

Colorado Cattlemen's Agricultural Land Trust

**Financial Statements
December 31, 2018 and 2017**

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Independent Auditor's Report

Board of Directors Colorado Cattlemen's Agricultural Land Trust:

Report on the Financial Statements

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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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.

Emphasis of Matters

As discussed in note 1(t), the Land Trust adopted the Financial Accounting Standard Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively for all periods presented. Our opinion is not modified with respect to this matter.

Kundinger, Corder & Engle, P.C.

February 15, 2019

Colorado Cattlemen's Agricultural Land Trust
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 779,750	1,124,988
Accounts receivable	12,750	20,510
Contributions receivable, net (note 3)	46,395	64,429
Prepaid expenses	9,243	13,858
Loans receivable (note 10)	9,887	42,968
Investments (notes 4 and 5)	4,429,898	4,598,289
Property and equipment, net (note 6)	46,638	17,237
Total assets	\$ 5,334,561	5,882,279
Liabilities and Net Assets:		
Liabilities:		
Accounts payable	\$ 18,783	10,898
Accrued liabilities	73,073	31,787
Deferred revenue (note 7)	34,460	400,000
Total liabilities	126,316	442,685
Net assets (note 10):		
Without donor restrictions	467,521	395,273
With donor restrictions	4,740,724	5,044,321
Total net assets	5,208,245	5,439,594
Commitments (notes 8, 9, and 11)		
Total liabilities and net assets	\$ 5,334,561	5,882,279

See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
Support and revenue:			
General contributions	\$ 254,042	302,567	556,609
General operating grants	33,500	–	33,500
Grants for the purchase of conservation easements:			
Federal	600,000	–	600,000
Non-federal	4,600,500	–	4,600,500
Contributions of conservation easements	8,830,500	–	8,830,500
Special events revenue	204,515	–	204,515
Less cost of direct benefits to donors	(52,774)	–	(52,774)
Service fee income	200,532	–	200,532
Miscellaneous income	42,171	–	42,171
Net assets released from restrictions (note 10)	375,756	(375,756)	–
Total support and revenue	15,088,742	(73,189)	15,015,553
Expenses:			
Program services:			
Conservation easements	14,061,000	–	14,061,000
Other conservation expenses	367,296	–	367,296
Total program services	14,428,296	–	14,428,296
Supporting services:			
Management and general	431,946	–	431,946
Fundraising	160,933	–	160,933
Total supporting services	592,879	–	592,879
Total expenses	15,021,175	–	15,021,175
Change in net assets from operations	67,567	(73,189)	(5,622)
Non-operating activities			
Investment return (note 4)	4,681	(230,408)	(225,727)
Total non-operating activities	4,681	(230,408)	(225,727)
Change in net assets	72,248	(303,597)	(231,349)
Net assets, beginning of year	395,273	5,044,321	5,439,594
Net assets, end of year	\$ 467,521	4,740,724	5,208,245

See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Activities
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
Support and revenue:			
General contributions	\$ 244,282	332,985	577,267
General operating grants	17,251	10,285	27,536
Grants for the purchase of conservation easements:			
Federal	3,224,000	–	3,224,000
Non-federal	6,796,000	–	6,796,000
Contributions of conservation easements	7,686,625	–	7,686,625
Special events revenue	240,441	–	240,441
Less cost of direct benefits to donors	(90,341)	–	(90,341)
Service fee income	231,762	–	231,762
Net assets released from restrictions (note 10)	281,229	(281,229)	–
Total support and revenue	18,631,249	62,041	18,693,290
Expenses:			
Program services:			
Conservation easements	17,744,125	–	17,744,125
Other conservation expenses	439,177	–	439,177
Total program services	18,183,302	–	18,183,302
Supporting services:			
Management and general	320,454	–	320,454
Fundraising	110,032	–	110,032
Total supporting services	430,486	–	430,486
Total expenses	18,613,788	–	18,613,788
Change in net assets from operations	17,461	62,041	79,502
Non-operating activities			
Investment return (note 4)	1,491	496,548	498,039
Total non-operating activities	1,491	496,548	498,039
Change in net assets	18,952	558,589	577,541
Net assets at beginning of year	376,321	4,485,732	4,862,053
Net assets at end of year	\$ 395,273	5,044,321	5,439,594

