

Colorado Cattlemen's Agricultural Land Trust

**Financial Statements
Six-month period ending June 30, 2019**

(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 statement of financial position as of June 30, 2019, and the related statement of activities, functional expenses, and cash flows for the six-month period 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 June 30, 2019, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Kennedey, Corda & Congle, P.C.

October 23, 2019

Colorado Cattlemen's Agricultural Land Trust
Statement of Financial Position
June 30, 2019

Assets

Cash and cash equivalents	\$ 682,220
Accounts receivable	12,340
Grants receivable	24,359
Contributions receivable	40,205
Prepaid expenses	22,582
Loans receivable (note 8)	43,062
Investments (note 3)	4,970,691
Property and equipment, net (note 4)	<u>42,538</u>
Total assets	<u><u>\$ 5,837,997</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 32,516
Accrued liabilities	46,930
Deferred revenue (note 5)	<u>118,919</u>
Total liabilities	<u>198,365</u>

Net assets (note 8)

Without donor restrictions	356,438
With donor restrictions	<u>5,283,194</u>
Total net assets	<u>5,639,632</u>

Commitments (notes 6, 7, and 9)

Total liabilities and net assets	<u><u>\$ 5,837,997</u></u>
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See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Activities
Six-Month Period Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
Support and revenue			
Contributions and grants	\$ 90,755	305,222	395,977
Contributions of conservation easements	4,009,000	–	4,009,000
Special events revenue	46,030	–	46,030
Less cost of direct benefits to donors	(28,336)	–	(28,336)
Service fee income	105,225	–	105,225
Miscellaneous income	2,171	–	2,171
Net assets released from restrictions (note 8)	320,692	(320,692)	–
Total support and revenue	4,545,537	(15,470)	4,530,067
Expenses			
Program services			
Conservation easements	4,009,000	–	4,009,000
Other conservation expenses	287,663	–	287,663
Total program services	4,296,663	–	4,296,663
Supporting services			
Management and general	224,944	–	224,944
Fundraising	137,104	–	137,104
Total supporting services	362,048	–	362,048
Total expenses	4,658,711	–	4,658,711
Change in net assets from operations	(113,174)	(15,470)	(128,644)
Non-operating activities			
Investment return	2,091	557,940	560,031
Total non-operating activities	2,091	557,940	560,031
Change in net assets	(111,083)	542,470	431,387
Net assets, beginning of period	467,521	4,740,724	5,208,245
Net assets, end of period	\$ 356,438	5,283,194	5,639,632

See the accompanying notes to the financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Functional Expenses
Six-Month Period Ended June 30, 2019

	Program services	Supporting services		Total supporting services	Total expenses
		Management and general	Fund raising		
Conservation easements	\$ 4,009,000	–	–	–	4,009,000
Salaries, employee benefits, and payroll taxes	103,618	165,626	39,634	205,260	308,878
Public policy	58,100	–	–	–	58,100
Professional fees	21,280	26,239	4,511	30,750	52,030
Marketing expense	–	–	51,523	51,523	51,523
Project and stewardship expense	46,911	–	–	–	46,911
Information technology	5,670	6,495	2,402	8,897	14,567
Special events expense	–	–	33,747	33,747	33,747
Insurance	19,443	4,321	949	5,270	24,713
Database migration	5,018	–	15,054	15,054	20,072
Printing and publications	8,837	–	8,857	8,857	17,694
Occupancy	4,050	5,857	1,633	7,490	11,540
Office expenses	549	4,660	2,105	6,765	7,314
Fellows program	1,898	2,936	1,498	4,434	6,332
Depreciation	2,019	2,919	814	3,733	5,752
Conferences, meetings, and training	3,845	888	–	888	4,733
Travel and meals	2,323	1,420	609	2,029	4,352
Miscellaneous	1,511	1,456	1,511	2,967	4,478
Dues and subscriptions	1,471	2,127	593	2,720	4,191
Certification/accreditation	1,120	–	–	–	1,120
Total functional expenses	4,296,663	224,944	165,440	390,384	4,687,047
Less expenses included with revenue in the statement of activities: Special events direct benefit to donors	–	–	(28,336)	(28,336)	(28,336)
Total expenses	\$ 4,296,663	224,944	137,104	362,048	4,658,711

See the accompanying notes to the consolidated financial statements.

