

RIO GRANDE HEADWATERS LAND TRUST

FINANCIAL STATEMENTS

December 31, 2021



Wall,
Smith,
Bateman Inc.
Certified Public Accountants

RIO GRANDE HEADWATERS LAND TRUST
TABLE OF CONTENTS
December 31, 2021

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7

INDEPENDENT AUDITORS' REPORT



Wall,
Smith,
Bateman Inc.

To the Board of Directors
Rio Grande Headwaters Land Trust
Del Norte, Colorado

Opinion

We have audited the accompanying financial statements Rio Grande Headwaters Land Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Rio Grande Headwaters Land Trust as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Rio Grande Headwaters Land Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Rio Grande Headwaters Land Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Certified Public Accountants

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Rio Grande Headwaters Land Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Rio Grande Headwaters Land Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Wall, Smith, Bateman Inc.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

April 05, 2022

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF FINANCIAL POSITION
December 31, 2021

ASSETS

Cash and cash equivalents	\$ 506,241
Grants and contributions receivable	58,836
Investments - board-designated (Note 3)	1,368,008
Conservation interest held in properties (Note 4)	<u>52</u>

TOTAL ASSETS \$ 1,933,137

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 42,317
Accrued payroll expenses	<u>1,287</u>
Total liabilities	<u><u>43,604</u></u>

Net assets

Net assets without donor restrictions	
Undesignated	201,371
Board designated for endowment (Note 7)	<u>1,368,008</u>
Total net assets without donor restrictions	<u>1,569,379</u>

Net assets with donor restrictions (Note 8)	<u>320,154</u>
Total net assets	<u><u>1,889,533</u></u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,933,137

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Government grants and contributions	\$ 795,611	\$ -	\$ 795,611
Foundation grants	79,000	325,000	404,000
Investment income(loss), net (Note 3)	165,103	-	165,103
Service fees	33,730	-	33,730
Contributions	74,120	-	74,120
Other	73,904	10,000	83,904
In-kind contributions (Note 9)	19,278	-	19,278
Net assets released from restrictions (Note 10)	269,007	(269,007)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>1,509,753</u>	<u>65,993</u>	<u>1,575,746</u>
EXPENSES AND LOSS			
Program services	1,067,821	-	1,067,821
Supporting services			
Management and general	143,633	-	143,633
Fundraising	30,762	-	30,762
Total supporting services	<u>174,395</u>	<u>-</u>	<u>174,395</u>
TOTAL EXPENSES	<u>1,242,216</u>	<u>-</u>	<u>1,242,216</u>
Change in net assets	267,537	65,993	333,530
NET ASSETS, BEGINNING OF YEAR	<u>1,301,842</u>	<u>254,161</u>	<u>1,556,003</u>
NET ASSETS, END OF YEAR	<u>\$ 1,569,379</u>	<u>\$ 320,154</u>	<u>\$ 1,889,533</u>

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

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2021

	Program			Total Program Expenses	Supporting Services		Total Expenses
	Conservation	Community Conservation	Stewardship		Management & General	Fundraising	
Salaries	\$ 80,977	\$ 5,009	16,837	\$ 102,823	\$ 82,415	\$ 18,281	\$ 203,519
Payroll taxes and benefits	12,664	783	2,634	16,081	12,889	2,860	31,830
Conservation easements	524,022	-	-	524,022	-	-	524,022
Office expense and supplies	8,835	547	1,837	11,219	8,304	2,926	22,449
Professional fees	29,664	-	4,875	34,539	24,140	-	58,679
Travel and meals	4,698	466	1,408	6,572	4,566	700	11,838
Rent and Utilities	7,179	444	1,492	9,115	7,306	1,621	18,042
Insurance	-	-	2,601	2,601	4,013	-	6,614
Pass thru programs	330,111	-	-	330,111	-	-	330,111
Program supplies	29,454	908	-	30,362	-	27	30,389
Event Expense	226	150	-	376	-	4,347	4,723
 Total expenses	 <u>\$1,027,830</u>	 <u>\$ 8,307</u>	 <u>\$ 31,684</u>	 <u>\$1,067,821</u>	 <u>\$ 143,633</u>	 <u>\$ 30,762</u>	 <u>\$1,242,216</u>

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

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

Cash flows from operating activities:

Change in net assets	\$ 333,530
Adjustments to reconcile change in net assets to net cash provided by operating activities	
(Increase) decrease in grants and contracts receivable	(58,836)
Realized/unrealized (gains) losses on investments	(164,592)
Increase (decrease) in accrued payroll expenses	(3,084)
Increase (decrease) in accounts payable	(24,456)
Net cash provided(used) by operating activities	<u>82,562</u>

Cash flows from investing activities:

Purchases of investments	(60,000)
Redemption of investments	24,953
(Purchases) of conservation interests held in properties	(3)
Net cash provided (used) by investing activities	<u>(35,050)</u>

Cash flows from financing activities:

