

NEW MEXICO LAND CONSERVANCY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
New Mexico Land Conservancy

We have audited the accompanying statement of financial position of New Mexico Land Conservancy (a nonprofit corporation) as of June 30, 2012 and the related statement of activities, and cash flows for the year then ended. These financial statements are the responsibility of the New Mexico Land Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of New Mexico Land Conservancy as of June 30, 2011, were audited by other auditors whose report dated November 28, 2011 expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Land Conservancy as of June 30, 2012, and the changes in its net assets and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule of functional expenses for the year ended June 30, 2012 on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in dark ink, appearing to read "Barraclough & Associates, P.C.", is written over a horizontal line.

November 27, 2012

NEW MEXICO LAND CONSERVANCY

Statements of Financial Position

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash	\$ 160,732	\$ 222,069
Promises to give	138,833	196,250
Prepaid expenses	<u>5,107</u>	<u>3,497</u>
Total current assets	<u>304,672</u>	<u>421,816</u>
Non-current assets		
Cash - designated for stewardship fund	168,293	386,803
Investments - designated for stewardship fund	240,451	-
Land, building and equipment, partially pledged, net	630,311	656,744
Petchesky land subject to conservation easement, partially pledged	374,000	374,000
Other fee land, partially pledged	360,000	360,000
Deferred loan costs, net	5,682	6,396
Promises to give, long term portion	-	4,850
Cash held for revolving loan program	<u>-</u>	<u>10,077</u>
Total non-current assets	<u>1,778,737</u>	<u>1,798,870</u>
Total assets	<u><u>\$ 2,083,409</u></u>	<u><u>\$ 2,220,686</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 14,648	\$ 3,247
Accrued expenses	8,892	13,148
Line of credit	100,000	-
Current maturities of mortgage payable	<u>5,381</u>	<u>5,057</u>
Total current liabilities	128,921	21,452
Non-current liabilities		
Mortgage payable, less current maturities	<u>220,193</u>	<u>225,573</u>
Total liabilities	<u>349,114</u>	<u>247,025</u>
Net assets		
Unrestricted		
General unrestricted	1,180,118	1,385,758
Board designated stewardship fund	<u>408,744</u>	<u>386,803</u>
Total unrestricted	1,588,862	1,772,561
Temporarily restricted	<u>145,433</u>	<u>201,100</u>
Total net assets	<u>1,734,295</u>	<u>1,973,661</u>
Total liabilities and net assets	<u><u>\$ 2,083,409</u></u>	<u><u>\$ 2,220,686</u></u>

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

NEW MEXICO LAND CONSERVANCY

Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue:</u>				
Support				
Landowner contributions	\$ 158,656	\$ 69,500	\$ -	\$ 228,156
Individual contributions	30,598	-	-	30,598
Private grants	45,089	30,000	-	75,089
Corporate contributions	21,697	-	-	21,697
Total support	256,040	99,500	-	355,540
Revenue				
Special events	11,249	-	-	11,249
Interest income	2,296	-	-	2,296
Fee for services	4,618	-	-	4,618
Net assets released from restrictions	155,167	(155,167)	-	-
Total revenue	173,330	(155,167)	-	18,163
Total support and revenue	429,370	(55,667)	-	373,703
<u>Expenses:</u>				
Program services	474,568	-	-	474,568
Management and general	86,349	-	-	86,349
Fundraising	52,152	-	-	52,152
Total expenses	613,069	-	-	613,069
Change in net assets	(183,699)	(55,667)	-	(239,366)
Net assets, beginning of the period	1,772,561	201,100	-	1,973,661
Net assets, end of the period	<u>\$ 1,588,862</u>	<u>\$ 145,433</u>	<u>\$ -</u>	<u>\$ 1,734,295</u>

