

New Mexico Land Conservancy

FINANCIAL STATEMENTS

June 30, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Mexico Land Conservancy

Report on the Financial Statements

We have audited the accompanying financial statements of New Mexico Land Conservancy (NMLC) (a non-profit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 NMLC'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 NMLC'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.

Opinion

In our opinion, the financial statements referred to present fairly, in all material respects, the financial position of NMLC as of June 30, 2020, 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.

Adjustments to Prior Period Financial Statements

The financial statements of NMLC as of June 30, 2019, were audited by other auditors whose report dated February 28, 2020 expressed an unmodified opinion on those statements. As discussed in Note 14 to the financial statements, NMLC identified certain errors related to revenue recognition during the current year. To correct the errors, previously reported amounts for accounts receivable and landowner easements have been restated in the 2019 financial statements now presented. The other auditors reported on the 2019 financial statements before the restatement. Our opinion is not modified with respect to that matter.

As part of our audit of the 2020 financial statements, we also audited adjustments described in Note 14 that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2019 financial statements of NMLC other than with respect to the adjustments, and accordingly, we do not express an opinion or any form of assurance on the 2019 financial statements as a whole.

Supplemental and Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 the 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2021 on our consideration of NMLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMLC's internal control over financial reporting and compliance.

March 12, 2021

PULAKOS CPAs, PC

Pulakos CPAs, PC

New Mexico Land Conservancy
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

Assets

	2020	2019 (As Restated)
Current assets		
Cash and cash equivalents	\$ 306,820	\$ 260,780
Funds held-for-others	121,366	8,859
Accounts receivable	55,219	33,180
Prepaid expenses	9,686	9,872
Total current assets	493,091	312,691
Non-current assets		
Investments - endowment	315,657	-
Investments - designated for stewardship fund	696,414	686,863
Office, land, building and equipment	565,989	542,659
El Prado land	675,000	-
Petchesky land	694,000	694,000
Total assets	\$ 3,440,151	\$ 2,236,213

Liabilities and Net Assets

Current liabilities		
Accounts payable	\$ 21,564	\$ 22,745
Accrued expenses	11,669	27,348
Refundable advances - Paycheck Protection Program	103,320	-
Funds held-for-others	121,366	8,859
Total current liabilities	257,919	58,952
Net assets		
Without donor restrictions		
General unrestricted	2,052,836	1,323,460
Board designated stewardship fund	696,414	686,863
Board designated Petchesky Conservation Center maintenance fund	114,418	71,118
Total unrestricted	2,863,668	2,081,441
With donor restrictions	318,564	95,820
Total net assets	3,182,232	2,177,261
Total liabilities and net assets	\$ 3,440,151	\$ 2,236,213

New Mexico Land Conservancy

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Landowner contributions	\$ 583,600	\$ -	\$ 583,600
Government grants	3,491,727	-	3,491,727
Other grants and contributions	253,497	357,645	611,142
Investment loss	(16,594)	(41,988)	(58,582)
Fees for services	6,150	-	6,150
In-kind contributions	675,000	-	675,000
Net assets released from restrictions	92,913	(92,913)	-
	5,086,293	222,744	5,309,037
Expenses			
Program services	4,132,622	-	4,132,622
Management and general	110,852	-	110,852
Fundraising	60,592	-	60,592
	4,304,066	-	4,304,066
Change in net assets	782,227	222,744	1,004,971
Net assets, beginning of year (as restated)	2,081,441	95,820	2,177,261
Net assets, end of year	\$ 2,863,668	\$ 318,564	\$ 3,182,232

