

The Colorado Trust

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

The Colorado Trust
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
The Colorado Trust
Denver, Colorado

We have audited the accompanying financial statements of The Colorado Trust (the Trust), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2019 and 2018, 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.

BKD, LLP

Denver, Colorado
July 24, 2020

The Colorado Trust
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 3,677,955	\$ 1,915,150
Investments	513,071,578	462,403,735
Interest receivable	17,306	7,304
Distributions receivable	156,278	-
Grant return receivable	52,928	-
Program related investments	7,253,328	4,550,922
Property and equipment, net	870,009	252,846
Investments held under deferred compensation agreements	458,646	385,398
Other assets	19,150	40,312
	<u>\$ 525,577,178</u>	<u>\$ 469,555,667</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 472,177	\$ 329,182
Grants payable	4,993,868	7,745,757
Deferred excise tax payable	671,597	918,254
Deferred gain on sale - leaseback	2,017,619	2,267,219
Deferred compensation	458,646	385,398
	<u>8,613,907</u>	<u>11,645,810</u>
Net Assets Without Donor Restrictions		
Undesignated	<u>516,963,271</u>	<u>457,909,857</u>
	<u>\$ 525,577,178</u>	<u>\$ 469,555,667</u>

The Colorado Trust
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenue, Gains (Losses) and Other		
Support Without Donor Restrictions		
Interest and dividend income	\$ 920,869	\$ 394,950
Net realized and unrealized gains (losses) on investments	76,670,013	(21,792,905)
Income from real estate transactions	1,119,646	1,489,566
Grants	66,700	-
Investment management fees	(320,281)	(291,115)
Total revenue, gains (losses) and other support without donor restrictions	78,456,947	(20,199,504)
Expenses		
Program services		
Health Policy	2,983,563	6,160,545
Health Equity Data	2,158,354	1,444,477
Community Partnerships	7,862,001	7,468,072
Health and Well Being		
Other grant programs	4,417,453	3,318,925
Total program services expenses	17,421,371	18,392,019
Supporting services		
Management and general	1,982,162	1,493,957
Total supporting services expenses	1,982,162	1,493,957
Total expenses	19,403,533	19,885,976
Change in Net Assets Without Donor Restrictions	59,053,414	(40,085,480)
Net Assets Without Donor Restrictions, Beginning of Year	457,909,857	497,995,337
Net Assets Without Donor Restrictions, End of Year	\$ 516,963,271	\$ 457,909,857

The Colorado Trust
Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Support Services		
	Health Policy	Health Equity Data	Community Partnerships	Health and Well Being - Other	Total Program Services	Management and General	Total
Grants and other assistance	\$ 2,038,377	\$ 1,474,593	\$ 5,371,337	\$ 3,450,660	\$ 12,334,967	\$ -	\$ 12,334,967
Salaries, taxes and benefits	569,111	411,703	1,499,667	582,120	3,062,601	1,501,927	4,564,528
Professional services	162,018	117,206	426,935	165,722	871,881	178,905	1,050,786
Office expenses	50,580	36,590	133,283	51,736	272,189	76,929	349,118
Occupancy	86,930	62,886	229,069	88,917	467,802	144,394	612,196
Travel, training and meetings	42,592	30,812	112,235	43,566	229,205	72,688	301,893
Insurance	6,527	4,722	17,199	6,676	35,124	12,152	47,276
Depreciation	11,267	8,151	29,690	11,525	60,633	20,978	81,611
Excise tax	-	-	-	-	-	(42,924)	(42,924)
Other	16,161	11,691	42,586	16,531	86,969	17,113	104,082
	<u>\$ 2,983,563</u>	<u>\$ 2,158,354</u>	<u>\$ 7,862,001</u>	<u>\$ 4,417,453</u>	<u>\$ 17,421,371</u>	<u>\$ 1,982,162</u>	<u>\$ 19,403,533</u>
Total expenses included in the expense section on the statement of activities							

