

The Colorado Trust

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

The Colorado Trust
December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 30, 2017

The Colorado Trust
Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 1,403,657	\$ 3,372,511
Investments	451,195,725	435,042,525
Excise tax receivable	184,460	87,840
Program related investment	1,750,000	800,000
Property and equipment, net	275,812	333,412
Investments held under deferred compensation agreements	467,671	408,756
Other assets	23,964	23,957
	<u> </u>	<u> </u>
Total assets	<u>\$ 455,301,289</u>	<u>\$ 440,069,001</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 242,103	\$ 155,359
Grants payable	12,354,286	9,340,719
Deferred excise tax payable	819,891	693,556
Deferred gain on sale - leaseback	2,766,419	3,016,019
Deferred compensation	467,671	408,756
	<u> </u>	<u> </u>
Total liabilities	<u>16,650,370</u>	<u>13,614,409</u>
Net Assets		
Unrestricted	<u>438,650,919</u>	<u>426,454,592</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 455,301,289</u>	<u>\$ 440,069,001</u>

The Colorado Trust
Statements of Activities
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Revenue, Gains (Loss) and Other Support		
Interest and dividend income	\$ 3,812,787	\$ 5,030,890
Net realized and unrealized gain (loss) on investments	28,396,116	(7,828,189)
Income from real estate transactions	1,410,079	1,470,626
Other income	-	(1,965)
Investment management fees	(353,176)	(336,311)
	<u>33,265,806</u>	<u>(1,664,949)</u>
Total unrestricted revenue, gains (loss) and other support		
Expenses		
Program services		
Health Policy	9,091,453	923,856
Health Data	2,084,686	6,333,407
Community Partnerships	4,758,251	856,365
Grants to Churches	1,074,002	1,102,426
Health Equity Investments	102,152	5,019,363
Health and Well Being		
Access To Health	-	94,303
Other grant programs	1,743,444	1,688,372
	<u>18,853,988</u>	<u>16,018,092</u>
Total program services expenses		
Supporting services		
Management and general	1,880,334	1,879,730
Excise tax expense	335,157	106,054
	<u>2,215,491</u>	<u>1,985,784</u>
Total supporting services expenses		
Total expenses	<u>21,069,479</u>	<u>18,003,876</u>
Change in Net Assets	12,196,327	(19,668,825)
Net Assets, Beginning of Year	<u>426,454,592</u>	<u>446,123,417</u>
Net Assets, End of Year	<u>\$ 438,650,919</u>	<u>\$ 426,454,592</u>

The Colorado Trust
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ 12,196,327	\$ (19,668,825)
Items not requiring (providing) cash		
Depreciation expense	133,234	104,017
Recognition of deferred gain	(249,600)	(249,600)
Deferred excise tax expense	126,335	(419,825)
Allowance for uncollectible interest receivable	-	(1,652,838)
Net realized and unrealized loss (gain) on investments	(28,396,116)	7,828,189
Change in operating assets		
Other assets	(58,922)	(51,039)
Change in operating liabilities		
Accounts payable and accrued expenses	86,744	(63,280)
Other accrued liabilities	58,915	37,781
Grants payable	3,013,567	1,556,399
Excise tax receivable	(96,620)	149,244
	<u>(13,186,136)</u>	<u>(12,429,777)</u>
Net cash used in operating activities		
Investing Activities		
Purchase of property and equipment	(75,634)	(207,988)
Proceeds from sale of investments	55,251,330	49,234,576
Purchases of investments	(43,008,414)	(33,203,451)
Program-related loan	(950,000)	(800,000)
	<u>11,217,282</u>	<u>15,023,137</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash and Cash Equivalents	(1,968,854)	2,593,360
Cash and Cash Equivalents, Beginning of Year	<u>3,372,511</u>	<u>779,151</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,403,657</u>	<u>\$ 3,372,511</u>

The Colorado Trust

Notes to Financial Statements

December 31, 2016 and 2015

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, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2016, The Trust's cash held in its operating account and its investment account exceeded federally insured limits by approximately \$802,000 and \$696,000, respectively.

Investments and Investment Return

Investments are carried at fair value. Investments in certain funds that do not have readily determined values 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.

The Colorado Trust

Notes to Financial Statements

December 31, 2016 and 2015

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 grant strategies in support of The Trust's mission. Grant expense is recognized when The Trust identifies a grantee and awards a grant contract. Grants authorized but unpaid at year-end are reported as liabilities in accordance with GAAP. Grants scheduled for payments more than one year in the future are discounted using an appropriate discount rate.

Tax Status

The Trust has been classified as a private foundation as defined in Section 509(a) of the Internal Revenue Code (the Code), and is exempt from federal income tax under Section 501(c)(3) of the Code. Private foundations are subject to an excise tax on net investment income, which includes realized gains on the sale of assets. The tax is equal to 2% of net investment income, but can be reduced to 1% if qualifying grant payments exceed certain minimum amounts.

Management evaluates uncertain tax positions for more-likely-than-not sustainability. Management has concluded that as of December 31, 2016 and 2015, 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 2016 and 2015.

The Colorado Trust
Notes to Financial Statements
December 31, 2016 and 2015

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.