-

Net increase (decrease) in cash and cash equivalents

47,512

Cash and cash equivalents at beginning of year

458,729

Cash and cash equivalents at end of year

\$ 506,241

Non-Cash investing activities:

Interest, dividends, and capital gains reinvested

\$ 24,192

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - DESCRIPTION OF THE TRUST

Rio Grande Headwaters Land Trust (the Trust) is a non-profit Trust incorporated in Colorado in 1999 for the purpose of conserving our land, water, and way of life in Colorado's San Luis Valley. The Trust is supported primarily through government grants and contracts and foundation grants.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Basis of accounting and presentation

The financial statements of the Trust have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The financial statements of the Trust have been prepared in accordance with U. S. generally accepted accounting principles which require the Trust to report 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 Trust. These net assets may be used at the discretion of the Trust's management and board of Trustees.

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

Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a program. These restrictions expire when the assets are placed in service.

Cash and Cash Equivalents

The Trust considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Grants and Contracts Receivable

Contracts receivable represent amounts that have been billed under contracts but not collected as of the date of the financial statements. Contracts receivable are stated at the amount management expects to be collected from the outstanding balance. As of December 31, 2021 management has determined, based on historical experience and subsequent collections that all amounts are fully collectible, and no allowance for doubtful accounts is necessary.

Revenue and Revenue Recognition

The Trust recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Trust records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place. A portion of the Trust's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Trust has incurred expenses in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenses are reported as refundable advances in the statement of financial position.

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Capitalization and Depreciation

The Trust follows the practice of capitalizing all expenses for land, buildings, and equipment of \$1,000 or more that has a life of more than one year. The fair value of donated assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Trust follows the provisions of the *Fair Value Measurements and Disclosures* Topic of FASB ASC, which require use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

Income Taxes

The Trust is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c) (3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements. The Trust files federal income tax returns.

Functional Reporting of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses allocated on the basis of time and effort include salaries, benefits, payroll expenses, office rent, supplies, telephone, information services, and utilities. All other costs are assigned directly to the program or functional area benefited.

Conservation Easements

A conservation easement is a legal agreement between a property owner and a qualified conservation Trust. Conservation easements represent a perpetual restriction on the use of the land without transfer of ownership of the underlying property. The Trust acquires conservation easements through donations from property owners and bargain sale purchases. The acquisition costs and other costs associated with conservation easements are expensed in the period incurred. It is the Trust's policy, when acquiring or accepting an easement, to extinguish in perpetuity the development rights on the underlying property. All such interests are recorded as a conservation interest valued at \$1. The Trust charges the landowner service fees to facilitate the transaction. A portion of the service fees are designated to support the perpetual stewardship and legal defense of the easement.

Reclassifications

Certain fiscal year 2020 balances have been reclassified to conform to the fiscal year 2021 financial statement presentation.

Subsequent Events

Management has evaluated subsequent events through April 05, 2022, the date the financial statements were available to be issued.

New Accounting Pronouncements

During fiscal year 2021, the Trust adopted the provisions of FASB Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, along with all subsequent related ASU's impacting revenue from contracts with customers, effective July 1, 2020 using the modified retrospective method of adoption. The

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Organization has applied the new revenue recognition standard for the year ended December 31, 2021. There was no cumulative effect of initially applying the new accounting standard.

NOTE 3 - INVESTMENTS

The investments are valued using Level 1 measurements. Level 1 measurements for investments include those valued at fair market value based on quoted prices in active markets and other information generated by market transactions. The board has designated the investments for stewardship and legal defense of the conservation easements. Investments held by the Trust consisted of the following at December 31, 2021:

<u>Description</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds	\$ 1,064,891	\$ 1,367,778	\$ 302,887
Cash, CDs, and money funds	<u>230</u>	<u>230</u>	<u>-</u>
Total	<u>\$ 1,065,121</u>	<u>\$ 1,368,008</u>	<u>\$ 302,887</u>

Investment income (loss) for the year consisted of:

<u>Description</u>	<u>Amount</u>
Interest and dividends	\$ 15,757
Realized Gains/Losses	63,074
Unrealized Gains/Losses	<u>85,761</u>
Total	<u>\$ 164,592</u>

In addition, interest earned on operating cash balances was \$ 511 for the year.

NOTE 4 - CONSERVATION INTERESTS HELD IN PROPERTIES

It is the Trust's policy, when acquiring or accepting an easement, to extinguish in perpetuity the development rights on the underlying property. Consequently, all such easements are valued at \$1. Three conservation easements were acquired by the Trust during the year ended December 31, 2021. As of December 31, 2021, the Trust is responsible for annually monitoring and perpetually enforcing the terms of 52 conservation easements covering 28,591 acres of open space for agriculture, wildlife habitat, and recreation.