Colorado Cattlemen's Agricultural Land Trust
Statement of Cash Flows
Six-Month Period Ended June 30, 2019

Cash flows from operating activities	
Change in net assets	\$ 431,387
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	5,752
Amortization of discount on contributions receivable	(930)
Contributions restricted for long-term purposes	(135,626)
Investment income on contributions restricted for long-term purposes	(19,428)
Net realized and unrealized gains on investments	(533,448)
Decrease (increase) in operating assets	
Accounts receivable	(4,840)
Grants receivable	(19,109)
Contributions receivable	7,120
Prepaid expenses	(13,339)
Increase (decrease) in operating liabilities	
Accounts payable and accrued liabilities	(12,410)
Deferred revenue	84,459
Net cash used in operating activities	<u>(210,412)</u>
Cash flows from investing activities	
Loan repayments, net	(33,175)
Purchases of investments, net of sales	(7,345)
Purchases of property and equipment	<u>(1,652)</u>
Net cash used in investing activities	<u>(42,172)</u>
Cash flows from financing activities	
Contributions restricted for long-term purposes	135,626
Investment income on contributions restricted for long-term purposes	<u>19,428</u>
Net cash provided by financing activities	<u>155,054</u>
Net change in cash and cash equivalents	<u>(97,530)</u>
Cash and cash equivalents, beginning of period	<u>779,750</u>
Cash and cash equivalents, end of year	<u><u>\$ 682,220</u></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 generally comes from individual donor contributions, private and government grants, and service fees.

The Land Trust has elected to change its fiscal year from a calendar year ending December 31st to a fiscal year ending June 30th. As a result, the activities of the accompanying financial statements reflect only the six-month period ending June 30, 2019.

(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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(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.

(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 generally 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 June 30, 2019, management believes that all accounts are collectible. Accordingly, there is no allowance for uncollectible amounts.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period the pledge is received. Unconditional 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. At June 30, 2019, contributions receivable consist of amounts due in less than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met. 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 June 30, 2019, 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 statement of financial position. Fair value is more fully discussed in note 1(k).

Investment return consists of 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) Fair Value Measurements

Fair value is defined as 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. Generally accepted accounting principles in the U.S. establishes a fair value hierarchy that prioritizes investments based on the assumptions market participants would use when pricing an asset. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs).

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Fair Value Measurements, Continued

Assets are grouped at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.
- Level 2 Inputs other than quoted market prices that are observable for the asset/liability, either directly or indirectly.
- Level 3 Unobservable inputs that cannot be corroborated by observable market data.

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 (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.

The carrying amount reported in the statement of financial position for cash and cash equivalents, accounts and contributions receivable, and accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. Investments in marketable equity and fixed income securities with readily determinable market values are reported at fair value based on quoted prices in active markets.

(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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) 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.

(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. Grants and contributions committed to future conservation easements and projects, which have not been recorded at June 30, 2019, total \$3,502,223. 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) Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a 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 statement of activities as net assets released from restrictions.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(p) 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.

(q) 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.

(r) 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.

(s) Income Tax Status

The Land Trust is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Land Trust's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Land Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Land Trust had no unrelated business income during the year ended June 30, 2019, and thus incurred no unrelated business income tax.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(s) Income Tax Status, Continued

Generally accepted accounting principles require the Land Trust's management to evaluate tax positions taken by the Land Trust and recognize a tax liability (or asset) if the Land Trust has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. The Land Trust has analyzed the tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements and determined there are none. The Land Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Land Trust files federal Return of Organization Exempt from Income Tax (Form 990), and the three previous tax years remain subject to examination.

(t) Subsequent Events

Management has evaluated subsequent events through October 23, 2019, the date the financial statements were available to be issued.

(2) Availability and Liquidity

The following represents the Land Trust's financial assets as of June 30, 2019:

Financial assets at year end	
Cash and cash equivalents	\$ 682,220
Accounts receivable	12,340
Grants receivable	24,359
Contributions receivable	40,205
Loans receivable	43,062
Investments	<u>4,970,691</u>
Total financial assets	<u>5,772,877</u>
Less amounts not available to be used within one year	
Net assets with donor restrictions	5,283,194
Less endowment funds to be appropriated within one year	(187,000)
Less net assets with purpose restrictions expected to be met in one year	(154,781)
Board designated funds requiring board approval for expenditure	<u>353,027</u>
	<u>5,294,440</u>
Financial assets available to meet general and specific expenditures over the next twelve months	\$ <u>478,437</u>

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 \$154,781. 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 June 30, 2019, no amounts are outstanding under this line of credit.

