

**Colorado Cattlemen's Agricultural Land Trust**

**Financial Statements**

**December 31, 2016 and 2015**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder & Engle, P.C.*

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*Certified Public Accountants*

## **Independent Auditor's Report**

### **Board of Directors**

#### **Colorado Cattlemen's Agricultural Land Trust:**

We have audited the accompanying financial statements of Colorado Cattlemen's Agricultural Land Trust (the Land 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  
Colorado Cattlemen's Agricultural Land Trust

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Colorado Cattlemen's Agricultural Land 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.

*Kundinger, Cochrane & Gogle, P.C.*

March 1, 2017

**Colorado Cattlemen's Agricultural Land Trust**  
**Statements of Financial Position**  
**December 31, 2016 and 2015**

	2016	2015
<b>Assets:</b>		
Cash and cash equivalents	\$ 626,126	946,174
Accounts receivable	53,126	36,921
Grants receivable	44,361	25,000
Contributions receivable, net (note 2)	137,831	152,024
Prepaid expenses	11,696	10,128
Loans receivable (note 9)	108,413	43,265
Investments (notes 3 and 4)	3,942,033	3,688,910
Property and equipment, net (note 5)	23,108	31,539
Total assets	\$ 4,946,694	4,933,961
<b>Liabilities and Net Assets:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 33,211	41,061
Accrued liabilities	28,036	53,699
Deferred revenue (note 6)	23,394	356,810
Total liabilities	84,641	451,570
<b>Net assets (note 9):</b>		
Unrestricted	376,321	362,319
Temporarily restricted	635,818	542,359
Permanently restricted	3,849,914	3,577,713
Total net assets	4,862,053	4,482,391
Commitments (notes 7, 8, and 11)		
Total liabilities and net assets	\$ 4,946,694	4,933,961

The accompanying notes are an integral part of these financial statements.

# Colorado Cattlemen's Agricultural Land Trust

## Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue:</b>				
General contributions	\$ 193,477	132,216	136,681	462,374
General operating grants	65,358	-	-	65,358
Grants for the purchase of conservation easements:				
Federal	1,500,000	-	-	1,500,000
Non-federal	2,726,837	-	-	2,726,837
Contributions of conservation easements	12,424,713	-	-	12,424,713
Special events revenue	153,768	-	-	153,768
Less cost of direct benefits to donors	(27,513)	-	-	(27,513)
Service fee income	200,862	-	-	200,862
Investment return, net (note 3)	1,567	37,337	290,520	329,424
Net assets released from restrictions (note 9)	231,094	(76,094)	(155,000)	-
<b>Total support and revenue</b>	<b>17,470,163</b>	<b>93,459</b>	<b>272,201</b>	<b>17,835,823</b>
<b>Expenses:</b>				
Conservation easements	16,666,550	-	-	16,666,550
Salaries	445,852	-	-	445,852
Payroll taxes	41,208	-	-	41,208
Employee benefits	35,728	-	-	35,728
Project and stewardship expenses	32,941	-	-	32,941
Professional fees	29,775	-	-	29,775
Office expenses	26,828	-	-	26,828
Insurance	25,269	-	-	25,269
Printing	23,136	-	-	23,136
Travel and meals	22,904	-	-	22,904
Rent	21,116	-	-	21,116
Marketing expenses	19,157	-	-	19,157
Grants for conservation	15,605	-	-	15,605
Training and meetings	15,578	-	-	15,578
Telephone	11,246	-	-	11,246
Depreciation	8,431	-	-	8,431
Dues and subscriptions	6,247	-	-	6,247
Miscellaneous expenses	4,563	-	-	4,563
Certification/accreditation	4,027	-	-	4,027
<b>Total expenses</b>	<b>17,456,161</b>	<b>-</b>	<b>-</b>	<b>17,456,161</b>
<b>Change in net assets</b>	<b>14,002</b>	<b>93,459</b>	<b>272,201</b>	<b>379,662</b>
<b>Net assets at beginning of year</b>	<b>362,319</b>	<b>542,359</b>	<b>3,577,713</b>	<b>4,482,391</b>
<b>Net assets at end of year</b>	<b>\$ 376,321</b>	<b>635,818</b>	<b>3,849,914</b>	<b>4,862,053</b>

The accompanying notes are an integral part of these financial statements.

