Gill Foundation

Consolidated Financial Statements

December 31, 2008 and 2007

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

Board of Directors
Gill Foundation:

We have audited the accompanying consolidated statements of financial position of the Gill Foundation as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gill Foundation as of December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Kundinger, Corder & Engle, P.C.

May 29, 2009

Gill Foundation

Consolidated Statements of Financial Position

December 31, 2008 and 2007

	2008	2007
Assets:		
Cash and cash equivalents	$ 14,685,757	27,695,772
Receivables:		
Contribution receivable	24,975	-
Due from Gill Action Fund (note 8)	241,040	37,086
Other	10,252	-
Investments (notes 2 and 7)	204,369,161	274,063,065
Prepaid expenses and other assets	79,252	51,262
Property and equipment:		
Land	2,411,406	1,561,678
Land improvements	219,676	219,676
Buildings	4,448,713	4,448,713
Building improvements	1,670,603	1,096,129
Equipment	360,552	526,803
Furniture and fixtures	445,761	394,357
Construction in progress	146,823	-
	9,703,534	8,247,356
Accumulated depreciation	(1,668,846)	(1,597,299)
Property and equipment, net	8,034,688	6,650,057
Total Assets	$ 227,445,125	308,497,242
Liabilities and Net Assets:		
Accounts payable and accrued liabilities	$ 404,250	374,018
Grants payable (note 4)	1,133,475	1,459,420
Deferred revenue	12,000	-
Deferred excise taxes payable (note 5)	93,138	1,681,179
Total Liabilities	1,642,863	3,514,617
Net assets - Unrestricted	225,802,262	304,982,625
Commitments (notes 3, 4 and 6)		
Total Liabilities and Net Assets	$ 227,445,125	308,497,242

See accompanying notes to consolidated financial statements.

Gill Foundation

Consolidated Statements of Activities

Years Ended December 31, 2008 and 2007

		2008	2007
Revenues, Gains and Support:			
Contributions:	$		
General		10,100,485	1,912,102
Movement Advancement Project		795,555	803,339
Program fees		-	164,324
Rental income (note 8)		34,343	29,412
Interest and dividend income		4,044,953	4,955,352
Net realized and unrealized gain (loss) on investments		(77,616,070)	35,189,538
Gain (loss) on disposal of assets		295	(2,599)
Miscellaneous income		41,152	-
Investment management fees		(1,017,319)	(2,127,460)
Provision for excise and income taxes		1,344,858	(707,581)
Total revenues, gains and support		(62,271,748)	40,216,427
Expenses:			
Program services:			
Grant appropriations		10,025,683	10,071,574
Grant administration		1,905,277	1,849,083
Public education and outreach		2,318,777	2,863,768
Movement Advancement Project		1,004,140	905,474
Research		85,395	575,751
Total program services		15,339,272	16,265,650
Supporting services:			
Management and general		1,396,185	997,019
Communications		173,158	130,245
Total supporting services		1,569,343	1,127,264
Total expenses		16,908,615	17,392,914
Change in net assets		(79,180,363)	22,823,513
Net assets at beginning of year		304,982,625	282,159,112
Net assets at end of year	$	225,802,262	304,982,625

See accompanying notes to consolidated financial statements.

Gill Foundation

Consolidated Statements of Cash Flows

Years Ended December 31, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(79,180,363)	22,823,513
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation		291,546	303,494
Net realized and unrealized (gain) loss on investments		77,616,070	(35,189,538)
Deferred excise taxes payable		(1,588,041)	350,287
(Gain) loss on disposal of assets		(295)	2,599
(Increase) decrease in operating assets:			
Prepaid expenses and other assets		(27,990)	120,680
Contributions receivable		(24,975)	-
Other receivables		(10,252)	-
Due from Gill Action Fund		(203,954)	40,629
Increase (decrease) in operating liabilities:			
Accounts payable and accrued liabilities		30,232	(186,762)
Grants payable		(325,945)	510,720
Excise and income taxes payable		-	(1,680,460)
Deferred revenue		12,000	-
Net cash used in operating activities		(3,411,967)	(12,904,838)
Cash flows from investing activites:			
Purchases of investments		(25,626,244)	(25,968,014)
Proceeds from sales of investments		17,704,078	32,415,118
Purchase of property and equipment		(1,675,882)	(107,822)
Net cash provided by (used in) investing activities		(9,598,048)	6,339,282
Net change in cash and cash equivalents		(13,010,015)	(6,565,556)
Cash and cash equivalents, beginning of year		27,695,772	34,261,328
Cash and cash equivalents, end of year	$	14,685,757	27,695,772

Additional cash payment information:			
Excise taxes paid	$	166,495	1,088,544
Income taxes paid	$	65,000	1,394,215

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The Gill Foundation (the "Foundation") was established in 1994, by Timothy E. Gill, as a private foundation under section 509(a) of the Internal Revenue Code. The Foundation's mission is to secure equal opportunity for all people, regardless of sexual orientation or gender identity. The mission is accomplished by providing grants to nonprofit organizations, strengthening the leadership and managerial skills of nonprofit leaders, increasing financial resources to nonprofit organizations, strengthening democratic institutions, and building awareness of the contributions people of diverse sexual orientations and gender identities make to American society. The Foundation has established four approaches for achieving its mission: grant making, strategic giving, capacity building and research. The Foundation established the Gill Operating Foundation (the "Operating Foundation") in 1999 to carry out strategic giving and voter education initiatives.

