

RIO GRANDE HEADWATERS LAND TRUST

FINANCIAL STATEMENTS

December 31, 2022



**Wall,
Smith,
Bateman** Inc.
Certified Public Accountants

RIO GRANDE HEADWATERS LAND TRUST
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Wall,
Smith,
Bateman Inc.

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Rio Grande Headwaters Land Trust (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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 of Rio Grande Headwaters Land Trust as of December 31, 2022, 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 the nonprofit organization 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 auditor's 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 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 the nonprofit organization'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 the nonprofit organization'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

October 24, 2023

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF FINANCIAL POSITION
December 31, 2022

ASSETS

Cash and cash equivalents	\$ 499,220
Grants and contributions receivable	75,490
Investments - board-designated (Note 3)	1,146,791
Conservation interest held in properties (Note 4)	<u>56</u>

TOTAL ASSETS \$ 1,721,557

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 107,489
Accrued payroll expenses	<u>1,987</u>
Total liabilities	<u>109,476</u>

Net assets

Net assets without donor restrictions	
Undesignated	118,006
Board designated for stewardship and legal defense fund (Note 6)	<u>1,146,791</u>
Total net assets without donor restrictions	1,264,797

Net assets with donor restrictions (Note 7)	<u>347,284</u>
Total net assets	<u>1,612,081</u>

TOTAL LIABILITIES AND NET ASSETS \$ 1,721,557

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Government grants and contributions	\$ 1,015,751	\$ -	\$ 1,015,751
Foundation grants	56,975	493,025	550,000
Investment income(loss), net (Note 3)	(230,153)	-	(230,153)
Service fees	55,696	-	55,696
Contributions	62,279	-	62,279
Landowner easement contributions	123,976	-	123,976
In-kind contributions (Note 8)	15,143	-	15,143
Net assets released from restrictions (Note 9)	465,895	(465,895)	-
TOTAL REVENUE AND OTHER SUPPORT	1,565,562	27,130	1,592,692
EXPENSES AND LOSS			
Program services	1,641,778	-	1,641,778
Supporting services			
Management and general	211,624	-	211,624
Fundraising	16,742	-	16,742
Total supporting services	228,366	-	228,366
TOTAL EXPENSES	1,870,144	-	1,870,144
Change in net assets	(304,582)	27,130	(277,452)
NET ASSETS, BEGINNING OF YEAR	1,569,379	320,154	1,889,533
NET ASSETS, END OF YEAR	\$ 1,264,797	\$ 347,284	\$ 1,612,081

The accompanying notes are an integral part of this financial statement.

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2022

	Program			Total Program Expenses	Supporting Services		Total Expenses
	Conservation	Community Conservation	Stewardship		Management & General	Fundraising	
Salaries	\$ 108,738	\$ 3,475	9,689	\$ 121,902	\$ 109,624	\$ 7,499	\$ 239,025
Payroll taxes and benefits	19,307	280	807	20,394	18,991	603	39,988
Conservation easements	1,057,031	-	-	1,057,031	-	-	1,057,031
Office expense and supplies	904	-	136	1,040	32,290	418	33,748
Professional fees	22,644	-	15,506	38,150	23,285	2,100	63,535
Travel and meals	2,569	287	1,517	4,373	12,477	373	17,223
Rent and Utilities	-	-	-	-	10,331	-	10,331
Insurance	-	-	2,754	2,754	4,003	-	6,757
Pass thru programs	362,849	-	-	362,849	-	-	362,849
Program supplies	27,416	-	-	27,416	-	-	27,416
Event Expense	169	5,700	-	5,869	623	5,749	12,241
Total expenses	<u>\$ 1,601,627</u>	<u>\$ 9,742</u>	<u>\$ 30,409</u>	<u>\$ 1,641,778</u>	<u>\$ 211,624</u>	<u>\$ 16,742</u>	<u>\$ 1,870,144</u>

The accompanying notes are an integral part of this financial statement.

RIO GRANDE HEADWATERS LAND TRUST
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022

Cash flows from operating activities:

Change in net assets	\$ (277,452)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
(Increase) decrease in grants and contracts receivable	(16,654)
Realized/unrealized (gains) losses on investments	253,060
Increase (decrease) in accrued payroll expenses	700
Increase (decrease) in accounts payable	65,172
Net cash provided(used) by operating activities	24,826

Cash flows from investing activities:

Purchases of investments	(66,843)
Redemption of investments	35,000
(Purchases) of conservation interests held in properties	(4)
Net cash provided (used) by investing activities	(31,847)

Cash flows from financing activities:

-

Net increase (decrease) in cash and cash equivalents

(7,021)

Cash and cash equivalents at beginning of year

506,241

Cash and cash equivalents at end of year

\$ 499,220

Non-Cash investing activities:

Interest, dividends, and capital gains reinvested

\$ 49,107

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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 Directors.

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, 2022 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, 2022

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 organization. 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 2021 balances have been reclassified to conform to the fiscal year 2022 financial statement presentation.

Subsequent Events

Management has evaluated subsequent events through June 30, 2023, the date the financial statements were available to be issued.

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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, 2022:

<u>Description</u>	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds	\$ 1,108,946	\$ 1,130,518	\$ 21,572
Cash, CDs, and money funds	16,273	16,273	-
Total	<u>\$ 1,125,219</u>	<u>\$ 1,146,791</u>	<u>\$ 21,572</u>

Investment income (loss) for the year consisted of:

<u>Description</u>	<u>Amount</u>
Interest and dividends	\$ 20,846
Realized Gains/Losses	28,261
Unrealized Gains/Losses	<u>(279,260)</u>
Total	<u>\$ (230,153)</u>

In addition, interest earned on operating cash balances was \$ 997 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, 2022. As of December 31, 2022, the Trust is responsible for annually monitoring and perpetually enforcing the terms of 56 conservation easements covering 31,295 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, 2022, the interest rate was 7%, 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
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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, 2022, is \$1,146,791.

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	\$ 347,284
Special Programs	-
	\$ 347,284

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	\$ 15,143
	\$ 15,143

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	\$ 282,467
Conservation easements transaction costs	98,739
Pass-through easement purchases and transactions	75,000
Special Programs	9,689
Total	\$ 465,895

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
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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, 2022, was \$7,800.

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 6, the Board of the Directors has designated \$1,146,791 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.

Pass-through Programs

The Trust partners with other nonprofit organizations on certain grants. These funds are distributed throughout the year to these nonprofit organizations in accordance with the specific grant terms.

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, 2022 the Trust had \$113,983 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, 2022:

<u>Description</u>	<u>Amount</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 499,220
Investments	1,146,791
	<u>1,646,011</u>
Less amounts unavailable for general expenses within one year, due to:	
Board-designated stewardship and legal defense fund	(1,146,791)
Donor-restricted for conservation easements and programs	(347,284)
	<u>(1,494,075)</u>
Financial assets available to meet cash needs for general expenses	<u>\$ 151,936</u>

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

RIO GRANDE HEADWATERS LAND TRUST
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2022

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 three months of operating expenses, approximately \$93,000. As part of its liquidity plan, excess cash is maintained in a savings account.