# Colorado Cattlemen's Agricultural Land Trust

## Statement of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue:</b>				
General contributions	\$ 148,118	93,903	177,988	420,009
General operating grants	97,442	-	-	97,442
Grants for the purchase of conservation easements:				
Federal	715,000	-	-	715,000
Non-federal	710,175	-	-	710,175
Contributions of conservation easements	8,436,325	-	-	8,436,325
Special events revenue	188,024	-	-	188,024
Less cost of direct benefits to donors	(58,256)	-	-	(58,256)
Service fee income	121,042	-	-	121,042
Investment return, net (note 3)	2,891	(7,732)	(99,760)	(104,601)
Miscellaneous income	59	-	-	59
Net assets released from restrictions (note 9)	331,136	(138,136)	(193,000)	-
Total support and revenue	<u>10,691,956</u>	<u>(51,965)</u>	<u>(114,772)</u>	<u>10,525,219</u>
<b>Expenses:</b>				
Conservation easements	9,911,500	-	-	9,911,500
Salaries	486,189	-	-	486,189
Project and stewardship expenses	70,544	-	-	70,544
Marketing Expenses	67,974	-	-	67,974
Grants for conservation	55,916	-	-	55,916
Payroll taxes	39,709	-	-	39,709
Travel and meals	36,269	-	-	36,269
Employee benefits	36,176	-	-	36,176
Office expenses	33,900	-	-	33,900
Professional fees	26,222	-	-	26,222
Insurance	23,775	-	-	23,775
Printing	21,855	-	-	21,855
Rent	21,153	-	-	21,153
Training and meetings	17,683	-	-	17,683
Telephone	11,554	-	-	11,554
Depreciation	10,878	-	-	10,878
Miscellaneous expense	9,337	-	-	9,337
Dues and subscriptions	6,394	-	-	6,394
Certification/accreditation	3,634	-	-	3,634
Total expenses	<u>10,890,662</u>	<u>-</u>	<u>-</u>	<u>10,890,662</u>
<b>Change in net assets</b>	<b>(198,706)</b>	<b>(51,965)</b>	<b>(114,772)</b>	<b>(365,443)</b>
<b>Net assets at beginning of year</b>	<b>561,025</b>	<b>594,324</b>	<b>3,692,485</b>	<b>4,847,834</b>
<b>Net assets at end of year</b>	<b>\$ 362,319</b>	<b>542,359</b>	<b>3,577,713</b>	<b>4,482,391</b>

The accompanying notes are an integral part of these financial statements.

# Colorado Cattlemen's Agricultural Land Trust

## Statements of Cash Flows

Years ended December 31, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 379,662	(365,443)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,431	10,878
Amortization of discount on contributions receivable	(4,208)	10,381
Contributions restricted for long-term purposes	(136,681)	(177,988)
Investment income on contributions restricted for long-term purposes	(63,056)	(70,128)
Net realized and unrealized (gains) losses on investments	(251,536)	189,287
Decrease (increase) in operating assets:		
Accounts receivable	(16,205)	(572)
Grants receivable	(19,361)	(15,000)
Contributions receivable	18,401	(99,690)
Prepaid expenses	(1,568)	(6,071)
Increase (decrease) in operating liabilities:		
Accounts payable	(7,850)	21,044
Accrued liabilities	(25,663)	13,816
Deferred revenue	(333,416)	(12,080)
Net cash used in operating activities	(453,050)	(501,566)
<b>Cash flows from investing activities:</b>		
Loan disbursements, net of loan repayments	(65,148)	(14,251)
Net sales (purchases) of investments	(1,587)	44,257
Purchases of property and equipment	-	(10,165)
Net cash provided by (used in) investing activities	(66,735)	19,841
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term purposes	136,681	177,988
Investment income on contributions restricted for long-term purposes	63,056	70,128
Net cash provided by financing activities	199,737	248,116
<b>Net change in cash and cash equivalents</b>	(320,048)	(233,609)
<b>Cash and cash equivalents, beginning of year</b>	946,174	1,179,783
<b>Cash and cash equivalents, end of year</b>	\$ 626,126	946,174

The accompanying notes are an integral part of these financial statements.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements

Year Ended December 31, 2016

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### (1) Summary of Significant Accounting Policies

#### (a) Organization

Colorado Cattlemen's Agricultural Land Trust (the Land Trust) was established in 1995 to protect Colorado's agricultural land, heritage and families for future generations by conserving working rural landscapes. Support for the Land Trust's activities comes from individual donor contributions, and private and government grants.