See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Functional Expenses
Year Ended December 31, 2018

	Program services	Supporting services		Total supporting services	Total expenses
		Management and general	Fund raising		
Conservation easements	\$ 14,061,000	–	–	–	14,061,000
Salaries, employee benefits, and payroll taxes	182,339	325,745	104,931	430,676	613,015
Special events expense	–	–	60,291	60,291	60,291
Project and stewardship expense	64,503	–	–	–	64,503
Public policy	17,098	–	–	–	17,098
Professional fees	3,050	31,842	764	32,606	35,656
Printing and publications	19,757	–	19,787	19,787	39,544
Information technology	10,593	14,407	6,115	20,522	31,115
Insurance	20,880	8,677	2,291	10,968	31,848
Travel and meals	12,556	6,096	3,206	9,302	21,858
Occupancy	7,519	12,101	4,032	16,133	23,652
Fellows program	7,263	6,349	3,986	10,335	17,598
Office expenses	1,056	12,047	4,375	16,422	17,478
Conferences, meetings, and training	10,347	3,243	–	3,243	13,590
Depreciation	2,580	4,152	1,383	5,535	8,115
Dues and subscriptions	2,484	3,998	1,332	5,330	7,814
Certification/accreditation	4,060	–	–	–	4,060
Miscellaneous	1,211	3,289	1,214	4,503	5,714
Total functional expenses	14,428,296	431,946	213,707	645,653	15,073,949
Less expenses included with revenue in the statement of activities:					
Special events direct benefit to donors	–	–	(52,774)	(52,774)	(52,774)
Total expenses	\$ 14,428,296	431,946	160,933	592,879	15,021,175

See the accompanying notes to the consolidated financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Functional Expenses
Year Ended December 31, 2017

	Program services	Supporting services		Total supporting services	Total expenses
		Management and general	Fund raising		
Conservation easements	\$ 17,744,125	–	–	–	17,744,125
Salaries, employee benefits, and payroll taxes	171,765	225,951	65,114	291,065	462,830
Special events expense	–	–	96,264	96,264	96,264
Project and stewardship expense	83,708	–	–	–	83,708
Public policy	69,762	–	–	–	69,762
Professional fees	14,966	31,608	980	32,588	47,554
Printing and publications	19,534	–	19,444	19,444	38,978
Information technology	12,200	12,397	4,030	16,427	28,627
Insurance	15,075	13,002	–	13,002	28,077
Conferences, meetings, and training	19,473	3,094	–	3,094	22,567
Travel and meals	9,237	910	4,412	5,322	14,559
Occupancy	8,271	9,857	3,205	13,062	21,333
Office expenses	1,477	10,121	4,329	14,450	15,927
Depreciation	3,517	4,191	1,363	5,554	9,071
Dues and subscriptions	3,180	3,790	1,232	5,022	8,202
Certification/accreditation	7,012	–	–	–	7,012
Miscellaneous	–	5,533	–	5,533	5,533
Total functional expenses	18,183,302	320,454	200,373	520,827	18,704,129
Less expenses included with revenue in the statement of activities:					
Special events direct benefit to donors	–	–	(90,341)	(90,341)	(90,341)
Total expenses	\$ 18,183,302	320,454	110,032	430,486	18,613,788