Under IRS rules, the Foundation is required to annually distribute, on a cash basis, no less than 5% of its net investment assets in connection with its charitable purposes.

(b) Financial Statement Presentation

Reporting Entity
The accompanying financial statements include the accounts of the Gill Operating Foundation. The Operating Foundation has a common governing board and is classified as a private operating foundation as described in section 4942(j)(3) of the Internal Revenue Code. The Operating Foundation formed the North Dakota LLC for the purpose of purchasing and holding land in Colorado Springs, Colorado. The Operating Foundation is the sole member of the LLC; accordingly, all of the accounts and activity of the LLC will be included in the consolidated financial statements.

Basis of Accounting
The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation
Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. All net assets are unrestricted at December 31, 2008.

(1) Summary of Significant Accounting Policies, Continued

(c) Contributions

The Foundation accounts for contributions in accordance with the requirements of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made.* In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Contributions restricted to the Movement Advancement Project have been treated in this manner because expenditures during the year exceeded contribution revenue. There were no other donor restricted contributions during 2007 or 2008.

(d) Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Contributions receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. General contributions receivable at December 31, 2008 consist of the balance due on a contribution from one donor. The balance was received subsequent to year end and was restricted for 2008 Movement Advancement Project expenses.

(e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an original maturity of three months or less, and which are not held as part of an investment portfolio, to be cash equivalents.

(f) Fair Value Measurements

Beginning in 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements.* SFAS No. 157 requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1), inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2), and unobservable inputs from the asset or liability (Level 3).

(1) Summary of Significant Accounting Policies, Continued

(g) Investments

The Foundation's investment assets, which include private and publicly held investments, are dedicated to providing the financial resources needed to meet the Foundation's grant making and other charitable objectives. The Foundation'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 money market funds.

The market values for alternative investments represent the Foundation's pro-rata interest in the net assets of each investment and are based on financial information determined and reported by investment managers or on the basis of other information evaluated periodically by management. Alternative investments are not publicly traded on national security markets exchanges, are generally illiquid and may be valued differently than if readily available markets existed for such investments. Because of inherent uncertainties of valuation of alternative investments, the reported market values of such investments may differ significantly from realizable values.

Investment income consists of the Foundation's distributive share of any interest, dividends, capital gains and capital losses generated from the Foundation's investments. Distributive shares of income or loss from "pass-through" entities such as partnerships are recorded as income in the year such items are recognized by the entity and are reported as adjustments to the initial cost basis of the investment. Gains and losses attributable to the Foundation's investments are realized and reported upon a sale or disposition of the investment. Unrealized gains and losses are included in the change in net assets in the statement of activities.

(h) Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and temporary investments not insured by the FDIC and investments in alternative investments. The Foundation places its cash and temporary investments with creditworthy, high quality financial institutions. Investments are managed by professional investment management firms and are monitored by the board of directors and an investment advisor engaged by the Foundation. At December 31, 2008, essentially all of the Foundation's investments were in alternative investments.

(1) Summary of Significant Accounting Policies, Continued

(i) Property and Equipment

Property and equipment is stated at cost. The Foundation capitalizes all expenditures for property and equipment in excess of $5,000 and with a useful life exceeding one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 40 years. At December 31, 2008, the Foundation is in the process of developing an internal data base to be used in conjunction with the Foundation's exempt activities. Costs incurred in 2008 were $146,823 and are reflected as construction in progress in the accompanying financial statements.

(j) Grants Payable

Grants authorized but unpaid at year-end are reported as liabilities in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. At December 31, 2008, all authorized grants are scheduled for payment within one year.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the appropriate programs and supporting services benefited.

(m) Excise and Income Taxes

The Foundation and the Operating Foundation have been classified as private foundations pursuant to Section 501(c)(3) of the Internal Revenue 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 expenditures exceed certain minimum amounts. Certain investments of the Foundation generate unrelated business income. This income is taxed at the corporate rate.

(2) Investments

Marketable and private alternative investments are exposed to various risks that may cause the reported value of the Foundation's investment assets to fluctuate from period to period and result in a material change to the net assets of the Foundation. Investments in equity securities fluctuate in value in response to many factors such as the activities and financial condition of individual companies, business and industry market conditions and the general economic environment. Some investment managers retained by the Foundation are permitted to use various investment strategies and techniques that are designed to achieve higher investment returns with lower volatility and low correlations to major market indices and other asset classes. Strategies and techniques, such as the use of leverage, futures and forward contracts, option agreements, and other derivative instruments, create special risks and could increase the impact of adverse security price movements on the Foundation's investment portfolio.