NOTE 5 - MARGIN LOAN

The Trust has a margin loan agreement with the investment custodian. The investments serve as collateral for the margin loan credit line. The total credit available to the Trust is 50% of the market value of investments held by the brokerage. The brokerage requires the Trust to maintain a minimum account value if there are loan features on the account. As of December 31, 2021, the interest rate was 3.50%, and the balance on the margin loan was zero. No interest expense was incurred during the year.

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

NOTE 6 - BOARD-DESIGNATED NET ASSETS

The Board has designated a portion of the program fees to support the perpetual stewardship and legal defense of the conservation easements. The amount designated as of December 31, 2021, is \$1,368,008.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

At year-end, net assets with donor restrictions were available for the following purposes:

Description	Amount
Conservation easements	\$ 315,464
Special Programs	4,690
	\$ 320,154

NOTE 8 - IN-KIND CONTRIBUTIONS

Donated services which require recognition are those that create or enhance non-financial assets or that specifically require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donated services are reflected in the accompanying financial statements at the estimated fair value at date of receipt. The fair value of in-kind contributions included in the financial statements and the corresponding expenses for the year are as follows:

Description	Amount
Legal services for closing on easements	\$ 19,278

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

During the year, net assets were released from donor restrictions by incurring expenses satisfying the following restricted program purposes:

Description	Amount
Conservation easements purchases	\$ 135,000
Conservation easements transaction costs	64,750
Special Programs	69,257
Total	\$ 269,007

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The Trust participates in grant programs, which are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time; although the Trust expects such amounts, if any, to be immaterial.

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

Lease

The Trust has a month-to-month lease agreement for office space which may be terminated by either party with written notice. Monthly payments are \$650 with additional charges for utilities. Total rent expense for this lease for the year ended December 31, 2021, was \$11,700.

Conservation Easements

Under certain circumstances, when acquiring a conservation easement, the Trust is responsible for paying the landowner a purchase amount, closing fees, or other agreed upon amounts. Under these circumstances, the Trust is responsible to the landowner for the agreed upon amounts once appropriate funding is actually received by the Trust. The Trust holds conservation easements on properties located in Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties in Colorado. The Trust is responsible for monitoring the easements to ensure conditions of the agreements are followed. Legal action by the Trust may be necessary if agreements are violated. As described in Note 5, the Board of the Trustees has designated \$1,368,008 for stewardship and legal defense costs. In addition, the Trust has purchased easement defense insurance from Terrafirma, a charitable risk pool formed by the Land Trust Alliance in 2011 to help land trusts defend conserved lands from legal challenges.

COVID-19

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. The Trust is considered essential services and was not requested or required to close. The Trust has a significant amount in assets held in investments which may experience significant losses during the pandemic. No adjustments have been made to these financial statements as the potential impact is unknown at this time.

NOTE 11 - CONCENTRATIONS OF RISK

Credit Risk

The Trust's financial instruments are exposed to concentrations of credit risk consisting of cash and cash equivalents and investments. The Trust's cash and cash equivalents are in demand deposit accounts placed with federally insured financial institutions up to \$250,000. At December 31, 2021 the Trust had \$93,009 in uninsured cash balances. As of the date of this report, the Trust has not experienced any losses on such accounts. In addition, the Trust has significant investments in equities and mutual funds which are subject to market value fluctuation.

NOTE 12 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of December 31, 2021:

<u>Description</u>	<u>Amount</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 506,241
Investments	1,368,008
	<u>1,874,249</u>
Less amounts unavailable for general expenses within one year, due to:	
Board-designated stewardship and legal defense fund	(1,368,008)
Donor-restricted for conservation easements and programs	(320,154)
	<u>(1,688,162)</u>
Financial assets available to meet cash needs for general expenses	<u><u>\$ 186,087</u></u>

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

The Trust considers donor-restricted contributions that will be spent within one year for operations to be available for general expenses. Amounts not available for general use because of contractual or donor-imposed restrictions for conservation easements are not considered to be available for general use. The Trust manages liquidity needed for operations primarily through budgeted monthly cash inflows and outflows. Cash inflows can be easily predicted since they are materially comprised of conservation easements. Cash outflows are planned accordingly so as not to exceed those expected inflows.

In addition to the financial assets listed, the Trust also has a margin loan agreement with the investment custodian. The total credit available to the Trust is 50% of the market value of investments held by the brokerage. The Trust does not intend to utilize this loan (see Note 5). The Trust's goal is generally to maintain financial assets to meet 3 months of operating expenses, approximately \$84,000. As part of its liquidity plan, excess cash is maintained in a savings account.

NOTE 13 – PAYCHECK PROTECTION PROGRAM LOAN

2021 Paycheck Protection Program Loan

A loan payable, dated January 21, 2021, was entered into between Del Norte Bank and the Trust which matures on January 21, 2026. The Bank issued \$39,716 to the Organization and funds from the loan may only be used for payroll costs, including benefits, mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. Under the terms of the Paycheck Protection Program, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act). The Trust received confirmation of the full forgiveness of the loan in July 2021, and the amount was recognized as contribution revenue.