#### (b) Basis of Accounting

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

#### (c) Financial Statement Presentation

The Land Trust is required to present information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

#### (d) Cash and Cash Equivalents

The Land Trust considers all highly liquid investments with an initial maturity of three months or less, and which are not held by investment managers as part of an investment portfolio, to be cash equivalents.

#### (e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Donor restricted contributions, including pledges, whose restrictions are not met within the same year as received are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (f) Contributions Receivable

Unconditional contributions receivable are recognized as revenue when 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. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

#### (g) Accounts Receivable

Accounts receivable consist of amounts due from landowners for reimbursable costs generated from easement closings. Management uses the allowance method to determine uncollectible amounts. The allowance is based on prior years' experience and management's analysis of subsequent collections. At December 31, 2016, management believes that all accounts are collectible. Accordingly, there is no allowance for uncollectible amounts.

#### (h) Loans Receivable

Loans receivable are reported at their net realizable value. At December 31, 2016, management has evaluated all outstanding loans and believes that all loans are collectible. Accordingly, there is no allowance for uncollectible amounts. Loans receivable are more fully discussed in note 9.

#### (i) Conservation Easements

The Land Trust receives gifts of conservation easements and grants toward the purchase of conservation easements. The easements contain numerous restrictions over the use and development of land, which is not owned by the Land Trust. The value of donated conservation easements is based on the appraised value as determined by an independent appraiser. Easements are recorded as revenue when they are received and an expense is recorded for an equal amount whether the easement is held by the Land Trust or transferred to an eligible entity. Grants received for the purchase of conservation easements are recorded as revenue and as a conservation easement expense when the easement is purchased. The Land Trust monitors activities on the land and enforces restrictions contained in both donated and purchased conservation easements. The value of the easements is not reflected in the statement of financial position because the easements have no economic value to the Land Trust.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (j) Investments

Investments are recorded at fair value. Fair value is determined as more fully described in note 4. Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based upon quoted prices in active markets. Management is responsible for the fair value measurement of investments reported in the financial statements and believes that the reported values are reasonable.

Investment return consists of the Land Trust's distributive share of any interest, dividends, capital gains and losses generated from investments, as well as the change in fair value of the investments. Gains and losses attributable to 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.

#### (k) Concentrations of Credit Risk

Financial instruments which potentially subject the Land Trust to concentrations of credit risk consist of cash and cash equivalents, investments, and contributions and grants receivable. The Land Trust places its cash and cash equivalents with creditworthy, high quality financial institutions. At times during the year, a portion of the Land Trust's cash deposits may not be insured by the FDIC or related entity.

The Land Trust has significant investments in stocks, bonds, mutual funds and money market accounts and is therefore subject to concentrations of credit risk. Investments are made and monitored by the management of the Land Trust pursuant to an investment policy established by the Board of Directors. Though the market values of investments are subject to fluctuation on a year-to-year basis, management believes that the investment policy is prudent for the long-term welfare of the Land Trust.

Credit risk with respect to contributions and grants receivable is limited due to the credit worthiness of the entities that comprise the contributor base.

The Land Trust receives a significant amount of support from the U.S. Department of Agriculture, and is reliant on tax incentives provided at the state level for landowners. The Land Trust is also dependent on the services of qualified appraisers in order to complete conservation easement transactions. A decrease in grants from the Department of Agriculture, a change in the current state tax incentives, or changes to regulation of appraisers could all have an adverse impact on the Land Trust's operations.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(l) Property and Equipment**

Property and equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from five to seven years. The Land Trust capitalizes all property and equipment with a useful life of more than one year and a cost greater than or equal to \$2,500.

#### **(m) 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 disclosures 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.

#### **(n) Revenue Recognition**

The Land Trust does not record grants committed to the purchase of conservation easements and completion of conservation projects until the easements are purchased or projects completed. Cash received under these grants is reported as deferred revenue until the conservation easement project is complete. Revenue from services provided by the Land Trust in connection with a conservation easement project is recognized when the service is completed.

#### **(o) Donated Goods and Services**

Donated conservation easements are recorded at fair value as discussed in note 1(i). Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation, or capitalized if they meet the capitalization criteria. Donated auction items are recorded at the cash sales price at the time of sale and included in special event revenue.

