The Colorado Trust

Independent Auditor’s Report and Financial Statements

December 31, 2017 and 2016

The Colorado Trust
December 31, 2017 and 2016

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BKD LLP
CPAs & Advisors

1801 California Street, Suite 2900 // Denver, CO 80202-2606
303.861.4545 // fax 303.832.5705 // bkd.com

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, 2017 and 2016, 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, 2017 and 2016, 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, 2018

The Colorado Trust

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 2,603,890	$ 1,403,657
Investments	505,614,202	451,195,725
Interest receivable	235,009	-
Excise tax receivable	48,882	184,460
Program related investment	2,442,400	1,750,000
Property and equipment, net	303,758	275,812
Investments held under deferred compensation agreements	201,584	467,671
Other assets	38,902	23,964
Total assets	$ 511,488,627	$ 455,301,289
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 471,564	$ 242,103
Grants payable	8,753,429	12,354,286
Deferred excise tax payable	1,549,894	819,891
Deferred gain on sale - leaseback	2,516,819	2,766,419
Deferred compensation	201,584	467,671
Total liabilities	13,493,290	16,650,370
Net Assets		
Unrestricted	497,995,337	438,650,919
Total liabilities and net assets	$ 511,488,627	$ 455,301,289

The Colorado Trust

Statements of Activities

Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted Revenue, Gains (Losses) and Other Support		
Interest and dividend income	$ 1,979,183	$ 3,812,787
Net realized and unrealized gains on investments	70,909,906	28,396,116
Income from real estate transactions	1,505,559	1,410,079
Investment management fees	(342,063)	(353,176)
Total unrestricted revenue, gains (losses) and other support	74,052,585	33,265,806
Expenses		
Program services		
Health Policy	2,134,792	9,091,453
Health Data	2,249,303	2,084,686
Community Partnerships	3,375,507	4,758,251
Grants to Churches	1,000,552	1,074,002
Health and Well Being		
Other grant programs	3,125,506	1,845,596
Total program services expenses	11,885,660	18,853,988
Supporting services		
Management and general	1,961,068	1,880,334
Excise tax expense	861,439	335,157
Total supporting services expenses	2,822,507	2,215,491
Total expenses	14,708,167	21,069,479
Change in Net Assets	59,344,418	12,196,327
Net Assets, Beginning of Year	438,650,919	426,454,592
Net Assets, End of Year	$ 497,995,337	$ 438,650,919

The Colorado Trust

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	$ 59,344,418	$ 12,196,327
Items not requiring (providing) cash		
Depreciation expense	116,063	133,234
Recognition of deferred gain	(249,600)	(249,600)
Deferred excise tax expense	730,003	126,335
Net realized and unrealized gain on investments	(70,909,906)	(28,396,116)
Change in operating assets		
Other assets	251,149	(58,922)
Change in operating liabilities		
Accounts payable and accrued expenses	229,461	86,744
Other accrued liabilities	(266,087)	58,915
Grants payable	(3,600,857)	3,013,567
Interest tax receivable	(235,009)	-
Excise tax receivable	135,578	(96,620)
Net cash used in operating activities	(14,454,787)	(13,186,136)
Investing Activities		
Purchase of property and equipment	(144,009)	(75,634)
Proceeds from sale of investments	143,367,267	55,251,330
Purchases of investments	(126,875,838)	(43,008,414)
Program-related loan	(1,000,000)	(950,000)
Proceeds from program-related loans	307,600	-
Net cash provided by investing activities	15,655,020	11,217,282
Increase (Decrease) in Cash and Cash Equivalents	1,200,233	(1,968,854)
Cash and Cash Equivalents, Beginning of Year	1,403,657	3,372,511
Cash and Cash Equivalents, End of Year	$ 2,603,890	$ 1,403,657

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, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2017, the Trust's cash held in its operating account and its investment accounts exceeded federally insured limits by approximately $779,000 and $1,797,000, 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.

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, 2017 and 2016, 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 2017 and 2016.