See the accompanying notes to the consolidated financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statements of Cash Flows
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (231,349)	577,541
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,115	9,071
Gain on sale of assets	(19,233)	–
Amortization of discount on contributions receivable	(2,075)	(3,168)
Contributions restricted for long-term purposes	(172,730)	(181,032)
Investment income on contributions restricted for long-term purposes	(100,442)	(95,250)
Net realized and unrealized (gains) losses on investments	355,931	(380,858)
Donated property and equipment	–	(3,200)
Decrease (increase) in operating assets:		
Accounts receivable	7,760	76,977
Contributions receivable	20,109	76,570
Prepaid expenses	4,615	(2,162)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	49,171	(18,562)
Deferred revenue	(365,540)	376,606
Net cash provided by (used in) operating activities	<u>(445,668)</u>	<u>432,533</u>
Cash flows from investing activities:		
Loan repayments, net	33,081	65,445
Purchases of investments, net of sales	(187,540)	(275,398)
Proceeds from sales of property and equipment	30,963	–
Purchases of property and equipment	(49,246)	–
Net cash used in investing activities	<u>(172,742)</u>	<u>(209,953)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	172,730	181,032
Investment income on contributions restricted for long-term purposes	100,442	95,250
Net cash provided by financing activities	<u>273,172</u>	<u>276,282</u>
Net change in cash and cash equivalents	(345,238)	498,862
Cash and cash equivalents, beginning of year	1,124,988	626,126
Cash and cash equivalents, end of year	\$ <u>779,750</u>	<u>1,124,988</u>

See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization

Colorado Cattlemen's Agricultural Land Trust (the Land Trust) was established in 1995 to conserve Colorado's western heritage and working landscapes for the benefit of future generations. 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 the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Land Trust. These net assets may be used at the discretion of the Land Trust's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Land Trust or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

(d) Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Land Trust's ongoing easement activities, contributions, grants, special events and service fee income. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

(e) 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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) 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 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 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.

(g) Accounts Receivable

Accounts receivable consist of amounts due from landowners and others for program fees and 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, 2018, management believes that all accounts are collectible. Accordingly, there is no allowance for uncollectible amounts.

(h) Contributions and Contributions Receivable

Contributions are recognized when cash, securities or other assets, and unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Contributions and Contributions Receivable, Continued

All donor restricted support, including pledges, is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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. The Land Trust considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful amounts is considered necessary.

(i) Loans Receivable

Loans receivable are reported at their net realizable value. At December 31, 2018, management has evaluated all outstanding loans and believes that all loans are collectible. Accordingly, there is no allowance for uncollectible amounts.

(j) Investments

Investments are recorded at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities. Fair value is determined as more fully described in note 5.

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) 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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) 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.

(m) 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.

(n) Donated Goods and Services

Donated conservation easements are recorded at fair value. 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

(1) Summary of Significant Accounting Policies, Continued

(o) Functional Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statements of functional expenses. The Land Trust incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Land Trust also conducts a number of activities which benefit both its program objectives as well as supporting services (i.e. fundraising and management and general activities). These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited, based on either financial or nonfinancial data, such as headcount, square-footage, or estimates of time and effort incurred by personnel.

(p) 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.

(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, 2018.

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, 2015.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(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 February 15, 2019 and this is the date through which subsequent events were evaluated.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net assets or the change in net assets.

(t) New Accounting Pronouncement

During 2018, the Land Trust adopted ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Land Trust has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(2) Availability and Liquidity

The following represents the Land Trust's financial assets as of December 31, 2018:

Financial assets at year end:

Cash and cash equivalents	\$ 779,750
Accounts receivable	12,750
Contributions receivable	46,395
Loans receivable	9,887
Investments	<u>4,429,898</u>
Total financial assets	5,278,680

Less amounts not available to be used within one year:

Net assets with donor restrictions	4,740,724
Less endowment funds to be appropriated within one year	(187,000)
Less net assets with purpose restrictions expected to be met in one year	(154,000)
Board designated funds requiring board approval for expenditure	<u>335,309</u>
	<u>4,735,033</u>

Financial assets available to meet general and specific expenditures over the next twelve months

\$ 543,647

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(2) Availability and Liquidity, Continued

As part of the Land Trust's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The organization has a goal to maintain financial assets on hand to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

Additionally, the Land Trust has board designated net assets without donor restrictions that, while the Land Trust does not intend to spend these for purposes other than those identified, could be made available for current operations, if necessary.

