

# **The Colorado Trust**

## **Financial Statements**

**December 31, 2009 and 2008**

**(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, 2009 and 2008, 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, 2009 and 2008, 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 13, 2010

**The Colorado Trust**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 141,522	105,024
Interest and real estate distributions receivable	1,011,816	505,157
Prepaid expenses	39,859	26,831
Excise tax receivable	-	227,619
Investments (notes 2 and 3)	385,846,674	335,878,816
Cash held in custody for others (note 5)	124,549	84,886
Property and equipment:		
Building improvements	10,068	10,068
Machinery and equipment	452,595	325,438
Furniture and fixtures	351,810	354,771
	<u>814,473</u>	<u>690,277</u>
Accumulated depreciation	<u>(579,250)</u>	<u>(613,701)</u>
Property and equipment, net	235,223	76,576
Investments held under deferred compensation agreements (note 6)	<u>370,501</u>	<u>334,709</u>
<b>Total Assets</b>	<u><u>\$ 387,770,144</u></u>	<u><u>337,239,618</u></u>
<b>Liabilities and Net Assets:</b>		
Accounts payable and accrued expenses	\$ 49,108	50,785
Other accrued liabilities	352,558	174,541
Deferred gain on sale-leaseback (notes 3 and 9)	4,513,619	4,763,219
Cash held in custody for others (note 4)	124,549	84,886
Grants payable (notes 3 and 8)	20,615,819	30,260,145
Deferred compensation (note 6)	370,501	334,709
Excise tax payable	<u>91,978</u>	<u>-</u>
Total Liabilities	26,118,132	35,668,285
Net assets - Unrestricted	<u>361,652,012</u>	<u>301,571,333</u>
Commitments (notes 3, 4, 6 and 7)		
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 387,770,144</u></u>	<u><u>337,239,618</u></u>

See accompanying notes to financial statements.

**The Colorado Trust**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Revenues, Gains and Support:</b>		
Interest and dividend income	\$ 9,548,444	14,583,343
Net realized and unrealized gain (loss) on investments	68,689,907	(167,217,829)
Income from real estate activities	1,299,607	710,798
Other investment income - Sherman Street Properties, Inc.	-	(287,435)
Other income	15,107	(1,015)
Investment management fees	(699,198)	(914,314)
<b>Total revenues, gains and support</b>	<u>78,853,867</u>	<u>(153,126,452)</u>
<b>Expenses:</b>		
Program services:		
Access to Health	4,628,755	17,260,467
Accessible and Affordable Healthcare Initiatives	6,458,541	2,819,892
Strengthening Families Initiatives	573,462	3,038,126
Other grant expense	3,718,378	3,079,943
Grant administration	2,698,589	2,289,457
<b>Total program services</b>	<u>18,077,725</u>	<u>28,487,885</u>
Management and general	657,571	1,363,873
Excise tax expense (benefit) (note 9)	37,892	(534,689)
<b>Total expenses</b>	<u>18,773,188</u>	<u>29,317,069</u>
<b>Change in net assets</b>	60,080,679	(182,443,521)
Net assets at beginning of year	<u>301,571,333</u>	<u>484,014,854</u>
<b>Net assets at end of year</b>	<u><u>\$ 361,652,012</u></u>	<u><u>301,571,333</u></u>

See accompanying notes to financial statements.

**The Colorado Trust**  
**Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 60,080,679	(182,443,521)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	20,875	53,740
Loss on disposal of assets	6,613	-
Recognition of deferred gain	(249,600)	-
Net realized and unrealized (gain) loss on investments	(68,689,907)	167,217,829
(Increase) decrease in operating assets:		
Dividends and interest receivable	(506,659)	877,809
Prepaid expenses	(13,028)	(9,421)
Excise tax receivable	227,619	(227,619)
Other assets	-	233,708
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(1,677)	15,372
Other accrued liabilities	178,017	(387,948)
Grants payable	(9,644,326)	3,240,267
Excise tax payable	91,978	(275,255)
Deferred excise taxes	-	(852,794)
Net cash used in operating activities	(18,499,416)	(12,557,833)
<b>Cash flows from investing activities:</b>		
Purchases of investments	(15,272,734)	(252,209,011)
Proceeds from sales of investments	33,994,783	259,908,510
Purchase of property and equipment	(186,135)	(19,321)
Net cash provided by investing activities	18,535,914	7,680,178
<b>Cash flows from financing activities:</b>		
Deferred gain on sale-leaseback transaction	-	4,763,219
<b>Net change in cash and cash equivalents</b>	36,498	(114,436)
Cash and cash equivalents, beginning of year	105,024	219,460
<b>Cash and cash equivalents, end of year</b>	<u>\$ 141,522</u>	<u>105,024</u>

See accompanying notes to financial statements.