The Colorado Trust
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				Support Services		
	Health Policy	Health Equity Data	Community Partnerships	Health and Well Being - Other	Total Program Services	Management and General	Total
Grants and other assistance	\$ 4,555,106	\$ 1,068,046	\$ 5,521,891	\$ 2,814,439	\$ 13,959,482	\$ -	\$ 13,959,482
Salaries, taxes and benefits	1,022,869	239,834	1,239,964	321,421	2,824,088	1,393,961	4,218,049
Professional services	217,866	51,084	264,107	68,461	601,518	160,295	761,813
Office expenses	52,587	12,330	63,748	16,525	145,190	51,743	196,933
Occupancy	163,796	38,406	198,561	51,471	452,234	202,541	654,775
Travel, training and meetings	81,778	19,175	99,135	25,698	225,786	65,607	291,393
Depreciation	26,845	6,294	32,543	8,436	74,118	36,584	110,702
Excise tax	-	-	-	-	-	(454,230)	(454,230)
Other	39,698	9,308	48,123	12,474	109,603	37,456	147,059
Total expenses included in the expense section on the statement of activities	<u>\$ 6,160,545</u>	<u>\$ 1,444,477</u>	<u>\$ 7,468,072</u>	<u>\$ 3,318,925</u>	<u>\$ 18,392,019</u>	<u>\$ 1,493,957</u>	<u>\$ 19,885,976</u>

The Colorado Trust
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 59,053,414	\$ (40,085,480)
Items not requiring (providing) cash		
Depreciation expense	81,611	110,702
Recognition of deferred gain	(249,600)	(249,600)
Deferred excise tax expense	(918,254)	(631,640)
Net realized and unrealized loss (gain) on investments	(76,670,013)	21,792,905
Change in operating assets		
Other assets	(52,086)	(185,224)
Change in operating liabilities		
Accounts payable and accrued expenses	142,995	(142,382)
Other accrued liabilities	73,248	183,814
Grants payable	(2,751,889)	(1,007,672)
Distributions receivable	(156,278)	-
Grant return receivable	(52,928)	-
Interest tax receivable (payable)	(10,002)	227,705
Excise tax receivable	-	48,882
Excise tax payable	671,597	-
	<u>(20,838,185)</u>	<u>(19,937,990)</u>
Net cash used in operating activities		
Investing Activities		
Purchase of property and equipment	(698,774)	(59,790)
Proceeds from sale of investments	284,940,342	87,914,041
Purchases of investments	(258,938,172)	(66,496,479)
Program-related loans	(2,750,000)	(2,150,000)
Proceeds from program-related loans	47,594	41,478
	<u>22,600,990</u>	<u>19,249,250</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash and Cash Equivalents	1,762,805	(688,740)
Cash and Cash Equivalents, Beginning of Year	<u>1,915,150</u>	<u>2,603,890</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,677,955</u>	<u>\$ 1,915,150</u>

The Colorado Trust

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations

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 Trust's vision and the focus of its grant making is for all Coloradans to have fair and equal opportunities to lead healthy, productive lives regardless of race, ethnicity, income or where they live. The Trust's operations and grant making activities are funded by investments and earnings thereon.

Note 2: Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Trust considers all unrestricted liquid investments with original maturities 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. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2019, the Trust's cash held in its operating account and its investment accounts exceeded federally insured limits by approximately \$328,981 and \$3,155,042, respectively.

Investments and Investment Return

The Trust measures securities, other than investments that qualify for the equity method of accounting, at fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments.

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Net Investment Return

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment Risk

Investment securities are exposed to various risks, such as interest rate, market and credit. Though the market value of investments is subject to fluctuations on a year to year basis, the Trust believes that the investment policy is appropriate for meeting the long-term mission of the Trust.

Program Related Investments

The Trust has program-related investments in the form of below-market rate notes issued to organizations that fulfill the Trust's mission.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Trust capitalizes all expenditures for property and equipment in excess of \$5,000 and with a useful life exceeding one year. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset ranging from three to 20 years.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor (*or* certain grantor) restrictions.

Grants

The Board of Trustees approves expenditures for specific community partnerships and grant strategies 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 GAAP. Grants scheduled for payments more than one year in the future are discounted using an appropriate discount rate.