Management has estimated that net assets with purpose restrictions expected to be met within one year total \$154,000. This estimate is based on projects expected to be completed, conservation easement transactions expected to close, and budgeted expenditures for the next year.

The Land Trust expects an annual appropriation from the endowment funds of \$187,000 to be available within the next twelve months for operations. The Land Trust's cash flows have seasonal variations during the year attributable to the timing of conservation easement transaction closings. To manage liquidity, the Land Trust maintains a \$50,000 overdraft line of credit with a bank that is drawn upon as needed during the year to manage cash flows. At December 31, 2018, no amounts are outstanding under this line of credit.

(3) Contributions Receivable

Contributions receivable consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 37,325	47,434
One to five years	<u>10,000</u>	<u>20,000</u>
Total contributions receivable	47,325	67,434
Less discount to present value	<u>(930)</u>	<u>(3,005)</u>
Net contributions receivable	\$ <u>46,395</u>	<u>64,429</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, 2018, total \$4,247,773.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(4) Investments

Investments were comprised of the following at December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 476,903	493,809
U.S. equities and equity funds	1,757,736	2,467,061
International equity funds	625,331	–
Fixed income funds	1,233,506	570,952
Exchange-traded and closed-end funds	35,647	741,023
Corporate bonds	<u>300,775</u>	<u>325,444</u>
Total investments	\$ <u>4,429,898</u>	<u>4,598,289</u>

Investment return is summarized below:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 170,208	153,223
Net realized and unrealized gains (losses)	(355,931)	380,858
Investment management fees	<u>(40,004)</u>	<u>(36,042)</u>
Investment return, net	\$ <u>(225,727)</u>	<u>498,039</u>

(5) 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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(5) Fair Value Measurements, Continued

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.

The following table summarizes the Land Trust's investments by the above fair value hierarchy levels as of December 31, 2018:

<u>Description</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash and cash equivalents	\$ 476,903	476,903	-	-
U.S. equity funds	1,757,736	1,757,736	-	-
International equities	625,331	625,331	-	-
Fixed income	1,233,506	1,233,506	-	-
Exchange-traded funds	35,647	35,647	-	-
Corporate bonds	<u>300,775</u>	<u>-</u>	<u>300,775</u>	<u>-</u>
Total	\$ <u>4,429,898</u>	<u>4,129,123</u>	<u>300,775</u>	<u>-</u>

The following table summarizes the Land Trust's investments by the above fair value hierarchy levels as of December 31, 2017:

<u>Description</u>	<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Cash and cash equivalents	\$ 493,809	493,809	-	-
U.S. equities and equity funds	2,467,061	2,467,061	-	-
Fixed income mutual funds	570,952	570,952	-	-
Exchange-traded and closed-ended funds	741,023	741,023	-	-
Corporate bonds	<u>325,444</u>	<u>-</u>	<u>325,444</u>	<u>-</u>
Total	\$ <u>4,598,289</u>	<u>4,272,845</u>	<u>325,444</u>	<u>-</u>

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(5) Fair Value Measurements, Continued

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 2018 or 2017.

(6) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 12,166	23,430
Vehicles	<u>49,246</u>	<u>64,478</u>
	61,412	87,908
Accumulated depreciation	<u>(14,774)</u>	<u>(70,671)</u>
Property and equipment, net	\$ <u>46,638</u>	<u>17,237</u>

(7) Deferred Revenue

Deferred revenue consists of cash received under grants for future conservation easement projects. At December 31, 2018 and 2017, deferred revenue totals \$34,460 and \$400,000, respectively.