(3) Investments

Investments are stated at their fair values and were comprised of the following at June 30, 2019:

Cash and cash equivalents	\$ 382,491
U.S. equities	2,501,074
International equities	1,105,008
Fixed income	<u>982,118</u>
Total investments	\$ <u>4,970,691</u>

All investments have been valued using level one inputs. Marketable securities are exposed to various risks that may cause the reported value of the Land Trust's investment assets to fluctuate from period to period and result in a material change to the net assets of the Land Trust. 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. The value of bond investments and other fixed income securities fluctuate in response to changing interest rates, credit worthiness of issuers and overall economic policies that impact market conditions.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(4) Property and Equipment

Property and equipment consists of the following at June 30, 2019:

Office equipment	\$ 12,166
Vehicles	<u>50,897</u>
	63,063
Accumulated depreciation	<u>(20,525)</u>
Property and equipment, net	\$ <u>42,538</u>

(5) Deferred Revenue

At June 30, 2019, deferred revenue totals \$118,919 and mainly consists of sponsorship and other payments received for future special events.

(6) 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 June 30, 2019.

(7) Conservation Easements

As of June 30, 2019, the Land Trust holds 317 easements covering approximately 576,170 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

(8) 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 June 30, 2019:

Undesignated	\$ 3,411
Board designated for:	
Easement defense	312,004
Stewardship	135,377
Conservation and restoration	46,557
Future operating expense	89,599
Future capital assets	17,051
Other activities	52,439
Inter-fund loan	<u>(300,000)</u>
Total board designated net assets	<u>353,027</u>
Total net assets without donor restrictions	\$ <u>356,438</u>

Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2019:

Specific purpose	
Easement defense	\$ 387,212
Conservation advancement loan fund (CALF)	200,432
Future projects	117,947
Passage of time	
Contributions receivable	<u>20,000</u>
Total subject to purpose and time restrictions	<u>725,591</u>
Endowments	
Stewardship Endowment Fund	3,292,888
Operating Endowment Fund	1,119,084
Ron and Kitty Boeddeker Peaks to Plains Conservation and Restoration Fund	<u>145,631</u>
Total endowments	<u>4,557,603</u>
Total net assets with donor restrictions	\$ <u>5,283,194</u>

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(8) Net Assets, Continued

Net assets were released from restriction for the following purposes for the six-month period ended June 30, 2019:

	<u>2019</u>
Purpose and time restrictions accomplished:	
Easement defense	\$ 24,232
Database migration	18,692
Public policy	50,000
Forever Colorado (marketing)	53,179
Program expenses	7,928
Other	<u>11,378</u>
Total purpose and time restrictions	165,409
Endowment funds appropriated for expenditure	<u>155,283</u>
Total net assets released from restriction	\$ <u>320,692</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 \$43,062 at June 30, 2019 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 classifies as net 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

(8) 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. 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.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(8) Net Assets, Continued

Following are the changes in endowment net assets for the six-month period ended June 30, 2019:

Endowment net assets, December 31, 2018	4,090,779
Investment return	486,481
Contributions to endowment	135,626
Appropriated for expenditure	<u>(155,283)</u>
Endowment net assets, December 31, 2019	\$ <u>4,557,603</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 the six-month period ending June 30, 2019, distributions totaling \$60,000 were made from the fund.

Colorado Cattlemen's Agricultural Land Trust

Notes to Financial Statements, Continued

(8) 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 the six-month period ending June 30, 2019, the Board of Directors approved a distribution rate of 6%. As a result, during the six-month period ending June 30, 2019, withdrawals of \$67,000 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. During the six-month period ending June 30, 2019, withdrawals totaling \$28,283 were made to fund northwestern Colorado conservation efforts.

(9) 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 \$2,285 for the six-month period ending June 30, 2019.

(10) 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.

(11) Subsequent Event

On September 13, 2019, the Land Trust formed Yampa Valley Land Trust, LLC, (the LLC) a single member limited liability company with the Land Trust as its sole member. The Land Trust has determined that the LLC is a disregarded entity for federal income tax purposes and is treated in the same manner as a branch or division of the owner.

On October 1, 2019, Yampa Valley Land Trust, LLC acquired Yampa Valley Land Trust, Inc., a Colorado nonprofit corporation, exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the acquisition was to: (1) create greater conservation efficiencies in northwest Colorado; (2) expand the Land Trust's conservation services to serve the broad needs of the local community and agricultural producers of Routt County and northwest Colorado; and, (3) provide stable and long-term governance and leadership for conservation in Routt County and northwest Colorado. The Land Trust is currently assessing the value of the net assets acquired.