# **The Colorado Trust**

## **Notes to Financial Statements**

**December 31, 2009 and 2008**

---

### **(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 investments and earnings thereon.

#### **(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

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, 2009 or 2008.

#### **(c) Accounting Standards Codification**

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification (FASB ASC) as the sole source of authoritative generally accepted accounting principles (GAAP). The issuance of FASB ASC 105 did not impact the financial position or results of operations.

#### **(d) 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**

#### **(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. Realized gains and losses attributable to The Trust's investments are 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) Fair Value Measurements**

The Trust follows FASB ASC *Fair Value Measurements and Disclosures*. This standard requires the 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 in active markets that are observable for the asset or liability, either directly or indirectly (Level 2), and unobservable inputs for the asset or liability (Level 3). In addition, The Trust follows FASB Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. This standard permits The Trust to value certain investments based upon the net asset value per share provided by the investment manager and requires additional disclosure for these investments.

# **The Colorado Trust**

## **Notes to Financial Statements, Continued**

---

### **(1) Summary of Significant Accounting Policies, Continued**

#### **(g) 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.

#### **(h) 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.

#### **(i) Grants**

The Board of Trustees approves expenditures for specific grant programs 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 U.S. generally accepted accounting principles. 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 2009, based on grants paid in 2008, were \$1,029,837.50 for a total of \$2,059,675. Included in grants payable at December 31, 2009 is \$2,178,215, representing the payments due the Churches in 2010 for grants paid during 2009.

#### **(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.



# **The Colorado Trust**

## **Notes to Financial Statements, Continued**

---

### **(1) Summary of Significant Accounting Policies, Continued**

#### **(k) 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.

#### **(l) 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 2009 and 2008.

#### **(m) Subsequent Events**

In accordance with the *Subsequent Events* Topic of FASB ASC, 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 Trust's financial statements were available to be issued on April 13, 2010 and this is the date through which subsequent events were evaluated.

### **(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.

# The Colorado Trust

## Notes to Financial Statements, Continued

### (2) Investments, Continued

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:

	2009	2008
Short term investments	\$ 112,564	32,429
Domestic equities and equity funds	108,801,619	93,630,562
International equity funds	135,174,783	99,493,174
Fixed income funds	46,473,147	48,226,256
Other investments	57,245,149	47,185,893
Real estate investments	38,039,412	47,310,502
Total investments	\$ <u>385,846,674</u>	<u>335,878,816</u>

### (3) 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 follows the provisions of FASB ASC, *Fair Value Measurements*, which among other things requires enhanced disclosures about investments that are measured and reported at fair value. This standard establishes a hierarchical 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.

# **The Colorado Trust**

## **Notes to Financial Statements, Continued**

---

### **(3) 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, treasury securities, 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 agency bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. The Trust includes in this level investments in hedge funds and partnerships whose underlying assets consist of publicly traded equities for which The Trust has the ability to redeem its investment at net asset value per share at The Trust's reporting date.

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 real estate, multi-strategy funds, and non-traded real estate investment trusts.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2 and 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

# The Colorado Trust

## Notes to Financial Statements, Continued

### (3) Fair Value Measurements, Continued

The following table summarizes the valuation of The Trust's investments by the above fair value hierarchy levels as of December 31, 2009:

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Marketable securities	\$ 202,009,926	202,009,926	-	-
Publicly traded equities owned through limited partnerships	103,458,615	-	103,458,615	-
Real estate investments	38,039,412	-	-	38,039,412
Hedge funds	16,076,683	-	16,076,683	-
Commonfund multi-strategy	8,690,762	-	-	8,690,762
Other multi-strategy	16,598,483	-	11,433,106	5,165,377
Private equity	972,793	-	-	972,793
Total	<u>\$ 385,846,674</u>	<u>202,009,926</u>	<u>130,968,404</u>	<u>52,868,344</u>