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

NEW MEXICO LAND CONSERVANCY

Statement of Activities

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<u>Support and Revenue:</u>				
Support				
Landowner contributions	\$ 343,250	\$ 114,485	\$ -	\$ 457,735
Individual contributions	179,961	-	-	179,961
Private grants	71,212	32,000	-	103,212
Corporate contributions	25,140	-	-	25,140
In-kind land	360,000	-	-	360,000
Total support	979,563	146,485	-	1,126,048
Revenue				
Special events	9,412	-	-	9,412
Interest income	2,316	-	-	2,316
Other income	143	-	-	143
Net assets released from restrictions	50,000	(50,000)	-	-
Total revenue	61,871	(50,000)	-	11,871
Total support and revenue	1,041,434	96,485	-	1,137,919
<u>Expenses:</u>				
Program services	440,406	-	-	440,406
Management and general	83,938	-	-	83,938
Fundraising	47,959	-	-	47,959
Total expenses	572,303	-	-	572,303
Change in net assets	469,131	96,485	-	565,616
Net assets, beginning of the period	1,303,430	104,615	-	1,408,045
Net assets, end of the period	<u>\$ 1,772,561</u>	<u>\$ 201,100</u>	<u>\$ -</u>	<u>\$ 1,973,661</u>

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

NEW MEXICO LAND CONSERVANCY

Statements of Cash Flows

Year Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (239,366)	\$ 565,616
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	28,406	28,447
Unrealized loss (gain) on investments	(690)	-
Land contribution	-	(360,000)
Decrease (increase) in:		
Promises to give	62,267	(96,485)
Prepaid expenses	(1,610)	6,621
Increase (decrease) in:		
Accounts payable	11,401	(1,886)
Accrued expenses	<u>(4,256)</u>	<u>441</u>
Net cash (used) provided by operating activities.	<u>(143,848)</u>	<u>142,754</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,259)	(36,349)
Purchases of investments	(239,761)	-
Maturities of certificates of deposit	<u>-</u>	<u>86,338</u>
Net cash (used) provided by investing activities	<u>(241,020)</u>	<u>49,989</u>
Cash flows from financing activities		
Origination of line of credit	100,000	-
Principal payments mortgage payable	<u>(5,056)</u>	<u>(4,815)</u>
Net cash provided (used) by financing activities	<u>94,944</u>	<u>(4,815)</u>
(Decrease) increase in cash	(289,924)	187,928
Cash, beginning of period	<u>618,949</u>	<u>431,021</u>
Cash, end of period	<u>\$ 329,025</u>	<u>\$ 618,949</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 12,768</u>	<u>\$ 13,009</u>
Noncash investing and financing land contribution	<u>\$ -</u>	<u>\$ 360,000</u>

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

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 and 2011

(1) Organization

The New Mexico Land Conservancy (NMLC) is a New Mexico nonprofit corporation organized in 2002. The mission of NMLC is to preserve New Mexico's land heritage by protecting significant wildlife habitat, productive agricultural lands, scenic open space, cultural and historic resources and recreational lands for conservation purposes and human benefit. As a member of the National Land Trust Alliance, NMLC adheres to best established practices for operating a nonprofit land trust organization and for completing high quality conservation easements and other conservation projects.

NMLC defines its program services as follows:

Land Conservation – NMLC works to identify and protect the most important and threatened lands using all the tools of private, voluntary land conservation by working with willing landowners to find ways to protect the conservation values of the land forever. NMLC uses a variety of land protection methods to achieve its conservation goals, and uses evaluation and selection criteria to assess the status of conservation values, the threats to these values, and the potential for their successful conservation on each of the properties it works to protect.

Land Stewardship – NMLC provides stewardship for all of its land and easement holdings through baseline assessment, management planning, monitoring and legal defense. Annual monitoring is completed to ensure landowner compliance with the terms of the easements and that the conservation values are being adequately protected.

Communications, Outreach and Education – NMLC increases awareness about the benefits of private land conservation and the mission of NMLC. NMLC provides accurate and timely information about the techniques and benefits of private land conservation, educates landowners, public policy makers, and the general public on the value of preserving land.

Capacity Building – NMLC periodically engages in policy and legislative initiatives that promote land conservation, restoration and stewardship; and create or enhance tax and financial incentives to encourage private landowners to engage in land conservation.