Tax Status

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 Colorado Trust
Notes to Financial Statements
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Management evaluates uncertain tax positions for more-likely-than-not sustainability. Management has concluded that as of December 31, 2019 and 2018, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Certain of the Trust's investments generate unrelated business taxable income. The Trust did not incur income taxes related to those activities in 2019 and 2018. Tax generated related to unrelated business taxable income is subject to the application of net operating losses carried forward from prior years.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program and management and general categories based on salaries and benefits costs allocated to each function as a measurement of efforts expended on the Trust's programs.

Note 3: Grant and Contract Commitments

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 rate used by the Trust is 3.5% for years 1-2, and 5.5% years 3-5 based on the estimated rate of return for investments for such durations.

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

2020	\$ 2,277,989
2021	926,095
2022	953,878
2023	982,494
2024	-
Less present value of payments scheduled after 2017	<u>(146,588)</u>
	<u>\$ 4,993,868</u>

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Investments and Investment Returns

The investment goal of the Trust is to invest its assets in a manner that will maintain, over the long-term, the real value of its investments while allowing for suitable grant expenditures that facilitate the fulfillment of the Trust’s mission.

To achieve this goal, some investment risk must be taken. The Trust diversifies its investment portfolio among various financial instruments and asset categories, using multiple investment strategies to mitigate investment risks. 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.

Investments at December 31 consisted of the following:

	2019	2018
Domestic equities	\$ 140,244,113	\$ 107,730,105
International equities	118,370,203	115,653,610
Fixed income funds	82,135,304	85,632,169
Private equity	91,274,956	71,781,474
Hedge funds/multi-strategy	27,382,045	44,635,391
Real estate	53,664,957	36,970,986
Total investments	\$ 513,071,578	\$ 462,403,735

Domestic Equities, International Equities and Fixed-income Funds

These categories consist of investments in mutual funds, partnerships and commingled funds. All of these investments are in funds which are in publicly traded companies on various major stock exchanges. Certain funds cannot be valued directly, and therefore are valued by reference to the fair value of the underlying publicly traded equities. Liquidity is available monthly upon 30 days or less notice, at which time the underlying investments are sold and the proceeds are distributed.

Private Equity

This category includes a variety of private equity strategies including private equity, global distressed debt, natural resources and venture capital. At December 31, 2019, the total committed was \$143,750,000, of which \$48,424,195 remains to be called. At December 31, 2018, the total committed was \$117,750,000, of which \$43,676,469 remains to be called. Each fund is allocated to fund managers over a period of three to five years and is designed to have a lifespan of seven to 10 years before it is fully liquidated. Liquidity is only available through distributions as the underlying investments mature or are sold.

The Colorado Trust

Notes to Financial Statements

December 31, 2019 and 2018

Hedge Funds/Multi-strategy

Hedge funds consist of a combination of investments in fund-of-funds, each managed by a single fund manager, as well as direct investments in single funds. Fund-of-fund managers are free to invest in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. These include relative value, event driven and tactical strategies and represent multiple core investment holdings. Single fund managers consist of multi-strategy investments including long/short equity, distressed debt, arbitrage, and credit instruments. At December 31, 2019 and 2018, the total committed was \$21,300,000, all of which has been called. This category also includes a multi-strategy fund invested in domestic equities traded on major stock exchanges. One fund included in this category valued at a total of approximately \$17,788,434 has a three-year lock-up period. All other investments do not currently have any lock ups, gates or other redemption restrictions, and quarterly liquidity is available upon 45-95 days' notice.

Real Estate

This category includes commercial real estate owned through limited partnership funds and a Real Estate Investment Trust. These funds are broadly diversified across real estate asset classes and are further diversified geographically. Liquidity varies based on the amount the owners collectively wish to redeem and executed sales by the investment managers of the underlying real estate properties. Quarterly redemptions are made 60-90 days after written notice. All valuations are based on annual appraisals of the underlying properties conducted by independent appraisers generally on a rolling quarterly basis.

Note 5: Fair Value of Investments

The Trust reports its investments in accordance with fair value 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs to determine fair value.

Fair value measurement standards require the Trust to classify financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique, which allow for either Level 2 or 3 reporting depending on lock up and notice periods associated with the underlying funds.