New Mexico Land Conservancy

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2019

	Without Donor Restrictions	2019 With Donor Restrictions	Total
Support and Revenue			
Landowner contributions (as restated)	\$ -	\$ 170,000	\$ 170,000
Government grants	-	401,185	401,185
Other grants and contributions	80,524	52,000	132,524
Investment income	41,736	-	41,736
Fees for services	-	40,624	40,624
In-kind contributions	400	-	400
Net assets released from restrictions	1,002,780	(1,002,780)	-
Total support and revenue	1,125,440	(338,971)	786,469
Expenses			
Program services	987,994	-	987,994
Fundraising	94,815	-	94,815
Management and general	86,103	-	86,103
Total expenses	1,168,912	-	1,168,912
Change in net assets	(43,472)	(338,971)	(382,443)
Net assets, beginning of year (as restated)	2,124,913	434,791	2,559,704
Net assets, end of year (as restated)	\$ 2,081,441	\$ 95,820	\$ 2,177,261

New Mexico Land Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2020

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 355,870	\$ 44,484	\$ 44,483	\$ 444,837
Payroll taxes	28,407	3,551	3,551	35,509
Employee benefits	57,335	7,167	7,167	71,669
Total personnel expenses	441,612	55,202	55,201	552,015
Project costs	3,504,883	-	-	3,504,883
Operation and administrative expense	33,653	33,653	-	67,306
Facility (PCC)	32,958	4,120	4,120	41,198
Business fees and dues	26,779	8,926	-	35,705
Consultants and professional services	25,496	1,342	-	26,838
Travel	14,341	1,593	-	15,934
Fleet	9,971	1,108	-	11,079
Equipment	9,945	1,105	-	11,050
Meetings, events and workshops	6,274	784	784	7,842
Other expenses	3,899	487	487	4,873
Total operating expenses	4,109,811	108,320	60,592	4,278,723
Depreciation	22,811	2,532	-	25,343
Total expenses	\$ 4,132,622	\$ 110,852	\$ 60,592	\$ 4,304,066

New Mexico Land Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 280,104	\$ 58,256	\$ 61,268	\$ 399,628
Payroll taxes	21,547	4,692	4,481	30,720
Employee benefits	<u>46,281</u>	<u>10,102</u>	<u>11,416</u>	<u>67,799</u>
 Total personnel expenses	 347,932	 73,050	 77,165	 498,147
Project costs	456,378	-	-	456,378
Operation and administrative expense	53,285	6,759	6,957	67,001
Consultants and professional services	36,321	22	1,816	38,159
Facility (PCC)	21,196	2,649	2,649	26,494
Travel	13,218	-	1,469	14,687
Business fees and dues	13,359	25	25	13,409
Fleet	10,219	-	1,135	11,354
Equipment	7,585	914	914	9,413
Meetings, events and workshops	6,948	15	15	6,978
Other expenses	<u>1,231</u>	<u>129</u>	<u>129</u>	<u>1,489</u>
 Total operating expenses	 967,672	 83,563	 92,274	 1,143,509
Depreciation	<u>20,323</u>	<u>2,540</u>	<u>2,540</u>	<u>25,403</u>
 Total expenses	 <u>\$ 987,995</u>	 <u>\$ 86,103</u>	 <u>\$ 94,814</u>	 <u>\$ 1,168,912</u>

New Mexico Land Conservancy

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Change in net assets	\$ 1,004,971	\$ (382,443)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,343	25,403
Net loss (gain) on investments	58,582	(13,135)
Contribution of land	(675,000)	-
Effects of prior period adjustment	-	405,000
Change in assets and liabilities		
Accounts receivable	(22,039)	-
Prepaid expenses	186	3,623
Accounts payable	(1,181)	(3,388)
Accrued expenses	(15,679)	10,325
Refundable advances - Paycheck Protection Program	103,320	6,434
Net cash provided by operating activities	<u>478,503</u>	<u>51,819</u>
Investing activities		
Purchase of property and equipment	(48,673)	2,931
Purchase of investments	(383,790)	(396,030)
Sale of investments	-	196,864
Net cash used by investing activities	<u>(432,463)</u>	<u>(196,235)</u>
Net change in cash and cash equivalents	46,040	(144,416)
Cash and cash equivalents, beginning of year	<u>260,780</u>	<u>405,196</u>
Cash and cash equivalents, end of year	<u>\$ 306,820</u>	<u>\$ 260,780</u>

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

New Mexico Land Conservancy (NMLC) is a New Mexico nonprofit corporation founded in 2002. The mission of NMLC is to preserve New Mexico's land heritage by helping people conserve the places they love. As a statewide organization, NMLC works with private landowners, community groups, public agencies and other partners to protect significant wildlife habitat, productive agricultural lands, scenic open space, cultural and historic resources and recreational lands at community, watershed and landscape scales. As a member of the National Land Trust Alliance, NMLC is an accredited land trust and adheres to best established standards and practices of the industry.