NMLC is primarily supported by contributions from the public, including landowners that have placed land under conservation easement and grants.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(2) Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

The accompanying financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Basis of Presentation

Financial statement presentation follows the recommendations of ASC 605, *Revenue Recognition*, which requires NMLC to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets – are assets not subject to stipulations imposed by the donor and are currently available for expenditures. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by explicit donor restrictions. Contributions are reported as unrestricted where donor-imposed restrictions are met in the same reporting period as they are received. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Unrestricted net assets include net assets transferred from temporarily restricted net assets after temporary restrictions imposed by the donor have been accomplished or the stipulated time period has elapsed. These unrestricted net assets include Board designated net assets that have been allocated for a specific purpose.

Temporarily Restricted Net Assets – are assets subject to explicit restrictions imposed by the donor on the expenditure of contributions or income and gains on contributed assets. The temporary restrictions may expire due to the passage of time or the occurrence of expenditures that fulfill the restrictions.

Permanently Restricted Net Assets – are assets subject to explicit stipulations imposed by the donor to be maintained in perpetuity by the Organization. NMLC does not have any permanently restricted net assets at June 30, 2012.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include cash on hand and cash in checking, savings accounts, money market mutual funds and U.S. Treasury bills if the maturity is three months or less when purchased.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(2) Summary of Significant Accounting Policies

Cash Held Revolving Loan Program

NMLC had contributed funds to a revolving loan program that will be administered by a partnership which includes the Permaculture Credit Union, Permaculture Guild and the Small Agriculture Land Conservation Initiative. The revolving loan program was available to private land owners who wish to place land under conservation easement and require funding to cover costs of completing the conservation easement. The funds contributed were invested in a share certificate with the Permaculture Credit Union. The account balance at June 30, 2011 was \$10,077. This loan program was terminated in 2012.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains on investments are restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

NMLC follows ASC 820, *Fair Value Measurements and Disclosures* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

In accordance with ASC 820, fair value is defined as the price that the NMLC would receive upon selling an investment in an orderly transaction to an independent buyer. ASC 820 established a three-tier hierarchy to establish classification of fair value measurements, summarized as follows:

- Level 1 – fair value is determined based on market data obtained from independent sources; for example, quoted prices in active markets for identical investments,
- Level 2 – fair value is determined using other assumptions obtained from independent sources; for example, quoted prices for similar investments,
- Level 3 – fair value is determined using the NMLC's own assumptions, developed based on the best information available in the circumstances.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(2) Summary of Significant Accounting Policies (Continued)

Promises to Give

Promises to give include New Mexico landowner contributions and foundation grant agreements. Unconditional donor promises to give are reported at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor. Unconditional promises that are expected to be collected within one year are recorded at net realizable value. Unconditional promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Based on past experience, management believes all pledges will be collected in full. Therefore, no allowance for doubtful accounts has been established.

The promises are reported as temporarily restricted support until all time and other restrictions are met. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the statement of activities as net assets released from restrictions.

Land, Buildings and Equipment

NMLC capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, NMLC reports expirations of donor restrictions when the donated or acquired assets are placed in service. NMLC reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to thirty-nine years.

Conservation Easements Property Interests

NMLC has acquired and holds a number of conservation easements, each representing a legal interest in land owned by another person or entity, but representing NMLC's right to monitor and protect the land for conservation purposes. NMLC evaluates each easement for its conservation values and then ensures that the terms of the easement will adequately protect and preserve these values. Because of the lack of foreseeable future cash flow benefits from the easements, the absence of a secondary easement market, and consistent with the practices followed by many environmental land trusts, the accompanying financial statements do not include any recorded amounts for these property interests. At June 30, 2012, NMLC held 49 conservation easements on 100,515 acres of land. At June 30, 2011, NMLC held 40 conservation easements on 82,103 acres of land.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(2) Summary of Significant Accounting Policies (Continued)

Deferred Loan Costs

Loan costs relating to the mortgage payable are amortized on a straight line basis over a ten year period.

Compensated Absences

All eligible employees accrue vacation time at a rate based on their employment contract, typically two or three weeks per year. Accrued but unused vacation up to 150% of their annual accrual rate may be carried from year to year, and a liability for compensated absences has been recorded.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. During the year ended June 30, 2011, NMLC received a general support contribution from one individual in the amount of \$152,436 and received one landowner contribution in the amount of \$300,000.