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Level 1 and 2 assets have been valued using a market approach. Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. However, the underlying assets may be actively traded. The investment managers utilize a combination of market and income approaches. One or more of the following inputs are used: quoted market prices, appraisals, and assumptions about discounted cash flow and other present value techniques depending on the type of investment. There were no changes in the valuation techniques during the current year.

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 ability to observe the 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 observation 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 Trust's financial statements.

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	2019			
	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured using market approach				
International equities	\$ 17,063,981	\$ 17,063,981	\$ -	\$ -
Fixed income funds	69,931,404	61,768,584	8,162,820	-
	<u>86,995,385</u>	<u>\$ 78,832,565</u>	<u>\$ 8,162,820</u>	<u>\$ -</u>
Alternative investments measured at net asset value per share (A)				
Domestic equities	140,244,113			
International equities	101,306,223			
Fixed income funds	12,203,899			
Private equity	91,274,956			
Hedge funds/multi-strategy	27,382,045			
Real estate	53,664,957			
	<u>513,071,578</u>			
Total investments	<u>\$ 513,071,578</u>			

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

	2018			
	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments measured using market approach				
International equities	\$ 26,301,146	\$ 26,301,146	\$ -	\$ -
Fixed income funds	71,656,878	64,570,707	7,086,171	-
Hedge funds/multi-strategy	9,011,122	9,011,122	-	-
	106,969,146	<u>\$ 99,882,975</u>	<u>\$ 7,086,171</u>	<u>\$ -</u>
Alternative investments measured at net asset value per share (A)				
Domestic equities	107,730,105			
International equities	89,352,464			
Fixed income funds	13,975,291			
Private equity	71,781,474			
Hedge funds/multi-strategy	35,624,269			
Real estate	36,970,986			
	<u>\$ 462,403,735</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Program Related Investments

The Trust issued a note receivable to various entities as program-related investments. The balance of program related investments at December 31, 2019 and 2018 are comprised of the following:

Terms	2019	2018
Interest at 2.50% due annually beginning November 2016, with total principal due at maturity in October 2024	\$ 492,400	\$ 492,400
Interest at 1.50% due quarterly, beginning April 2016. Principal payments due quarterly beginning April 2018, ending at maturity in December 2022. The Trust released the borrower under this note as of February 2019.	-	67,500
Interest at 2.00% due quarterly beginning June 2016. Principal payments due quarterly beginning December 2019, ending at maturity in December 2024	875,000	875,000
Interest at 3.00% due monthly beginning February 2018. Principal payments due quarterly beginning February 2018, ending at maturity in January 2025	927,928	966,022
Interest at 2.00% due quarterly, beginning December 2018, with total principal due at maturity in January 2020	650,000	650,000
Interest at 1.00% annum with total principal due at maturity in February 2024	58,000	-
Interest at 2.00% due quarterly beginning March 2019, with total principal due at maturity in December 2023	1,500,000	1,500,000
Interest at 1.00% due semi-annually beginning January 2020, with total principal due at maturity in July 2024	1,000,000	-
Interest at 1.00% due semi-annually beginning January 2020, with total principal due at maturity in July 2025	1,000,000	-
Interest at 1.00% due semi-annually beginning January 2020, with total principal due at maturity in December 2022	750,000	-
	<u>\$ 7,253,328</u>	<u>\$ 4,550,922</u>

Management has determined that the value of the note receivable discounted at market rates compounded to its stated value is not material to the financial statements.

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Property and Equipment

Property and equipment at December 31 consists of:

	2019	2018
Projects in process	\$ 684,449	\$ 38,226
Building improvements	66,877	66,877
Machinery and equipment	827,974	775,423
Furniture and fixtures	333,167	333,167
	1,912,467	1,213,693
Less accumulated depreciation	(1,042,458)	(960,847)
Property and equipment, net	<u>\$ 870,009</u>	<u>\$ 252,846</u>

Note 8: Sale-leaseback Transaction Note Payable to Bank

On January 31, 2008, the Trust sold its real estate investment in the Capitol Center at 225 E. Sixteenth Avenue, 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 received by the Trust 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 5-year renewal periods. In accordance with generally accepted accounting principles, the Trust 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 is being amortized on a straight-line basis over the 20-year life of the lease in the amount of \$249,600 per year.

