# The Colorado Trust

## Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014

# The Colorado Trust
## December 31, 2015 and 2014

## Contents

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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, 2015 and 2014, 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, 2015 and 2014, 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 23, 2016

# The Colorado Trust

## Statements of Financial Position

## December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 3,372,511 | $ 779,151 |
| Investments | 435,042,525 | 457,249,001 |
| Excise tax receivable | 87,840 | 237,084 |
| Program related investment | 800,000 | - |
| Property and equipment, net | 333,412 | 229,441 |
| Investments held under deferred compensation agreements | 408,756 | 370,975 |
| Other assets | 23,957 | 10,699 |
| Total assets | $ 440,069,001 | $ 458,876,351 |
| **Liabilities and Net Assets** | | |
| Accounts payable and accrued liabilities | $ 155,359 | $ 218,639 |
| Grants payable | 9,340,719 | 7,784,320 |
| Deferred excise tax payable | 693,556 | 1,113,381 |
| Deferred gain on sale - leaseback | 3,016,019 | 3,265,619 |
| Deferred compensation | 408,756 | 370,975 |
| Total liabilities | 13,614,409 | 12,752,934 |
| **Net Assets** | | |
| Unrestricted | 426,454,592 | 446,123,417 |
| Total liabilities and net assets | $ 440,069,001 | $ 458,876,351 |

# The Colorado Trust

## Statements of Activities

## Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Unrestricted Revenue, Gains and Other Support** | | |
| Interest and dividend income | $ 5,030,890 | $ 6,712,355 |
| Net realized and unrealized gain (loss) on investments | (7,828,189) | 10,833,595 |
| Income from real estate transactions | 1,470,626 | 1,275,186 |
| Other income | (1,965) | 13,794 |
| Investment management fees | (336,311) | (320,939) |
| Total revenue, gains and support | (1,664,949) | 18,513,991 |
| **Expenses** | | |
| Program Services | | |
| Health Policy | 923,856 | 6,524,077 |
| Health Data | 6,333,407 | 7,052,968 |
| Community Partnerships | 856,365 | 100,762 |
| Grants to Churches | 1,102,426 | 717,281 |
| Health Equity Investments | 5,019,363 | - |
| Health and Well Being | | |
| Access To Health | 94,303 | 450,166 |
| Other grant programs | 1,688,372 | 1,627,436 |
| Total program services expenses | 16,018,092 | 16,472,690 |
| Supporting services | | |
| Management and general | 1,879,730 | 1,962,358 |
| Excise tax expense | 106,054 | 546,294 |
| Total supporting services expenses | 1,985,784 | 2,508,652 |
| Total expenses | 18,003,876 | 18,981,342 |
| **Change in Net Assets** | (19,668,825) | (467,351) |
| **Net Assets, Beginning of Year** | 446,123,417 | 446,590,768 |
| **Net Assets, End of Year** | $ 426,454,592 | $ 446,123,417 |

# The Colorado Trust
## Statements of Cash Flows
## Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (19,668,825) | $ (467,351) |
| Items not requiring (providing) cash | | |
| Depreciation expense | 104,017 | 88,021 |
| Recognition of deferred gain | (249,600) | (249,600) |
| Deferred excise tax expense | (419,825) | (34,472) |
| Allowance for uncollectible interest receivable | (1,652,838) | 1,652,838 |
| Net realized and unrealized loss (gain) on investments | 7,828,189 | (10,833,595) |
| Change in operating assets | | |
| Other assets | (51,039) | (29,914) |
| Change in operating liabilities | | |
| Accounts payable and accrued expenses | (63,280) | (26,881) |
| Other accrued liabilities | 37,781 | 46,703 |
| Grants payable | 1,556,399 | 5,191,786 |
| Excise tax receivable | 149,244 | (237,084) |
| Excise tax payable | - | (193,745) |
| Net cash used in operating activities | (12,429,777) | (5,093,294) |
| **Investing Activities** | | |
| Purchase of property and equipment | (207,988) | (107,872) |
| Proceeds from sale of investments | 49,234,576 | 27,127,514 |
| Purchases of investments | (33,203,451) | (25,165,246) |
| Program-related loan | (800,000) | - |
| Net cash provided by investing activities | 15,023,137 | 1,854,396 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 2,593,360 | (3,238,898) |
| **Cash and Cash Equivalents, Beginning of Year** | 779,151 | 4,018,049 |
| **Cash and Cash Equivalents, End of Year** | $ 3,372,511 | $ 779,151 |

## 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, 2015 and 2014, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2015, The Trust's cash held in its operating account and its investment account exceeded federally insured limits by approximately $519,000 and $3,772,000, 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. Investments in certain funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. 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.

### *Program Related Investment*

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 3 to 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 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.

Management evaluates uncertain tax positions for more-likely-than-not sustainability. Management has concluded that as of December 31, 2015 and 2014, 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 2015 or 2014. The Trust is no longer subject to income tax examinations for the years prior to December 31, 2012.