Note 3: Grant and Contract Commitments

Grants payable is determined by discounting multi-year grants to net present value using a discount rate commensurate with market conditions and the grant payment schedule at the time the grant is committed. The discount rate used by The Trust is 3.5% for years 1-2, and 5.5% years 3-7 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:

2017		\$ 5,350,355
2018		2,544,708
2019		1,702,927
2020		899,121
2021		926,095
2022 - 2023		1,936,372
Less present value of payments scheduled after 2016		(1,005,292)
		\$ 12,354,286

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.

The Colorado Trust
Notes to Financial Statements
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Investments at December 31 consisted of the following:

	<u>2016</u>	<u>2015</u>
Domestic equities	\$ 107,608,499	\$ 99,432,277
International equities	105,699,649	101,477,864
Fixed income funds	84,585,850	86,894,631
Private equity	38,148,683	31,179,844
Hedge funds/multi-strategy	73,467,196	76,909,397
Real estate	<u>41,685,848</u>	<u>39,148,512</u>
Total investments	<u>\$ 451,195,725</u>	<u>\$ 435,042,525</u>

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, 2016, the total committed was \$75,750,000 of which \$28,931,559 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, 2016, the total committed was \$41,050,000 of which all has been called. This category also includes a multi-strategy fund invested in domestic equities traded on major stock exchanges. Two funds included in this category valued at a total of approximately \$19,847,000 have lock up periods expiring between November 2017 and October 2019, 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.

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Real Estate

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

Note 5: Fair Value of Investments

The Trust reports its investments in accordance with fair value standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs to determine fair value.

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

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

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

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.

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

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observation and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in The Trust's financial statements.

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2016 and 2015:

	2016			
	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	\$ 40,809,710	\$ 40,809,710	\$ -	\$ -
Fixed income funds	71,557,067	57,174,415	14,382,652	-
Hedge funds/multi-strategy	17,845,452	17,845,452	-	-
	130,212,229	<u>\$ 115,829,577</u>	<u>\$ 14,382,652</u>	<u>\$ -</u>
Alternative investments measured at net asset value per share (A)				
Domestic equities	107,608,499			
International equities	64,889,939			
Fixed income funds	13,028,783			
Private equity	38,148,683			
Hedge funds/multi-strategy	55,621,744			
Real estate	41,685,848			
	<u>\$ 451,195,725</u>			

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	2015			
	Total	Fair Value Measurements Using		
		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	<u>\$ 127,578,847</u>	<u>\$ 12,569,901</u>	<u>\$ -</u>
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			
	<u>\$ 435,042,525</u>			

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

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.

The Colorado Trust
Notes to Financial Statements
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Note 6: Program Related Investments

The Trust issued a note receivable to various entities as a program-related investment. The balance of program related investments at December 31, 2016 and 2015 are comprised of the following:

2016	
Terms	Amount
Interest at 2.50%, due annually beginning November 2016, with total principal due at maturity in October 2024	\$ 800,000
Interest at 1.5% due quarterly, beginning April 2016. Principal payments due quarterly beginning April 2018, ending at maturity in December 2022	75,000
Interest at 2.00% payments due quarterly beginning June 2016. Principal payments due quarterly beginning December 2019, ending at maturity in December 2024	<u>875,000</u>
	<u><u>\$ 1,750,000</u></u>
2015	
Terms	Amount
Interest at 2.50%, due annually beginning November 2016, with total principal due at maturity in October 2024	<u>\$ 800,000</u>

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

Note 7: Property and Equipment

Property and equipment at December 31 consists of:

	2016	2015
Projects in process	\$ 27,342	\$ -
Building improvements	59,979	59,979
Machinery and equipment	879,630	831,338
Furniture and fixtures	<u>374,600</u>	<u>374,600</u>
	1,341,551	1,265,917
Less accumulated depreciation	<u>(1,065,739)</u>	<u>(932,505)</u>
Property and equipment, net	<u><u>\$ 275,812</u></u>	<u><u>\$ 333,412</u></u>

The Colorado Trust
Notes to Financial Statements
December 31, 2016 and 2015

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 2016 and 2015 was \$616,656 and \$635,224, respectively. Rent expense includes rent escalation for property maintenance of \$173,279 and \$213,639 for 2016 and 2015, 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:

Operating Lease Payments

2017	\$ 502,321
2018	510,988
2019	519,883
2020	529,007
2021	538,359
2022-2029	<u>3,473,566</u>
	<u>\$ 6,074,124</u>

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, 2016 and 2015, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of \$467,671 and \$408,756, respectively.

The Colorado Trust
Notes to Financial Statements
December 31, 2016 and 2015

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 2016 based on grant expenditures paid in 2015 were \$551,213, for a total of \$1,102,426. Included in grants payable at December 31, 2016 is \$1,074,002 representing the payments due the Dioceses in 2017 for grant expenditures paid.

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 \$314,951 and \$285,588 in 2016 and 2015, 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 \$819,891 at December 31, 2016 and \$693,556 at December 31, 2015. The current provision for federal excise taxes are provided for at 2% for the years ended December 31, 2016 and 2015, 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:

	2016	2015
Current excise tax expense	\$ 208,822	\$ 525,879
Deferred excise tax expense	126,335	(419,825)
	\$ 335,157	\$ 106,054

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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.