Many individuals volunteer their time and perform a variety of tasks that assist the Land Trust in its programs and general operations. These services are not recognized in the financial statements because they do not meet the criteria for recognition under generally accepted accounting principles.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### (1) Summary of Significant Accounting Policies, Continued

#### (p) Allocation of Expenses

The Land Trust charges directly identifiable expenses to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with other specific functions but provide for the overall support and direction of the Land Trust.

#### (q) Income Tax Status

The Land Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Land Trust also qualifies for the charitable contribution deduction. Income from activities not directly related to the Land Trust's tax-exempt purpose is subject to taxation as unrelated business income. The Land Trust had no unrelated business income during the year ended December 31, 2016.

Management is required to evaluate tax positions taken by the Land Trust, and to recognize a tax liability if the Land Trust has taken an uncertain position that probably would not be sustained upon examination by taxing authorities. The Land Trust believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. The Land Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Land Trust is no longer subject to income tax examinations for years prior to December 31, 2013.

#### (r) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The Land Trust's financial statements were available to be issued on March 1, 2017 and this is the date through which subsequent events were evaluated.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (2) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 99,004	92,404
One to five years	<u>45,000</u>	<u>70,000</u>
Total contributions receivable	144,004	162,404
Less discount to present value	<u>(6,173)</u>	<u>(10,380)</u>
Net contributions receivable	\$ <u>137,831</u>	<u>152,024</u>

Amounts due in the future have been discounted at their present values using a discount rate of 5%.

The Land Trust does not record grants and contributions committed to the purchase of conservation easements and completion of conservation projects until the easements are purchased or projects completed. Grants and contributions committed to future conservation easements and projects which have not been recorded at December 31, 2016, total \$13,872,953.

### (3) Investments

Investments were comprised of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 164,831	135,927
U.S. equities	805,268	687,616
Equity mutual funds	1,338,801	1,192,206
Fixed income mutual funds	519,643	508,978
Exchange-traded and closed-end funds	760,899	860,359
Corporate bonds	<u>352,591</u>	<u>303,824</u>
Total investments	\$ <u>3,942,033</u>	<u>3,688,910</u>

Investment return is summarized below:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 111,018	118,008
Net realized and unrealized gains (losses)	251,536	(189,287)
Investment management fees	<u>(33,130)</u>	<u>(33,322)</u>
Investment return, net	\$ <u>329,424</u>	<u>(104,601)</u>

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### (4) Fair Value Measurements

The Land Trust reports required types of financial instruments in accordance with fair value accounting 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. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. Fair value measurement standards also require the Land Trust to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. Instruments 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 instruments as of the reporting date. Instruments which are generally included in this category include listed equity and debt securities publicly traded on an exchange, listed derivatives, cash 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.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. 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 corporate private equity and real estate funds, funds of hedge funds, and distressed debt.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument'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 (Level 1, 2 and 3) are intended to reflect the observability of 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 observability 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 Land Trust's financial statements.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (4) Fair Value Measurements, Continued

The following table summarizes the Land Trust's investments by the above fair value hierarchy levels as of December 31, 2016:

<u>Description</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash and cash equivalents	\$ 164,831	164,831	-	-
U.S. equities	805,268	805,268	-	-
Equity mutual funds	1,338,801	1,338,801	-	-
Fixed income mutual funds	519,643	519,643	-	-
Exchange-traded and closed-end funds	760,899	760,899	-	-
Corporate bonds	<u>352,591</u>	<u>-</u>	<u>352,591</u>	<u>-</u>
Total	\$ <u>3,942,033</u>	<u>3,589,442</u>	<u>352,591</u>	<u>-</u>

The following table summarizes the Land Trust's investments by the above fair value hierarchy levels as of December 31, 2015:

<u>Description</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash and cash equivalents	\$ 135,927	135,927	-	-
U.S. equities	687,616	687,616	-	-
Equity mutual funds	1,192,206	1,192,206	-	-
Fixed income mutual funds	508,978	508,978	-	-
Exchange-traded and closed-ended funds	860,359	860,359	-	-
Corporate bonds	<u>303,824</u>	<u>-</u>	<u>303,824</u>	<u>-</u>
Total	\$ <u>3,688,910</u>	<u>3,385,086</u>	<u>303,824</u>	<u>-</u>

Level 1 assets have been valued using a market approach. Level 2 assets have been valued through the use of models or other valuation techniques. There were no changes to valuation techniques in 2016 or 2015.