Conservation Easement Acquisition Funding Agreements

In certain circumstances, NMLC will enter into agreements with governmental entities as a cooperating/sponsorship organization to facilitate the governmental entity or entities participation in acquisition of conservation easements. Upon closing a conservation easement acquisition, where land title is passed through NMLC, NMLC will record revenue and an equal conservation easement acquisition expenditure for amounts that NMLC has passed through to the landowner.

In addition, NMLC may facilitate the closing of conservation easements in partnership with the U.S. National Resource Conservation Service (NRCS). NMLC secures allocation of federal funds through the NRCS Farm and Ranchland Protection Program for the purchase of an easement from the landowner. Through cooperative agreements with NRCS, NMLC requests an advance of these funds to be transferred directly by NRCS to an escrow account prior to closing and then paid directly to the landowner. Since title does not pass through NMLC, the funding has not been recorded as revenue and an equal conservation easement acquisition expenditures. During the year ended June 30 2012 and 2011, NMLC facilitated \$600,000 and \$0, respectively, of such federal funding.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(2) Summary of Significant Accounting Policies (Continued)

Donated Land, Services, Supplies, and Facilities

Donated items are recorded in the accompanying financial statements as in-kind contributions at their estimated fair market value at the date of receipt. Donated services are reflected as contributions when the donor has specialized skills or the services enhance a non-monetary asset, and the service would be purchased if not donated. No amounts have been reflected in the financial statements for donated services from volunteers. NMLC generally pays for services requiring specific expertise.

Income Taxes

NMLC is a nonprofit organization that is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. NMLC does not have unrelated business income and accordingly no provisions for income taxes have been made in the accompanying financial statements. NMLC files an annual information return (Form 990) with the Internal Revenue Service. There are no uncertain tax positions for the years ended June 30, 2012 and 2011.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Most expenses are allocated directly to the program or the support service benefited. Certain costs are allocated to the appropriate program or support service using a variable percentage base.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with NMLC's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassification

Certain 2011 items may have been reclassified in order to conform to the 2012 financial statement presentation.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(3) Promises to Give

Included in promises to give are scheduled landowner contributions of \$108,833 and \$169,100 in 2012 and 2011, respectively, and foundation grants of \$30,000 and \$32,000 in 2012 and 2011, respectively, for NMLC as follows:

	<u>2012</u>	<u>2011</u>
Unconditional promises to give before present value discount	\$ 138,833	\$ 201,250
Less: present value discount	<u>-</u>	<u>(150)</u>
Net promises to give	<u>\$ 138,833</u>	<u>\$ 201,100</u>
Amounts due in:		
Less than one year	\$ 138,833	\$ 196,250
One to two years	<u>-</u>	<u>4,850</u>
Total	<u>\$ 138,833</u>	<u>\$ 201,100</u>

The discount rate applied to future cash flows was 2% for the year ended June 30, 2011.

(4) Investments

Investments consisted of the following at June 30:

	<u>2012</u>	
	<u>Basis</u>	<u>Unrealized Gain/Loss</u>
		<u>Market Value</u>
Bond Mutual Funds	\$ 239,761	\$ 240,451
	<u>\$ 239,761</u>	<u>\$ 240,451</u>

Investments at June 30, 2012 were board designated, net assets.

Substantially all of NMLC's investments for the years ended June 30, 2012 were valued using the market price at year end (Level 1).

Market value risk: NMLC invests in mutual funds that contain various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

Interest income for the period ended June 30, 2012 is net of investment fees of \$280.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(5) Land, Buildings and Equipment

A summary of property is as follows:

	2012	2011
Land	\$ 98,000	\$ 98,000
Buildings and improvements	540,508	540,508
Office equipment	41,395	40,135
Vehicles	45,154	45,154
	725,057	723,797
Less accumulated depreciation	(94,746)	(67,053)
Net land, buildings and equipment	\$ 630,311	\$ 656,744

Land and buildings and improvements are partially pledged for the mortgage payable (note 9) and the line of credit (note 10).

Depreciation expense for the year ended June 30, 2012 and 2011 was \$27,693 and \$27,734, respectively.

