The Colorado Trust

Independent Auditor's Report and Financial Statements

December 31, 2014 and 2013

The Colorado Trust
December 31, 2014 and 2013

Contents

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Independent Auditor's Report on Financial Statements

Board of Directors
The Colorado Trust
Denver, Colorado

We have audited the accompanying financial statements of The Colorado Trust, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities 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, 2014 and 2013, 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
May 13, 2015

The Colorado Trust

Statements of Financial Position

December 31, 2014 and 2013

	2014	2013
Assets		
Cash and cash equivalents	$ 779,151	$ 4,018,049
Investments	457,249,001	450,030,512
Excise tax receivable	237,084	-
Property and equipment, net	229,441	209,590
Investments held under deferred compensation agreements	370,975	324,272
Other assets	10,699	27,488
Total assets	$ 458,876,351	$ 454,609,911
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 218,639	$ 245,520
Grants payable	7,784,320	2,592,534
Deferred excise tax payable	1,113,381	1,341,598
Deferred gain on sale - leaseback	3,265,619	3,515,219
Deferred compensation	370,975	324,272
Total liabilities	12,752,934	8,019,143
Net Assets		
Unrestricted	446,123,417	446,590,768
Total liabilities and net assets	$ 458,876,351	$ 454,609,911

The Colorado Trust

Statements of Activities

Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenue, Gains and Other Support		
Interest and dividend income	$ 6,712,355	$ 3,984,771
Net realized and unrealized gain on investments	10,833,595	50,739,863
Income from real estate transactions	1,275,186	942,845
Other income	13,794	1,737
Investment management fees	(320,939)	(311,822)
Total revenue, gains and support	18,513,991	55,357,394
Expenses		
Community Partnerships and Grants		
Health Policy	6,524,077	169,145
Health Data	7,052,968	242,896
Community Partnerships	100,762	-
Grants to Churches	717,281	745,685
Health and Well Being		
Access To Health	450,166	3,550,416
Other grant programs	1,627,436	4,335,385
Total program services expenses	16,472,690	9,043,527
Supporting services		
Management and general	1,962,358	1,737,901
Excise tax expense	546,294	885,745
Total supporting services expenses	2,508,652	2,623,646
Total expenses	18,981,342	11,667,173
Change in Net Assets	(467,351)	43,690,221
Net Assets, Beginning of Year	446,590,768	402,900,547
Net Assets, End of Year	$ 446,123,417	$ 446,590,768

The Colorado Trust

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	$ (467,351)	$ 43,690,221
Items not requiring (providing) cash		
Depreciation expense	88,021	135,957
Recognition of deferred gain	(249,600)	(249,600)
Deferred excise tax expense	(34,472)	531,217
Allowance for uncollectible interest receivable	1,652,838	1,605,126
Net realized and unrealized gain on investments	(10,833,595)	(50,739,863)
Change in operating assets		
Other assets	(29,914)	6,034
Change in operating liabilities		
Accounts payable and accrued expenses	(26,881)	2,361
Other accrued liabilities	46,703	54,752
Grants payable	5,191,786	(3,249,036)
Excise tax receivable	(237,084)	-
Excise tax payable	(193,745)	34,514
Net cash used in operating activities	(5,093,294)	(8,178,317)
Investing Activities		
Purchase of property and equipment	(107,872)	(81,822)
Proceeds from sale of investments	27,127,514	105,932,732
Purchases of investments	(25,165,246)	(94,550,208)
Net cash provided by investing activities	1,854,396	11,300,702
Increase (Decrease) in Cash and Cash Equivalents	(3,238,898)	3,122,385
Cash and Cash Equivalents, Beginning of Year	4,018,049	895,664
Cash and Cash Equivalents, End of Year	$ 779,151	$ 4,018,049

The Colorado Trust
Notes to Financial Statements
December 31, 2014 and 2013

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, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2014, The Trust's cash held in its operating account and its investment account exceeded federally insured limits by approximately $421,000 and $445,000, respectively.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains or losses on investments carried at fair value; and realized gains and losses on other investments.

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.

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 3 - 20 years.