### (5) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 23,430	23,430
Vehicles	<u>61,278</u>	<u>61,278</u>
	84,708	84,708
Accumulated depreciation	<u>(61,600)</u>	<u>(53,169)</u>
	\$ <u>23,108</u>	<u>31,539</u>

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### (6) Deferred Revenue

Deferred revenue consists of cash received under grants for future conservation easement projects. At December 31, 2016 and 2015, deferred revenue totals \$23,394 and \$356,810, respectively.

### (7) Line of Credit

The Land Trust has a \$50,000 overdraft protection line of credit (the "line") with a financial institution that bears interest at the greater of 6% or a variable rate of prime plus 2.5%. Interest is due monthly and the line is secured by depository accounts at the financial institution. There were no amounts outstanding on the line of credit at December 31, 2016 and December 31, 2015.

### (8) Conservation Easements

As of December 31, 2016, the Land Trust holds 299 easements covering approximately 500,689 acres in 44 counties throughout Colorado, and in parts of Wyoming and New Mexico. Conservation easements are interests in land which possess conservation value, but not economic value to the Land Trust. The Land Trust provides stewardship, on-going monitoring, and legal protection of the conservation easements.

### (9) Net Assets

#### Unrestricted

The Land Trust's Board of Directors has designated a portion of unrestricted net assets to provide funding for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Easement defense	\$ 241,165	240,388
Stewardship	127,443	127,443
Conservation and restoration	114,099	137,233
Future capital assets	35,607	31,407
Other activities	56,674	37,607
Inter-fund loan	<u>(275,000)</u>	<u>(250,000)</u>
Total board designated net assets	\$ <u>299,988</u>	<u>324,078</u>



# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (9) Net Assets, Continued

#### Temporarily restricted

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Easement defense	\$ 286,895	251,492
Conservation advancement loan fund (CALF)	193,530	188,869
Contributions receivable	54,530	61,003
Future projects	<u>100,863</u>	<u>40,995</u>
Total temporarily restricted net assets	\$ <u>635,818</u>	<u>542,359</u>

Temporarily restricted net assets were released from restriction for the following purposes:

	<u>2016</u>	<u>2015</u>
Easement defense	\$ 25,215	29,986
Program expenses	40,000	40,000
Other	<u>10,879</u>	<u>68,150</u>
	\$ <u>76,094</u>	<u>138,136</u>

The Land Trust has established a legal defense fund to help fight threats to conservation easements and interests. Donations to the legal defense fund are recorded as temporarily restricted contributions, and are released from restriction when qualifying expenses are incurred.

The Land Trust has established a conservation advancement loan fund with donor restricted contributions that provides short-term loans to landowners for conservation easement purchases. The Land Trust charges a 5% fee on draws made from the loan fund. The fee income is reinvested in the fund for future loans and included in temporarily restricted net assets. Outstanding loans, net of the allowance for doubtful accounts, totaled \$108,413 and \$43,265 at December 31, 2016 and 2015, respectively, and are included in the accompanying statement of financial position.

#### Permanently restricted endowment funds

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Land Trust has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Land Trust's permanently restricted endowment fund consists of (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (9) Net Assets, Continued

In accordance with UPMIFA, the Land Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Land Trust and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Land Trust
- The investment policies of the Land Trust

The Land Trust's endowment funds consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Stewardship Endowment Fund	\$ 2,585,582	2,348,791
Operating Endowment Fund	1,069,332	1,033,922
Ron and Kitty Boeddeker Peaks to Plains Conservation and Restoration Fund	<u>195,000</u>	<u>195,000</u>
Total permanently restricted net assets	\$ <u>3,849,914</u>	<u>3,577,713</u>

The stewardship of conservation easements includes the expenses of holding, administering, and enforcing the terms of conservation easements. When the Land Trust accepts a conservation easement, they take on the obligation to monitor and defend the easement in perpetuity. Donor restricted contributions to and investment income earned on the Stewardship Endowment Fund are recorded as permanently restricted net assets until appropriated by the Board of Directors for expenditure, at which time they are released from restriction. The Stewardship Endowment Fund provides funding for the ongoing and perpetual stewardship responsibilities accepted by the Land Trust for the conservation easements it holds.

