The Colorado Trust

Financial Statements

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

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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, 2008 and 2007, 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, 2008 and 2007, 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.

March 27, 2009

The Colorado Trust
Statements of Financial Position
December 31, 2008 and 2007

		2008	2007
Assets:			
Cash and cash equivalents	$	105,024	219,460
Interest and real estate distributions receivable		505,157	1,382,966
Prepaid and other expenses		26,831	17,410
Excise tax receivable		227,619	-
Investments (note 2)		335,878,816	509,865,623
Other assets		-	233,708
Cash held in custody for others (note 4)		84,886	87,279
Property and equipment:			
Building improvements		10,068	1,490,029
Machinery and equipment		325,438	375,737
Furniture and fixtures		354,771	354,771
		690,277	2,220,537
Accumulated depreciation		(613,701)	(1,179,021)
Property and equipment, net		76,576	1,041,516
Investments held under deferred compensation agreements (note 5)		334,709	535,907
Total Assets	$	337,239,618	513,383,869
Liabilities and Net Assets:			
Accounts payable and accrued expenses	$	50,785	35,413
Other accrued liabilities		174,541	562,489
Deferred gain on sale-leaseback (note 3)		4,763,219	-
Cash held in custody for others (note 4)		84,886	87,279
Grants payable (note 7)		30,260,145	27,019,878
Deferred compensation (note 5)		334,709	535,907
Accrued excise taxes payable		-	275,255
Deferred excise tax liability (note 8)		-	852,794
Total Liabilities		35,668,285	29,369,015
Net assets - Unrestricted		301,571,333	484,014,854
Commitments (notes 5, 6, 7 and 9)			
Total Liabilities and Net Assets	$	337,239,618	513,383,869

See accompanying notes to financial statements.

The Colorado Trust
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2008 and 2007

	2008	2007
Revenues, Gains and Support:		
Interest and dividend income	$ 14,583,343	12,120,155
Net realized and unrealized gain (loss) on investments	(167,217,829)	41,332,984
Income from real estate activities	710,798	1,246,694
Other investment income - Sherman Street Properties, Inc.	(287,435)	(289,789)
Other income	(1,015)	43,998
Investment management fees	(914,314)	(1,410,682)
Total revenues, gains and support	(153,126,452)	53,043,360
Expenses:		
Program services:		
Access to Health	17,260,467	670,054
Accessible and Affordable Healthcare Initiatives	2,819,892	8,917,545
Strengthening Families Initiatives	3,038,126	10,379,065
Other grant expense	3,079,943	3,084,984
Grant administration	2,289,457	2,226,944
Total program services	28,487,885	25,278,592
Management and general	1,363,873	1,621,653
Excise tax expense (note 7)	(534,689)	1,005,170
Total expenses	29,317,069	27,905,415
Change in net assets	(182,443,521)	25,137,945
Net assets at beginning of year	484,014,854	458,876,909
Net assets at end of year	$ 301,571,333	484,014,854

See accompanying notes to financial statements.

The Colorado Trust
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (182,443,521)	25,137,945
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	53,740	89,108
Net realized and unrealized (gain) loss on investments	167,217,829	(41,332,984)
(Increase) decrease in operating assets:		
Dividends and interest receivable	877,809	(510,784)
Prepaid and other expenses	(9,421)	6,605
Excise tax receivable	(227,619)	-
Other assets	233,708	89,790
Increase (decrease) in operating liabilities:		
Accounts payable	15,372	(2,130)
Accrued liabilities	(387,948)	231,259
Grants payable	3,240,267	4,562,439
Accrued federal excise taxes - current	(275,255)	185,852
Deferred excise taxes	(852,794)	47,446
Net cash used in operating activities	(12,557,833)	(11,495,454)
Cash flows from investing activities:		
Purchases of investments	(252,209,011)	(102,344,556)
Proceeds from sales of investments	259,908,510	113,945,540
Purchase of property and equipment	(19,321)	(71,802)
Net cash provided by investing activities	7,680,178	11,529,182
Cash flows from financing activities:		
Deferred gain on sale-leaseback transaction	4,763,219	-
Net change in cash and cash equivalents	(114,436)	33,728
Cash and cash equivalents, beginning of year	219,460	185,732
Cash and cash equivalents, end of year	$ 105,024	219,460

See accompanying notes to financial statements.

(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. The central focus of The Trust's grant making is to provide access to health for all Coloradans by 2018. The Trust's operations and grant making activities are funded by income earned on investments.

(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, 2008.

(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.

(1) Summary of Significant Accounting Policies, Continued

(d) Fair Value Measurements

Beginning in 2008, The Trust adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1), inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2), and unobservable inputs from the asset or liability (Level 3).

(e) Investments

Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets. 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. 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.

(f) Concentrations of Credit Risk

Financial instruments which potentially subject The Trust to concentrations of credit risk consist of investments in debt and equity securities and alternative investments. 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.

(1) Summary of Significant Accounting Policies, Continued

(g) Property and Equipment

Property and equipment is stated at cost. The Trust capitalizes all expenditures for property and equipment in excess of $5,000 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 20 years.

(h) 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 2008, based on grants paid in 2007, were $834,391 for a total of $1,668,782. Included in grants payable at December 31, 2008 is $2,059,675, representing the payments due the Churches in 2009 for grants paid during 2008.

(i) 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.

(j) 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.

(1) Summary of Significant Accounting Policies, Continued

(k) 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 qualified for the 1% tax rate in 2008.