(8) Line of Credit

The Land Trust has a \$50,000 overdraft protection line of credit with a financial institution that bears interest at a variable rate of prime plus 2%. Interest is due monthly and the line of credit is secured by depository accounts at the financial institution. There were no amounts outstanding on the line of credit at December 31, 2018 or 2017.

(9) Conservation Easements

As of December 31, 2018, the Land Trust holds 316 easements covering approximately 571,157 acres in 42 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, ongoing monitoring, and legal protection of the conservation easements.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(10) Net Assets

Net Assets Without Donor Restrictions

The Land Trust's net assets without donor restrictions is comprised of undesignated and Board designated amount for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 132,212	78,880
Board designated for:		
Easement defense	312,004	283,441
Stewardship	135,376	135,376
Conservation and restoration	47,491	66,299
Future operating expense	54,466	40,716
Future capital assets	13,557	29,707
Other activities	47,415	35,854
Inter-fund loan	(275,000)	(275,000)
Total board designated net assets	<u>335,309</u>	<u>316,393</u>
Total net assets without donor restrictions	\$ <u>467,521</u>	<u>395,273</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31:

	<u>2018</u>	<u>2017</u>
Specific purpose:		
Easement defense	\$ 320,758	350,004
Conservation advancement loan fund (CALF)	199,657	195,417
Future projects	110,460	161,398
Passage of time:		
Contributions receivable	<u>19,070</u>	<u>39,733</u>
Total subject to purpose and time restrictions	649,945	746,552
Endowments:		
Stewardship Endowment Fund	2,846,991	2,930,106
Operating Endowment Fund	1,069,874	1,182,663
Ron and Kitty Boeddeker Peaks to Plains Conservation and Restoration Fund	<u>173,914</u>	<u>185,000</u>
Total endowments	<u>4,090,779</u>	<u>4,297,769</u>
Total net assets with donor restrictions	\$ <u>4,740,724</u>	<u>5,044,321</u>

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(10) Net Assets, Continued

Net assets were released from restriction for the following purposes for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Purpose and time restrictions accomplished:		
Easement defense	\$ 31,232	37,574
Public policy	30,045	55,000
Staff capacity	100,000	–
Program expenses	17,273	1,155
Other	<u>26,120</u>	<u>17,500</u>
Total purpose and time restrictions	204,670	111,229
Endowment funds appropriated for expenditure	<u>171,086</u>	<u>170,000</u>
Total net assets released from restriction	\$ <u>375,756</u>	<u>281,229</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 increases in net assets with donor restrictions, 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 transaction costs. 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 net assets with donor restrictions. Outstanding loans totaled \$9,887 and \$42,968 at December 31, 2018 and 2017, respectively, and are included in the accompanying statement of financial position.

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 classifies as nets assets with donor restrictions: (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the donor gift instrument.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(10) 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 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 increases in nets assets with donor restrictions 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 increases in nets assets with donor restrictions 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.

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 increases in net assets with donor restrictions until appropriated by the Board of Directors for expenditure.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(10) Net Assets, Continued

Following are the changes in endowment net assets:

Endowment net assets, December 31, 2016	\$ 3,849,914
Investment return	436,823
Contributions to endowment	181,032
Appropriated for expenditure	<u>(170,000)</u>
Endowment net assets, December 31, 2017	4,297,769
Investment return	(208,634)
Contributions to endowment	172,730
Appropriated for expenditure	<u>(171,086)</u>
Endowment net assets, December 31, 2018	\$ <u>4,090,779</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.

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 2018 and 2017, distributions totaling \$110,000 were made from the fund.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(10) Net Assets, Continued

Distribution Policy, Continued

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 2018 and 2017, the Board of Directors approved distribution rates of 4.7% and 4.8%, respectively. As a result, during 2018 and 2017, withdrawals of \$50,000 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. During 2018 and 2017, withdrawals totaling \$11,086 and \$10,000, respectively, were made to fund conservation easement costs.

(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 \$3,245 and \$2,693 in 2018 and 2017, 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.