Investments are stated at fair market value and are comprised of the following at December 31:

Asset Class	2008	2007
Small cap	$ 9,462,920	18,873,848
Large cap	19,231,806	28,485,501
International	71,880,127	96,660,890
Absolute return	60,426,199	84,769,095
Private equity	40,332,670	45,078,817
Common stock	147,610	161,700
Cash equivalents	2,853,653	-
Money market funds	34,176	33,214
Total investments	$ 204,369,161	274,063,065

(3) Employee Benefit Plans

The Foundation has a defined contribution retirement plan which covers substantially all employees satisfying the length of service requirement of three months and 21 years of age. The retirement plan is funded on a current basis. Contributions are matched by the Foundation dollar for dollar up to the first 10% of employee compensation. Contributions to the plan were $132,781 and $70,537 in 2008 and 2007, respectively.

(4) Grants Payable

Unconditional grants totaling $1,133,475 have been approved but not paid at December 31, 2008. These grants are scheduled for payment in 2009 and are reflected as liabilities in the accompanying financial statements. In addition, the Foundation has approved grants totaling $691,726 that are subject to the satisfaction of specific conditions by the intended recipients before payment. These grants are not recorded in the accompanying financial statements because the conditions have not been met.

(5) Excise and Income Tax

Deferred taxes are recognized in the financial statements for the excise tax on the unrealized gains on investments. The provision for deferred excise taxes payable at December 31, 2008 and 2007 was $93,138 and $1,681,179, respectively.

Excise and income tax expense consists of the following at December 31:

	2008	2007
Deferred excise tax expense	$ (1,588,041)	353,900
Current year excise and income tax expense	243,183	480,686
Refund of unrelated business income tax	-	(127,005)
	$ (1,344,858)	707,581

(6) Commitments

At December 31, 2008, the Foundation had commitments to provide additional investment in certain limited partnerships, if requested, in an amount up to $12,694,189.

(7) Fair Value Measurements

The carrying amount reported in the consolidated statement of financial position for cash and cash equivalents, receivables, prepaid expenses and other assets, accounts payable and accrued liabilities, grants payable, and deferred revenue approximate fair value because of the immediate or short term maturities of these financial instruments. The following methods and assumptions were used by the Foundation in estimating the fair value of its other financial instruments.

The carrying amount of deferred excise taxes payable is not discounted to present value because of the uncertainty of the timing of the payment of these taxes.

(7) Fair Value Measurements, Continued

The Foundation adopted Statement of Financial Accounting Standards No. 157, *"Fair Value Measurements"* as of January 1, 2008, which among other things requires enhanced disclosures about investments that are measured and reported at fair value. FAS 157 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include mutual funds, listed equities, listed derivatives, cash, and cash equivalents. For the Foundation, Level I consists of direct investments in equity securities and cash equivalents.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and government bonds, less liquid and restricted equity securities and certain over-the-counter derivatives. The Foundation considers money market funds to be classified as Level 2.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include limited partnership interests in private equity and real estate funds, funds of hedge funds, and distressed debt. Included in this category for the Foundation are investments made through investment vehicles such as limited partnerships and private equity funds which in turn invest in equities, hedge funds, and long funds. Investments in publicly traded equities would be classified as Level 1 if owned directly.

(7) Fair Value Measurements, Continued

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

The following table summarizes the valuation of the Foundation's investments by the above FAS 157 fair value hierarchy levels as of December 31, 2008:

	Fair Value	(Level 1)	(Level 2)	(Level 3)
Marketable securities	$ 147,610	147,610	-	-
Money market fund	34,176	-	34,176	-
Cash equivalents	2,853,653	2,853,653	-	-
Publicly traded large and small cap equities owned through limited partnerships	28,694,726	-	-	28,694,726
International equities owned through limited partnerships	71,880,127	-	-	71,880,127
Absolute return funds	60,426,199	-	-	60,426,199
Private equity	40,332,670	-	-	40,332,670
Total	$ 204,369,161	3,001,263	34,176	201,333,722

The changes in investments measured at fair value for which the Foundation has used Level 3 inputs to determine fair value are as follows:

Balance as of December 31, 2007	$ 273,868,167
Total realized and unrealized losses	(79,158,708)
Other investment income	2,494,151
Purchases	27,345,088
Distributions	(23,214,976)
Balance as of December 31, 2008	$ 201,333,722

FAS 157 also requires disclosure for Level 3 investments of the change in unrealized gain (loss) included in the change in net assets related to investments still held at the reporting date. At December 31, 2008, this was an unrealized loss of $(80,392,450).

(8) Related Party Transactions

The Foundation furnishes administrative services and personnel to the Gill Action Fund for which it is fully reimbursed. In addition, the Fund pays rent to the Foundation for space it occupies in the Foundation's building. The Fund and the Foundation shared a common board of directors throughout 2008 and 2007. During 2008 and 2007, the Foundation billed the fund for facilities, services and personnel totaling $405,326 and $198,087, respectively. At December 31, 2008, $241,040 is due to the Foundation from the Fund for unreimbursed expenses.