The Operating Endowment Fund was established to provide funding for the ongoing operations of the Land Trust. Contributions to and earnings on the Operating Endowment Funds are recorded as permanently restricted net assets until appropriated by the Board of Directors for expenditure. It is intended that the balance in the Fund remain above \$1,000,000 unless specific authorization comes from a vote of two-thirds majority of the Land Trust's Board of Directors.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (9) Net Assets, Continued

The Ron and Kitty Boeddeker Peaks to Plains Conservation and Restoration Fund (the Boeddeker Fund) was established in 2014 with a donor restricted contribution of \$250,000. The purpose of the Fund is to assist ranch families in placing conservation easements on their property. Contributions to and earnings on the Boeddeker Fund are recorded as permanently restricted net assets until appropriated by the Board of Directors for expenditure.

Following are the changes in endowment net assets:

Endowment net assets, December 31, 2014	\$ 3,692,485
Investment return:	
Investment income, net of fees	70,128
Net realized and unrealized loss	<u>(169,888)</u>
Total investment return	(99,760)
Contributions to endowment	177,988
Appropriated for expenditure	<u>(193,000)</u>
Endowment net assets, December 31, 2015	3,577,713
Investment return:	
Investment income, net of fees	63,056
Net realized and unrealized loss	<u>227,464</u>
Total investment return	290,520
Contributions to endowment	136,681
Appropriated for expenditure	<u>(155,000)</u>
Endowment net assets, December 31, 2016	\$ <u>3,849,914</u>

#### Return Objectives, Strategies, and Risk Parameters

The Land Trust has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution while growing the funds. The Land Trust expects its endowment assets to produce an average rate of return sufficient to meet the distribution policies of the endowment funds. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

### (9) Net Assets, Continued

#### Distribution Policy and How the Investment Objectives Relate to the Distribution Policy

The Land Trust adopted a policy that provides for distributions from the Stewardship Endowment Fund. According to the policy, distributions must be approved by the Board of Directors and shall be no greater than 6% of asset values as determined on a rolling three-year average. In order to maximize investment return, no more than 50% of the approved distribution may be transferred during a single month. In establishing this policy, the Land Trust considered the long-term expected return on its investment assets, the nature and duration of the endowment fund, and the possible effect of inflation. The Land Trust expects the current distribution policy to grow its endowment funds at a rate consistent with the objectives of maintaining the purchasing power of the endowment assets as well as providing additional real growth through new gifts and investment returns, while minimizing risk. During 2016 and 2015, distributions totaling \$110,000 and \$98,000 were made from the fund, respectively.

The Land Trust adopted a policy that provides for distributions from the Operating Endowment Fund. The distribution policy requires the annual distribution to be approved by the Board of Directors and shall be within the range of 4-6% of asset values as determined on a rolling three-year average. During 2016 and 2015, the Board of Directors elected a 4% distribution percentage and, as a result, withdrawals of \$45,000 and \$40,000, respectively, were made to fund operations.

The donor agreement for the Ron and Kitty Boeddeker Peaks to Plains Conservation and Restoration Fund allows the spending of principal and earnings for the specified uses of the Fund. The Land Trust is required to replenish the Fund through mitigation payments and additional charitable contributions, with the understanding that the Fund balance will be at least \$100,000 at the end of each year. No withdrawals were made from the Fund in 2016. During 2015, withdrawals totaling \$55,000 were made to fund conservation easement transaction costs and an easement purchase.

### (10) Functional Classification of Expenses

Expenses by function were as follows for the year ended December 31:

	<u>2016</u>	<u>2015</u>
Program services:		
Conservation easements	\$ 16,666,550	9,911,500
Other conservation expenses	<u>335,844</u>	<u>497,337</u>
Total program services	17,002,394	10,408,837
Management and general	340,953	403,488
Fundraising	<u>112,814</u>	<u>78,337</u>
Total expenses	\$ <u>17,456,161</u>	<u>10,890,662</u>

# Colorado Cattlemen's Agricultural Land Trust

## Notes to Financial Statements, Continued

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### **(11) Employee Benefit Plan**

The Land Trust maintains a tax deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees of the Land Trust. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code. The employer makes matching contributions of 1% of participating employees' salaries. Employer contributions to the Plan were \$2,668 and \$3,055 in 2016 and 2015, respectively.

### **(12) Related Party Transactions**

Due to the nature of the entity, the Land Trust may purchase and hold conservation easements on land owned by related parties, or receive donations of conservation easements from related parties. The Land Trust has a conflict of interest policy in place which requires full disclosure to the Board of Directors prior to executing transactions with related parties. Related parties are required to refrain from any discussion and decision making regarding these transactions.