Rent expense in 2019 and 2018 was \$627,925 and \$649,797, respectively. Rent expense includes rent escalation for property maintenance of \$160,726 and \$162,003 for 2019 and 2018, respectively.

Future minimum lease payments under the operating lease, before amortization of the deferred gain or rent escalation charges, are as follows for years ending December 31:

2020	\$ 529,007
2021	538,359
2022	547,730
2023	557,311
2024	567,121
2025-2028	1,801,404
	<u>\$ 4,540,932</u>

The Colorado Trust
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Deferred Compensation Agreement

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 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, 2019 and 2018, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of \$458,646 and \$385,398, respectively.

Note 10: Agreements with Dioceses/Churches

The Episcopal Dioceses of Colorado (the Dioceses) 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 distribution to each organization equal to 5% of the total grant expenditures each year, excluding amounts paid to the organizations. Distributions to each organization in 2019 based on grant expenditures paid in 2018 were \$691,538, for a total of \$1,383,076. Included in grants payable at December 31, 2019 is \$1,370,776, representing the payments due to the organizations in 2020 for grant expenditures paid in 2019. Distributions to each organization in 2018 based on grant expenditures paid in 2017 were \$512,798 for a total of \$1,025,596. Included in grants payable at December 31, 2018 is \$1,383,077, representing the payments due to the organizations in 2019 for grant expenditures paid in 2018.

Note 11: 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 \$412,063 and \$375,047 in 2019 and 2018, 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 or post-tax basis, up to the maximum allowable by the Code. Contributions to the plan vest immediately. There are no employer matching contributions.

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Note 12: Federal Excise Taxes

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 included in excise tax payable was \$586,671 per the statements of financial position at December 31, 2019 and \$902,670 at December 31, 2018. The current provision for federal excise taxes are provided for at 1% for the years ended December 31, 2019 and 2018, and deferred taxes are provided for at 1.5% for both years. The following are federal excise tax components.

Excise tax expense consists of the following at December 31:

	2019	2018
Current excise tax expense	\$ 244,365	\$ 192,994
Deferred excise tax expense	(287,289)	(647,224)
	\$ (42,924)	\$ (454,230)

Note 13: Liquidity and Availability

The Trust considers investment income for use in current programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Trust's fiscal year.

The principle investment objective of the Trust is to maintain the real value of its investments in perpetuity while allowing for suitable grant expenditures that facilitate the fulfillment of the Trust's mission.

The Board of Trustees of the Trust is responsible for grant-making and investment decisions.

The Trust manages its cash and investments available to meet general expenditures following four guiding principles:

- Operating and acting with judgment and care in which persons of prudence, discretion and intelligence would observe
- Maintaining adequate liquid assets to meet the current Internal Revenue Code required for grant payout and administrative and investment expenses
- Maintaining sufficient reserves to provide reasonable assurance that long-term grant commitments that support mission fulfillment will continue to be met, ensuring the sustainability of the Trust
- The Trust will maintain sufficient liquidity to meet at least two years of spending needs for operations, grants and capital call requirements. To achieve this, the Trust will maintain investments with weekly liquidity not less than 20% of the portfolio. No more than 40% of the portfolio will be invested in investments with lock-ups or liquidity in excess of one year.

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The table below presents financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 3,677,955	\$ 1,915,150
Investments	513,071,578	462,403,735
Interest receivable	17,306	7,304
Program-related investments	7,253,328	4,550,922
Investments held under deferred compensation agreements	<u>458,646</u>	<u>252,846</u>
Total financial assets	<u>524,478,813</u>	<u>469,129,957</u>
Less amounts not available to be used within one year as they have lock-up periods extending past one year		
Private equities	91,274,956	71,781,474
Hedge funds	<u>12,145,434</u>	<u>10,463,342</u>
	<u>103,420,390</u>	<u>82,244,816</u>
Less amounts not available within one year		
Program-related investments	<u>6,603,328</u>	<u>3,900,922</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 414,455,095</u>	<u>\$ 382,984,219</u>

Note 14: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Trust. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of our investment portfolio.

Subsequent events have been evaluated through July 24, 2020, which is the date the financial statements were available to be issued.