NMLC defines its program services as follows:

Land Conservation – NMLC works to identify and protect the most important and threatened lands by working with willing landowners to find ways to protect the conservation values of their land for conservation purposes and public benefit. NMLC uses conservation easements and other private, voluntary land conservation 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 conservations, 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, foundations and individual donors.

Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

NMLC classifies net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of NMLC and the changes therein are classified and reported as follows:

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 NMLC. These net assets may be used at the discretion of NMLC's management and the board of directors.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments and maturity dates of three months or less. For purposes of the statement of cash flows, NMLC considers all cash accounts to be cash equivalents. At times, these balances may exceed insured limits. NMLC has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to uninsured cash balances.

Accounts Receivable

Accounts receivable represents revenue earned from services performed, but not yet collected. NMLC considers all amounts to be fully collectible as of June 30, 2020 and 2019, and accordingly, no allowance for doubtful accounts was recorded.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statements of activities as increases or decreases in without donor restrictions net assets unless the income or loss is restricted by donor or law.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Revenue for grants and contributions is recorded when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Revenue for cost-reimbursable contracts and grants is recorded when expenditures are incurred in compliance with the specific contract and grant provisions. Revenue for landowner easement projects is recognized as services provided by NMLC are performed, based on milestones included in the letters of intent for each project.

Funds Held-for-Others

NMLC enters into agreements with other organizations in which NMLC acts as a fiscal agent by receiving and disbursing funds on behalf of these organizations. In return for these services, NMLC typically retains a 1% management fee. As of June 30, 2020 and 2019, the amount of funds held-for-others was \$121,366 and \$8,859, respectively.

Property and Equipment

Property and equipment are stated at cost. Property and equipment that are received by donation are recorded at the estimated fair value on the date of donation. Such donations are reported as without donor restrictions support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, NMLC reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. NMLC reclassifies with donor restrictions net assets to without donor restrictions net assets at that time. Purchased or donated property and equipment in excess of \$1,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the costs of depreciable assets to operations over their estimated useful lives, which range from three to thirty-nine years.

Donated Services, Land Use, Storage, Equipment, and Materials

NMLC recognizes contributed services if the services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and would need to be purchased if not provided by donation. Recognized contributed services, land use, storage, equipment, and materials are recorded at the fair value on the date of donation.

Income Tax Status

NMLC is a nonprofit charitable corporation and has been recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. NMLC has adopted accounting principles generally accepted in the United States of America, as they relate to uncertain tax positions, and has evaluated its tax positions taken for open tax years. Management believes that the activities of NMLC are within their tax-exempt purpose, and that there are no uncertain tax positions that require disclosure or recognition in the financial statements.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 and 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 these values. Due to the lack of foreseeable future cash flow benefits from the easements and the absence of a secondary easement market, the accompanying financial statements do not include any recorded amounts for these property interests. This accounting policy is consistent with the practices followed by many environmental land trusts. NMLC completed 8 conservation easements in fiscal year 2020 (La Jencia Ranch, Monte Prieto Ranch, Lost Draw Ranch Phase I, Fort Union Ranch – Upper Wolf Creek, El Barro Canyon CE #1 and CE #2, Luther Ranch and Solitaire Springs) protecting 36,223 acres and increasing its total portfolio from 91 easements over 246,521 to 99 easements over 282,744 acres at the end of fiscal year 2020. While the easement donations represent value to the grantors based upon the appraised value of the development rights foregone through the conservation easements (which form the basis of their charitable tax deductions), the easements have no real financial or marketable value once they are donated to the land trust. The combined value of the non-cash conservation easement contributions granted to NMLC for the year ended June 30, 2020 was \$7,052,197, as compared to \$14,944,000 for the year ended June 30, 2019. However, NMLC does not report the appraised value of these non-cash conservation easement donations as revenue as this would result in an overstatement of NMLC's actual financial assets.