(6) Petchesky Land Subject to Conservation Easement

In February 2009, NMLC was the recipient of a gift of the 262 acre Petchesky Ranch, a landmark property near the Santa Fe Community College. Ranch acreage amounting to 249 of the 262 acres is subject to a conservation easement held by the nonprofit Forest Trust (240 acres) and trail easements held by Santa Fe County (9 acres). The ranch house and related structures and certain land acreage serve as the operating offices of NMLC. NMLC has allocated \$374,000 to the acreage received not used in NMLC operations. This land is partially pledged for the mortgage payable (note 9) and the line of credit (note 10). The land is valued using a market approach. The land is a Level 3 valuation according to ASC 820, *Fair Value Measurements and Disclosure*. Level 3 values are the result of management's own judgment or estimation about the assumptions market participants would use in pricing the asset. Management believes there was no change in value during the years ended June 30, 2012 and 2011.

(7) Other Fee Land

NMLC was named as a beneficiary in the Jane Petchesky will, which granted 20 acres adjacent to the Petchesky Ranch to NMLC. The 20 acre parcel is recorded at \$360,000 based on appraised value. The acreage was transferred to NMLC in February 2011. This land is partially pledged for the mortgage payable (note 9) and the line of credit (note 10). The land is valued using a market approach. This gift is reflected as a noncash contribution in the statement of activities during the year ended June 30, 2011. The land is a Level 3 valuation according to ASC 820, *Fair Value Measurements and Disclosure*. Level 3 values are the result of management's own judgment or estimation about the assumptions market participants would use in pricing the asset. Management believes there was no change in value during the years ended June 30, 2012 and 2011.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(8) Deferred Loan Costs

At June 30, 2012 and 2011, accumulated amortization for deferred loan costs was \$1,446 and \$733, respectively. Amortization expense for the year ended June 30, 2012 and 2011 was \$713.

(9) Mortgage Payable

In June 2009 NMLC secured a \$240,000 mortgage with a local financial institution. The mortgage is secured by NMLC's operating facility and excess land and certain cash accounts with the financial institution. The mortgage bears interest at 3% above the weekly average yield on United States Treasury Securities adjusted to a constant maturity of five years, but in no case less than 5.5%. Terms call for monthly payments of \$1,485 including interest with a balloon payment due on June 4, 2019.

Maturities for the next five years are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,381	\$ 12,443
2014	5,689	12,136
2015	6,014	11,810
2016	6,326	11,498
2017	6,720	11,104
Thereafter	195,444	21,033
	<u>\$ 225,574</u>	<u>\$ 80,024</u>

(10) Line of Credit

In July 2011, NMLC obtained a line of credit for \$250,000 from a local bank. This agreement is collateralized by a right of cash setoff, a second mortgage on the NMLC's operating facility and excess land and interest payable at 1.0% over the "Wall Street Journal" Prime Rate. The interest rate at June 30, 2012 was 4.25%. The outstanding balance for the agreement as of June 30, 2012 was \$100,000. The agreement was renewed in July 2012 with substantially the same terms.

(11) Net Assets

Temporarily restricted net assets of \$145,433 represents \$6,600 of grant funds restricted to purpose and \$138,833 of landowner and grant agreement promises to give due at June 30, 2012. Temporarily restricted net assets of \$201,100 represent land owner and grant agreement promises to give due at June 30, 2011.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(11) Net Assets (Continued)

NMLC's Board of Directors had adopted a policy of maintaining an average of \$10,000 per completed conservation easement and combining these funds for the purpose of future monitoring and, if necessary, legal defense of the conservation easements held. Currently, annual monitoring expenses are paid directly out of NMLC's operating funds. Therefore, during the year ended June 30, 2011, the Board of Directors approved a temporary decrease to \$5,000 per completed conservation easement. NMLC refers to these funds as "stewardship funds". These amounts have been set aside from NMLC's operating asset accounts and are held in separate bank accounts. Sources generating these funds are contributions from landowners. Applicable investment income has been added to the fund. Board designated stewardship funds total \$408,744 and \$386,803 at June 30, 2012 and 2011, respectively.

(12) Commitments and Contingencies

Monitoring and, if necessary, legally defending the conservation easements held by NMLC is an important aspect of NMLC's mission. Costs associated with NMLC's stewardship efforts are expensed as incurred. The amount of future costs that will be incurred in NMLC's stewardship efforts will be expensed as incurred.