Grants

The Board of Trustees approves expenditures for specific community partnerships and grants 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 interest 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.

Management evaluates uncertain tax positions for more-likely-than-not sustainability. Management has concluded that as of December 31, 2014 and 2013, 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 2014 or 2013. The Trust is no longer subject to income tax examinations for the years prior to December 31, 2010.

Functional Allocation of Expenses

The costs of supporting the various community partnerships, grants and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the appropriate community partnerships and grants and supporting services benefited.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

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 8% due to the targeted rate of return for investments established by the investment committee.

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

2015	$ 4,212,277
2016	2,077,521
2017	1,015,323
2018	980,008
Less present value of payments scheduled after 2015	(500,809)
	$ 7,784,320

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:

	2014	2013
Domestic equities	$ 119,020,146	$ 122,559,000
International equities	104,841,718	109,725,009
Fixed income funds	88,687,967	80,017,718
Private equity	27,018,126	25,981,215
Hedge funds/multi-strategy	82,807,954	80,437,063
Real estate	34,873,090	31,310,507
Total investments	$ 457,249,001	$ 450,030,512

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. At December 31, 2014 and 2013, the fair value of these investments measured using the net asset value per share is $192,893,409 and $199,113,416, respectively.

Private Equity

This category includes a variety of private equity strategies including global distressed debt, natural resources and venture capital. At December 31, 2014, the total committed was $70,750,000 of which $38,245,253 remains to be called. Each fund is allocated to fund managers over a period of 3 to 5 years and is designed to have a lifespan of 7 to 10 years before it is fully liquidated. Liquidity is only available through distributions as the underlying investments mature or are sold. At December 31, 2014 and 2013, the fair value of these investments measured using the net asset value per share is $27,018,126 and $25,981,215, respectively.

Hedge Funds/Multi Strategy

This category consists primarily of investments in fund-of-funds, each managed by a single fund manager. Each fund 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 multiple core investment holdings. At December 31, 2014, the total committed was $20 million, of which all has been called. The underlying investments include both equity and credit instruments. This category also includes a multi-strategy fund invested in domestic equities traded on major stock exchanges. These investments do not currently have any lock ups, gates or other redemption restrictions and quarterly liquidity is available upon 60 - 95 days’ notice.

This category includes a loan to a fund that concentrates on investments in fixed base operations (FBO) that service private aviation activities on airports in the United States. The terms of the loan include preferential interest payments and contingent interest in the event that successful operations exceed a predetermined rate of return. Based on appraisals and other information obtained from the fund manager, a reserve of $1,652,838 and $3,126,491 was recorded against accrued interest receivable and the loan amount for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the fair value of these investments measured using net asset value per share is $56,433,158 and $52, 287,099, respectively.

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. At December 31, 2014, the total committed to the Real Estate Investment Trust was $8 million, of which all has been called. All valuations are based on annual appraisals of the underlying properties conducted by independent appraisers generally on a rolling quarterly basis. At December 31, 2014 and 2013, the fair value of these investments measured using net asset value per share is $34,873,090 and $31,310,507, respectively.

Note 5: Fair Value of Assets and Liabilities

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. This standard requires an entity to maximize the use of observable inputs (such as quoted prices in active markets) and to minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. In addition, The Trust reports certain investments using the “practical expedient” method. The practical expedient allows net asset value per share determined by the investment manager to represent fair value for reporting purposes when certain criteria are met.

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 or in accordance with net asset value practical expedient rules, 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

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, or have been estimated using the net asset value per share as reported by the investment manager and no further adjustments have been made. However, the underlying assets may be actively traded. Fair values for assets in Level 3 have been estimated using the net asset value per share as reported by the investment managers and no further adjustments have been made. 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 table presents 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, 2014 and 2013:

2014

		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)
Domestic equities	$ 119,020,146	$ -	$ 119,020,146	$ -
International equities	104,841,718	43,767,810	61,073,908	-
Fixed income funds	88,687,967	62,512,888	26,175,079	-
Private equity	27,018,126	-	-	27,018,126
Hedge funds/ multi-strategy	82,807,954	26,374,796	10,235,133	46,198,025
Real estate	34,873,090	-	-	34,873,090
	$ 457,249,001	$ 132,655,494	$ 216,504,266	$ 108,089,241

