of Trustees that it be liquidated.