(2) Investments

The Trust's investment assets, which include publicly traded 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 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 10) and are comprised of the following at December 31:

	2008	2007
Short term investments	$ 32,429	147,505
Domestic equities and equity funds	93,630,562	158,581,696
International equity funds	99,493,174	161,428,841
Fixed income funds	48,226,256	80,111,814
Other investments	47,185,893	38,386,940
Sherman Street Properties, Inc. (see note 3)	-	21,500,000
Real estate investments	47,310,502	49,708,827
Total investments	$ 335,878,816	509,865,623

(3) Sale-Leaseback Transaction

On January 31, 2008, Sherman Street Properties, a former subsidiary of The Trust which was dissolved in 2008, 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 optional five year renewal periods. In accordance with Financial Accounting Standard No. 13, *Accounting for Leases*, The Trust has accounted for the transaction as a sale-leaseback and deferred a portion of the gain on the sale equal to the net present value of The Trust's future minimum lease payments, $4,992,021. The deferred gain will be amortized on a straight-line basis over the 20 year life of the lease and will be reported as a reduction of rent expense. Rent expense, net of the amortization of the deferred gain, was $400,600 in 2008.

Future minimum lease payments under the operating lease are as follows for years ending December 31:

2009	$ 423,297
2010	430,821
2011	438,363
2012	446,116
2013	454,096
2014 - 2028	7,328,581
	$ 9,521,274

(4) 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 $84,886 and $87,279 at December 31, 2008 and 2007, respectively. The funds are recorded as both assets and liabilities in the accompanying financial statements.

(5) Deferred Compensation

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.

(5) Deferred Compensation, Continued

At December 31, 2008 and 2007, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of $334,709 and $535,907, respectively.

Effective December 19, 2001, The Trust adopted a deferred compensation plan under Section 457(f) of the Code. The plan was available to the members of the Board of Trustees. At its December 12, 2007 meeting, the Board of Trustees voted to terminate the 457(f) plan and payout any remaining balance prior to December 31, 2008. The assets in the plan were distributed in December, 2008 and the plan was terminated.

(6) 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 $242,504 and $255,316 in 2008 and 2007, 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.

(7) Grant Commitments

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

2009	$ 17,280,632
2010	10,020,610
2011	3,051,891
2012	268,050
2013	50,000
Thereafter	75,000
	30,746,183
Less present value of payments scheduled after 2008	(486,038)
	$ 30,260,145

(8) 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, 2008 and 2007 was $0 and $852,794, respectively. Excise tax expense consists of the following at December 31:

	2008	2007
Current excise tax expense	$ 318,105	957,724
Deferred excise tax expense	(852,794)	47,446
	$ (534,689)	1,005,170

(9) Investment Commitments

At December 31, 2008, The Trust had committed to additional investments totaling $21,136,138. The Trust's commitments involve partnership investment structures which have limited liquidity features and fixed terms.

(10) Fair Value Measurements

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

The fair value of grants payable is determined by discounting multi-year grants to net present value using a discount rate commensurate with market conditions and the grant payment schedule at the time the grant is committed. The discount rates used by The Trust range from 1% to 5% depending on the year of commitment and length of the payment schedule.

The fair value of the deferred gain on the sale-leaseback transaction is equal to the net present value of the future minimum lease payments discounted at the buyer-lessor's cap rate of 7.06% and is being amortized over the 20 year life of the lease.

The Trust adopted Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* as of January 1, 2008, which among other things requires enhanced disclosures about investments that are measured and reported at fair value. FAS 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments 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.

(10) Fair Value Measurements, Continued

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include mutual funds, listed equities, listed derivatives, cash, and cash equivalents. For The Trust, Level I consists of direct investments in equity securities, and bank collective funds and mutual funds that invest in debt and equity securities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. The Trust does not have any investments in this category.

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 private equity and real estate funds, funds of hedge funds, and distressed debt. Included in this category for The Trust are investments made through investment vehicles such as limited partnerships and private equity funds which in turn invest in equities, hedge funds, real estate, and multi-strategy funds, and non-traded real estate investment trusts. Investments in publicly traded equities would be classified as Level 1 if owned directly.

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

(10) Fair Value Measurements, Continued

The following table summarizes the valuation of The Trust's investments by the above FAS 157 fair value hierarchy levels as of December 31, 2008:

		Fair Value Measurements at Reporting Date Using:		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities	$ 172,843,864	172,843,864	-	-
Publicly traded equities owned through limited partnerships	83,966,042	-	-	83,966,042
Real estate investments	47,310,502	-	-	47,310,502
Hedge funds	14,206,344	-	-	14,206,344
Commonfund multi-strategy	5,144,348	-	-	5,144,348
Other multi-strategy	11,789,718	-	-	11,789,718
Private equity	617,998	-	-	617,998
Total	$ 335,878,816	172,843,864	-	163,034,952

The changes in investments measured at fair value for which The Trust has used Level 3 inputs to determine fair value are as follows:

	Equities owned through Limited Partnerships	Private Equity	Hedge Funds	Real estate funds	Common-fund multi-strategy	Other multi-strategy
Balance as of 12/31/07	$ 126,667,900	224,376	12,487,304	49,708,826	309,703	17,958,462
Total realized and unrealized losses	(53,330,081)	(43,622)	(3,280,960)	(3,568,539)	(221,286)	(6,816,491)
Other investment income	2,416,960	(44,006)	-	1,881,013	(12,069)	688,625
Purchases	28,000,000	481,250	5,000,000	-	5,068,000	1,942,000
Distributions	(19,788,737)	-	-	(710,798)	-	(1,982,878)
Balance as of 12/31/08	$ 83,966,042	617,998	14,206,344	47,310,502	5,144,348	11,789,718

FAS 157 also requires disclosure for Level 3 investments of the change in unrealized gain (loss) included in the change in net assets related to investments still held at the reporting date. At December 31, 2008, this was an unrealized loss of $(75,451,807).