### *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 2014 financial statements to conform to the 2015 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 3% for years 1 – 2, and 5% years 3 – 7 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:

| | |
|---|---|
| 2016 | $ 3,511,947 |
| 2017 | 1,265,323 |
| 2018 | 1,030,008 |
| 2019 | 872,933 |
| 2020 - 2023 | 3,761,588 |
| Less present value of payments scheduled after 2015 | (1,101,080) |
| | $ 9,340,719 |

## 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:

| | 2015 | 2014 |
|---|---|---|
| Domestic equities | $ 99,432,277 | $ 119,020,146 |
| International equities | 101,477,864 | 104,841,718 |
| Fixed income funds | 86,894,631 | 88,687,967 |
| Private equity | 31,179,844 | 27,018,126 |
| Hedge funds/multi-strategy | 76,909,397 | 82,807,954 |
| Real estate | 39,148,512 | 34,873,090 |
| Total investments | $ 435,042,525 | $ 457,249,001 |

### *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, 2015, the total committed was $75,750,000 of which $36,712,348 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.

### *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, 2015, the total committed was $42,250,000 of which all has been called. This category also includes a multi-strategy fund invested in domestic equities traded on major stock exchanges. One hedge fund valued at approximately $7,600,000 has a two year lock up expiring in November 2017, with annual redemptions thereafter. 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.
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, 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. 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 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, 2015 and 2014:

| | 2015 | | | |
|---|---|---|---|---|
| | | 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 | $ 42,374,049 | $ 42,374,049 | $ - | $ - |
| Fixed income funds | 75,145,160 | 62,575,259 | 12,569,901 | - |
| Hedge funds/multi-strategy | 22,629,539 | 22,629,539 | - | - |
| | 140,148,748 | 127,578,847 | 12,569,901 | - |
| Alternative investments measured at net asset value per share (A) | | | | |
| Domestic equities | 99,432,277 | - | - | - |
| International equities | 59,103,815 | - | - | - |
| Fixed income funds | 11,749,471 | - | - | - |
| Private equity | 31,179,844 | - | - | - |
| Hedge funds/multi-strategy | 54,279,858 | - | - | - |
| Real estate | 39,148,512 | - | - | - |
| Total investments | $ 435,042,525 | $ 127,578,847 | $ 12,569,901 | $ - |

| | 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) |
| Investments measured using market approach | | | | |
| International equities | $ 43,767,810 | $ 43,767,810 | $ - | $ - |
| Fixed income funds | 75,888,612 | 62,512,888 | 13,375,724 | - |
| Hedge funds/multi-strategy | 26,374,796 | 26,374,796 | - | - |
| | 146,031,218 | 132,655,494 | 13,375,724 | - |
| Alternative investments measured at net asset value per share (A) | | | | |
| Domestic equities | 119,020,146 | - | - | - |
| International equities | 61,073,908 | - | - | - |
| Fixed income funds | 12,799,355 | - | - | - |
| Private equity | 27,018,126 | - | - | - |
| Hedge funds/multi-strategy | 56,433,158 | - | - | - |
| Real estate | 34,873,090 | - | - | - |
| Total investments | $ 457,249,001 | $ 132,655,494 | $ 13,375,724 | $ - |

(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.

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.

## Note 6: Program Related Investments

During 2015, The Trust issued a note receivable to a non-profit corporation as a program-related investment. The note was for $800,000 with an interest rate of 2.5% with interest payments due annually beginning November 11, 2016. The principal amount of the note is due upon maturity on October 31, 2024.

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.

## Note 7: Property and Equipment

Property and equipment at December 31 consists of:

| | 2015 | 2014 |
|---|---|---|
| Projects in process | $ - | $ 73,979 |
| Building improvements | 59,979 | 59,979 |
| Machinery and equipment | 831,338 | 560,577 |
| Furniture and fixtures | 374,600 | 374,600 |
| | 1,265,917 | 1,069,135 |
| Less accumulated depreciation | (932,505) | (839,694) |
| Property and equipment, net | $ 333,412 | $ 229,441 |

## 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 2015 and 2014 was $635,224 and $598,927, respectively. Rent expense includes rent escalation for property maintenance of $213,639 and $187,022 for 2015 and 2014, 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:

| | |
|---|---|
| 2016 | $ 486,275 |
| 2017 | 502,321 |
| 2018 | 510,988 |
| 2019 | 519,883 |
| 2020 | 529,007 |
| 2021 - 2028 | 4,017,425 |
| | $ 6,565,899 |

## 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, 2015 and 2014, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of $408,756 and $370,975, respectively.

## Note 10: 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 2015 based on grant expenditures paid in 2014 were $358,640, for a total of $717,280. Included in grants payable at December 31, 2015 is $1,102,427, representing the payments due the Dioceses in 2016 for grant expenditures paid during 2015.

### 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 $285,588 and $286,451 in 2015 and 2014, 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.

### 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 $693,556 at December 31, 2015 and $1,113,381 at December 31, 2014. The current provision for federal excise taxes are provided at 2% for the years ended December 31, 2015 and 2014, 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:

| | 2015 | 2014 |
|---|---|---|
| Current excise tax expense | $ 525,879 | $ 580,759 |
| Deferred excise tax expense | (419,825) | (34,465) |
| | $ 106,054 | $ 546,294 |

### Note 13: 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.