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

	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
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	<u>\$ 335,878,816</u>	<u>172,843,864</u>	<u>-</u>	<u>163,034,952</u>

# The Colorado Trust

## Notes to Financial Statements, Continued

### (3) Fair Value Measurements, Continued

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	\$ <u>83,966,042</u>	<u>617,998</u>	<u>14,206,344</u>	<u>47,310,502</u>	<u>5,144,348</u>	<u>11,789,718</u>
Balance as of 12/31/08	\$ 83,966,042	617,998	14,206,344	47,310,502	5,144,348	11,789,718
Total realized and unrealized gains (losses)	-	13,028	-	(9,433,045)	827,456	3,922,554
Other investment income	-	(64,483)	-	2,271,434	(134,234)	365,865
Purchases	-	406,250	-	-	2,853,192	750,000
Distributions	-	-	-	(2,109,479)	-	(229,654)
Transfers *	(83,966,042)	-	(14,206,344)	-	-	(11,433,106)
Balance as of 12/31/09	\$ <u>-</u>	<u>972,793</u>	<u>-</u>	<u>38,039,412</u>	<u>8,690,762</u>	<u>5,165,377</u>

\* At December 31, 2009 investments in certain partnerships in which The Trust has the ability to redeem its investment at net asset value per share at The Trust's reporting date have been transferred from Level 3 to Level 2 based on 2009 guidance provided by the FASB in Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*.

Generally accepted accounting principles also require 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. This change was an unrealized gain of \$85,998,851 at December 31, 2009 and an unrealized loss of \$(75,451,807) at December 31, 2008.

# The Colorado Trust

## Notes to Financial Statements, Continued

### (3) Fair Value Measurements, Continued

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

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Publicly traded equities owned through limited partnerships (a)	\$ 103,458,615	N/A	Monthly	30 days or less
Real estate investments (b)	\$ 38,039,412	N/A	Quarterly to indefinite	30 days or less for quarterly liquidity
Hedge funds (c)	\$ 16,076,683	N/A	Quarterly	60 days
Commonfund multi-strategy (d)	\$ 8,690,762	12,509,027	None *	N/A
Other multi-strategy (e)	\$ 16,598,483	2,250,000	None * to monthly	30 days or less for monthly liquidity
Private equity (f)	\$ 972,793	5,866,912	None *	N/A

\* Investments in these categories are required to be held until maturity.

(a) This category includes investments in domestic, international and emerging market equities that are publicly traded on various major stock exchanges. The form of ownership of these equities is partnerships in which The Colorado Trust is a limited partner. Although the limited partner interest itself cannot be valued directly, these investments 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 investment managers sell the equities in the public markets and distribute the proceeds to the limited partners.

(b) This category includes commercial real estate owned through limited partnerships and a private real estate investment trust and consists of three funds valued at December 31, 2009 at \$5,630,750, \$20,565,465 and \$11,843,197 respectively. The first fund consists of four properties, three of which are vacant. The other two are large funds that are broadly diversified across real estate asset classes and are further diversified geographically. The second offers quarterly liquidity from an exit pool that includes all owners who wish to execute redemptions. The amount available in the exit pool varies from time to time based on the amount the owners collectively wish to redeem and sales by the manager of the underlying real estate properties. It is estimated that redemption of The Colorado Trust's full interest would require a period ranging from two to five years. The third fund offers liquidity only in the secondary market and then only at a substantial discount to current values while full liquidity will depend on a liquidation plan that is currently estimated to be two to five years in the future. All valuations are based on annual appraisals of the underlying properties conducted by independent appraisers generally on a rolling quarterly basis.