2013

		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)
Domestic equities	$ 122,559,000	$ -	$ 122,559,000	$ -
International equities	109,725,009	46,329,053	63,395,956	-
Fixed income funds	80,017,718	56,603,834	23,413,884	-
Private equity	25,981,215	-	-	25,981,215
Hedge funds/ multi-strategy	80,437,063	23,149,964	11,630,970	45,656,129
Real estate	31,310,507	-	-	31,310,507
	$ 450,030,512	$ 126,082,851	$ 220,999,810	$ 102,947,851

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Private Equity	Hedge Funds	Real Estate Funds
Balance, December 31, 2012	$ 23,756,217	$ 12,655,856	$ 25,172,275
Total realized and unrealized gains	3,314,492	2,179,982	2,294,400
Other investment income	(395,870)	33,353	11,405
Purchases	2,993,573	20,000,000	5,135,991
Distributions	(3,687,197)	-	(1,303,564)
Transfers (A)	-	10,786,938	-
Balance, December 31, 2013	25,981,215	45,656,129	31,310,507
Total realized and unrealized gains	4,332,180	1,578,821	3,999,201
Purchases	4,708,111	500,000	2,864,009
Distributions	(8,003,380)	(1,536,925)	(3,300,627)
Balance, December 31, 2014	$ 27,018,126	$ 46,198,025	$ 34,873,090
Change in net assets attributable to the change in unrealized gains related to investments still held at December 31, 2014	$ 1,252,555	$ 1,074,585	$ 2,117,010

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized at the period ending date.

(A) Based on pricing information for one hedge fund at year-end, the fund was transferred from Level 2 to a Level 3.

Fair value measurements for Level 3 investments are the responsibility of The Trust's management. Management utilizes the valuations provided by fund managers to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Fair Value of Financial Instruments

The following methods were used to estimate the fair value of all other financial instruments not recognized at fair value in the accompanying statements of financial position.

Cash and cash equivalents – The carrying amount approximates fair value.

Grants payable – The carrying value approximates fair value.

Other – The carrying value of all other financial instruments approximates fair value.

Note 6: Property and Equipment

Property and equipment at December 31 consists of:

	2014	2013
Projects in process	$ 73,979	$ 29,588
Building improvements	59,979	45,590
Machinery and equipment	560,577	830,643
Furniture and fixtures	374,600	358,283
	1,069,135	1,264,104
Less accumulated depreciation	(839,694)	(1,054,514)
Property and equipment, net	$ 229,441	$ 209,590

Note 7: 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.

Rent expense in 2014 and 2013 was $598,927 and $586,651, respectively. Rent expense includes rent escalation for property maintenance of $187,022 and $182,747 for 2014 and 2013, 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:

2015	$ 470,207
2016	478,735
2017	487,201
2018	495,868
2019	504,763
2020 - 2028	4,429,712
	$ 6,866,486

Note 8: 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, 2014 and 2013, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of $370,975 and $324,272, respectively.

Note 9: Agreements with 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, less the amount paid to each organization in that year. Distributions to each organization in 2014 based on grant expenditures paid in 2013 were $372,843, for a total of $745,685. Included in grants payable at December 31, 2014 is $717,281, representing the payments due the Dioceses in 2015 for grant expenditures paid during 2014.

The Colorado Trust
Notes to Financial Statements
December 31, 2014 and 2013

Note 10: 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 $286,451 and $321,329 in 2014 and 2013, 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. Contributions to the plan vest immediately. There are no employer matching contributions.

Note 11: 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 $1,113,381 at December 31, 2014 and $1,147,846 at December 31, 2013. The current provision for federal excise taxes are provided at 2% for the years ended December 31, 2014 and 2013, respectively, 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:

	2014	2013
Current excise tax expense	$ 580,759	$ 354,528
Deferred excise tax expense	(34,465)	531,217
	$ 546,294	$ 885,745

Note 12: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.