The Internal Revenue Service and the State of New Mexico have provided tax benefits in the form of deductions and credits to individuals or entities that donate conservation easements. These benefits represent a major incentive for contributing easements to NMLC. NMLC's ability to generate future contributions could be impaired if these tax benefits were eliminated or reduced.

(13) Employee Benefit Plan

NMLC has established a Simple IRA plan for qualifying employees under Section 408(p) of the Internal Revenue Code, and is required to make a contribution of 2% of employee salaries annually. The amounts charged to pension expense for the years ended June 30, 2012 and 2011 amounted to \$4,016 and \$3,750, respectively.

(14) Advertising Expenses

NMLC uses advertising to promote its programs among the public it serves. The costs of advertising are expensed as incurred. For the years ended June 30, 2012 and 2011, NMLC had advertising costs of \$0 and \$1,177, respectively.

(15) Related Party Transactions

NMLC board members and employees provided \$7,990 and \$6,157 in cash contributions for the years ended June 30, 2012 and 2011, respectively.

NEW MEXICO LAND CONSERVANCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012 and 2011

(16) Leasing Arrangement

In June 2010, NMLC entered into an equipment operating lease with service plan for a term of 60 months with monthly payments of \$329. Future minimum payments under this agreement are as follows:

<u>Year Ending</u>	
2013	\$ 3,948
2014	3,948
2015	<u>3,624</u>
	<u>\$ 11,520</u>

Equipment lease expense amounted to \$3,953 and \$3,726 for the years ended June 30, 2012 and 2011, respectively.

(17) Concentration of Credit Risk

NMLC's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and investments. Periodically throughout 2012 and 2011, NMLC has maintained cash balances in excess of insured limits. As of June 30, 2012 and 2011 the amounts on deposit at the banks exceeded the FDIC limit by \$0 and \$32,808, respectively.

(18) Subsequent Events

Management and the Board of Directors of NMLC has evaluated subsequent events through November 27, 2012, the date which the financial statements were available to be issued. There were no items deemed to be significant that require disclosure or adjustment to the 2012 financial statements.

NEW MEXICO LAND CONSERVANCY

Supplemental Schedule of Functional Expenses

Years Ended June 30, 2012 and 2011

	Program Services	Management and General	Fundraising	2012 Total	2011 Total
Salaries and Wages	\$ 186,909	\$ 52,504	\$ 36,693	\$ 276,106	\$ 224,733
Payroll taxes	16,223	4,521	3,205	23,949	17,078
Health benefits	14,282	2,312	2,678	19,272	12,248
Retirement benefits	3,189	445	382	4,016	3,750
Total salaries and related expenses	220,603	59,782	42,958	323,343	257,809
Project related professional services	92,462	-	-	92,462	131,382
Facility costs	21,142	2,567	2,454	26,163	18,274
Outreach events	22,245	-	-	22,245	-
Printing and copying	17,949	33	100	18,082	24,289
Operational professional services	-	15,786	-	15,786	26,066
Interest	10,214	1,277	1,277	12,768	13,009
Insurance	9,077	2,576	-	11,653	13,596
Communications	8,900	627	627	10,154	9,287
Travel	9,289	-	168	9,457	11,155
Other	9,139	75	-	9,214	1,694
Postage and delivery	5,440	367	723	6,530	4,396
Supplies	5,996	208	47	6,251	5,237
Project costs	6,145	-	-	6,145	2,244
Meals and entertainment	4,392	3	737	5,132	6,676
Conferences	3,095	-	25	3,120	2,275
Business dues and fees	2,061	207	33	2,301	2,718
Vehicle maintenance	1,769	-	-	1,769	2,174
Computer expense	1,183	-	-	1,183	612
Equipment rental	742	-	-	742	-
Fundraising professional services	-	-	162	162	-
Fundraising event	-	-	-	-	10,096
Recruiting	-	-	-	-	867
Total expenses before depreciation	451,843	83,508	49,311	584,662	543,856
Depreciation and amortization	22,725	2,841	2,841	28,407	28,447
Total expenses	<u>\$ 474,568</u>	<u>\$ 86,349</u>	<u>\$ 52,152</u>	<u>\$ 613,069</u>	<u>\$ 572,303</u>