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:

2018	$ 3,958,360
2019	1,702,927
2020	899,121
2021	926,095
2022	953,878
2023	982,494
Less present value of payments scheduled after 2017	(669,446)
	$ 8,753,429

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:

	2017	2016
Domestic equities	$ 130,510,376	$ 107,608,499
International equities	136,779,436	105,699,649
Fixed income funds	84,157,262	84,585,850
Private equity	56,276,346	38,148,683
Hedge funds/multi-strategy	53,887,795	73,467,196
Real estate	44,002,987	41,685,848
Total investments	$ 505,614,202	$ 451,195,725

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, 2017, the total committed was $92,750,000 of which $37,031,638 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, 2017, 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 $21,308,507 have lock-up periods expiring through 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.

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.

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, 2017 and 2016:

	2017			
		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	$ 48,736,736	$ 48,736,736	$ -	$ -
Fixed income funds	69,453,902	53,941,741	15,512,161	-
Hedge funds/multi-strategy	16,413,977	16,413,977	-	-
	134,604,615	$ 119,092,454	$ 15,512,161	$ -
Alternative investments measured at net asset value per share (A)				
Domestic equities	130,510,376			
International equities	88,042,700			
Fixed income funds	14,703,360			
Private equity	56,276,346			
Hedge funds/multi-strategy	37,473,818			
Real estate	44,002,987			
Total investments	$ 505,614,202			

	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	$ 115,829,577	$ 14,382,652	$ -
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			
Total investments	$ 451,195,725			

(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

The Trust issued a note receivable to various entities as a program-related investment. The balance of program related investments at December 31, 2017 and 2016 are comprised of the following:

Terms	2017	2016
Interest at 2.50%, due annually beginning November 2016, with total principal due at maturity in October 2024	$ 492,400	$ 800,000
Interest at 1.50% due quarterly, beginning April 2016. Principal payments due quarterly beginning April 2018, ending at maturity in December 2022	75,000	75,000
Interest at 2.00% due quarterly beginning June 2016. Prinicipal payments due quarterly beginning December 2019, ending at maturity in December 2024	875,000	875,000
Interest at 3.00% due monthly beginning February 2018. Principal payments due quarterly beginning February 2018, ending at maturity in January 2025	1,000,000	-
	$ 2,442,400	$ 1,750,000

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:

	2017	2016
Projects in process	$ 34,703	$ 27,342
Building improvements	51,753	59,979
Machinery and equipment	719,155	879,630
Furniture and fixtures	333,167	374,600
	1,138,778	1,341,551
Less accumulated depreciation	(835,020)	(1,065,739)
Property and equipment, net	$ 303,758	$ 275,812

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 2017 and 2016 was $631,797 and $616,656, respectively. Rent expense includes rent escalation for property maintenance of $168,886 and $173,279 for 2017 and 2016, 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:

2018	$ 510,988
2019	519,883
2020	529,007
2021	538,359
2022	547,730
2023-2029	2,925,836
	$ 5,571,803

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, 2017 and 2016, the assets and related liabilities of the Section 457(b) deferred compensation plan were recorded at the fair market values of $201,584 and $467,671, respectively.

Note 10: Agreements with Dioceses/Churches

The Episcopal Dioceses of Colorado (the Dioceses) and the Presbytery of Denver (the Churches) are beneficiaries of a 1985 agreement between the Trust and the PSL Healthcare Corporation. The agreement, which was subsequently amended in 1989 to clarify its provisions, requires distribution to each organization equal to 5% of the total grant expenditures each year, excluding amounts paid to the organizations. Distributions to each organization in 2017 based on grant expenditures paid in 2016 were $537,001, for a total of $1,074,002. Included in grants payable at December 31, 2017 is $1,000,552, representing the payments due to the organizations in 2018 for grant expenditures paid in 2017.

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 $362,035 and $314,951 in 2017 and 2016, 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 $1,549,894 at December 31, 2017 and $819,891 at December 31, 2016. The current provision for federal excise taxes are provided for at 1% for the years ended December 31, 2017 and 2016, 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:

	2017	2016
Current excise tax expense	$ 131,436	$ 208,822
Deferred excise tax expense	730,003	126,335
	$ 861,439	$ 335,157

Note 13: Subsequent Events

Subsequent events have been evaluated through May 30, 2018, which is the date the financial statements were available to be issued.