# The Colorado Trust

## Notes to Financial Statements, Continued

---

### (3) Fair Value Measurements, Continued

- (c) This category represents a hedge fund-of-funds managed by a single manager. The manager is 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 37 core investment holdings in which the top ten constitute 52% of the value of the fund. The underlying investments include both equity and credit instruments. The longevity of The Colorado Trust's investment in this fund is such that any lock ups, gates or other redemption restrictions have expired and therefore quarterly liquidity upon sixty days notice is available.
- (d) This category includes a variety of strategies managed by Commonfund Capital, Inc. including global distressed debt, natural resources and venture capital. At December 31, 2009 the total committed was \$20,750,000 of which \$8,240,973 has been called. There is one distressed debt fund, two natural resource funds and two venture capital funds included in this category. Each fund is allocated to managers over a period of three to five years and is designed to have a lifespan of seven to ten years before fully liquidating. During that time period liquidity is only available through distributions as underlying investments wind up. At December 31, 2009 the distressed debt fund was 66% called, the two natural resource funds were 19% and 5% called respectively, and the two venture capital funds were 26% and 0% called respectively. The underlying investments in the distressed debt fund include a variety of global credit instruments. The natural resources funds include investments in oil and gas private equity, oil and gas acquisition, oilfield services, energy infrastructure, clean energy and mining, coal and timber investments. The venture capital funds include investments in life sciences, healthcare, information technology and clean tech in early stage, later stage and multi stage categories in the United States, Europe, Israel, India and China.
- (e) This category includes a European distressed debt fund, a fund that concentrates on real estate related investments in fixed base operations (FBO) that service private aviation activities on airports in the United States and a commodity inflation hedging strategy that includes commodities and commodity related equity investments. Liquidity in the first two of these is not available until the successful conclusion of the funds' operations estimated to be over a five to ten year period. In the third, the commodity inflation hedging strategy, the European distressed debt fund is a \$5,000,000 commitment that is 50% called. It invests in European corporate debt of companies involved in restructurings, turnaround situations and distress for control situations. The Colorado Trust is a lender to the FBO fund and the terms of the partnership include preferential interest payments and contingent interest in the event that successful operations exceed a predetermined rate of return. The commodity based fund invests in global inflation linked bonds, commodities, global precious metals, and global equities in the energy, diversified metals and mining, agriculture, and global climate change industries. Its investments are approximately 40% in the United States, 23% in the emerging markets, 15% in developed Europe and 13% in Canada and 9% in the Asia/Pacific region. This fund offers monthly liquidity on 30 days or less notice.

# The Colorado Trust

## Notes to Financial Statements, Continued

### (3) Fair Value Measurements, Continued

- (f) This category includes U.S. private equity and international private equity investments in three funds managed by Commonfund Capital, Inc. The first international private equity fund has a \$2,500,000 commitment and is 26% called. The second international private equity fund has a \$2,000,000 commitment and is 0% called. The U.S. private equity fund has a \$2,500,000 commitment and is 14% called. These funds allocate capital to more than 50 domestic and international private equity managers in strategies that include growth equity, small and middle market, and large leveraged buy-out investments across a variety of industries. Liquidity is available only over the life of the underlying investments as they conclude and are liquidated.

### (4) 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 U.S. 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. This amount will be reported as a reduction of rent expense in each year. Rent expense in 2009, net of the amortization of the deferred gain and including rent escalation charges of \$313,044, was \$417,712. Rent expense in 2008, net of the amortization of the deferred gain and including rent escalation charges of \$283,404, was \$400,600. 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:

2010	\$ 430,821
2011	438,363
2012	446,116
2013	454,096
2014	462,096
2015 - 2028	<u>6,862,246</u>
	\$ <u>9,093,738</u>



# **The Colorado Trust**

## **Notes to Financial Statements, Continued**

---

### **(5) 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 \$124,549 and \$84,886 at December 31, 2009 and 2008, respectively. The funds are recorded as both assets and liabilities in the accompanying financial statements.

### **(6) 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.

At December 31, 2009 and 2008, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of \$370,501 and \$334,709, respectively.

### **(7) 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 \$276,314 and \$242,504 in 2009 and 2008, 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

---

#### (8) Grant Commitments

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

2010	\$ 15,908,449
2011	4,233,822
2012	504,166
2013	50,000
2014	25,000
Thereafter	<u>50,000</u>
	20,771,437
Less present value of payments scheduled after 2010	<u>(155,618)</u>
	\$ <u>20,615,819</u>

#### (9) 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 was \$0 at December 31, 2009 and 2008. Excise tax expense consists of the following at December 31:

	<u>2009</u>	<u>2008</u>
Current excise tax expense	\$ 37,892	318,105
Deferred excise tax expense (benefit)	<u>-</u>	<u>(852,794)</u>
Net expense (benefit)	\$ <u>37,892</u>	<u>(534,689)</u>