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 the landowner.

In addition, NMLC facilitates the acquisition of conservation easements in partnership with the U.S. Department of Defense (DOD), U.S. Natural Resources Conservation Service (NRCS), U.S. Fish & Wildlife Service (USFWS) and other federal, state and local agencies. During the years ended June 30, 2020 and 2019, NMLC facilitated \$3,922,000 and \$989,410, respectively, of federal funding through DOD, NRCS and USFWS which was transferred directly to escrow accounts at title companies and then paid directly to landowners.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

New Accounting Pronouncements

Revenue from Contracts with Customers – NMLC has adopted Accounting Standards Update (ASU) No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)*, as amended. Analysis of various provisions of this standard resulted in no significant changes in the way NMLC recognizes revenue and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis.

Contributions Received and Contributions Made – NMLC has adopted Accounting Standards Update (ASU) No. 2018-08 – *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. The standard is applied prospectively. There were no changes to previously unrecognized promises to give as a result of this new standard.

Fair Value Measurements

Accounting Standards Codification Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that NMLC has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Instruments

The carrying amounts of cash, receivables, payables, debt, and other obligations approximate fair value due to the short-term nature of these instruments.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Subsequent Events

NMLC has evaluated all events occurring subsequent to June 30, 2020 through March 12, 2021, which is the date that the financial statements were issued and believes that all events occurring during this period that require either recognition or disclosure in the accompanying financial statements have been properly disclosed and recognized as applicable.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 306,820	\$ 260,780
Accounts receivable, net	55,219	33,180
Investments	<u>1,012,071</u>	<u>686,863</u>
Total financial assets	1,374,110	980,823
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(318,564)	(95,820)
Board designated funds	<u>(810,832)</u>	<u>(757,981)</u>
	<u>(1,129,396)</u>	<u>(853,801)</u>
Financial assets available to meet cash needs for general expenditure within one year from June 30, 2020 and 2019	<u>\$ 244,714</u>	<u>\$ 127,022</u>

NMLC manages its cash flow and liquidity on an on-going basis to ensure that sufficient funds are available to cover current operational needs. NMLC's goal is generally to maintain a level of financial assets sufficient to cover 120 days of average operating expenses. These amounts are designated by the Board each year, based on the approved operating budget. As part of its liquidity plan, NMLC is continuously evaluating the amount of cash on hand and expected to be collected within 30 days, against current financial obligations.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 4 – INVESTMENTS

The following tables set forth by level, within the fair value hierarchy, NMLC's assets at fair value as of June 30, 2020 and 2019:

Assets at Fair Value as of June 30, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 113,295	\$ -	\$ -	\$ 113,295
Mutual funds – equities	386,412	-	-	386,412
Mutual funds – bonds	<u>512,364</u>	<u>-</u>	<u>-</u>	<u>512,364</u>
	<u>\$ 1,012,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,012,071</u>

Assets at Fair Value as of June 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 83,356	\$ -	\$ -	\$ 83,356
Mutual funds – equities	157,296	-	-	157,296
Mutual funds – bonds	<u>446,211</u>	<u>-</u>	<u>-</u>	<u>446,211</u>
	<u>\$ 686,863</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 686,863</u>

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring measurements. At least, annually, management determines if the current valuation techniques used in fair value measurements are still appropriate and evaluates and adjusts unobservable inputs used in the fair value measurements based on current market conditions and third-party information. If applicable, NMLC recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Money Market Funds and Mutual Funds: Fair value determined using quoted market prices.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 5 – OFFICE, LAND, BUILDING AND EQUIPMENT

Office, land, building and equipment consisted of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 98,000	\$ 98,000
Buildings and improvements	592,183	573,097
Office equipment	47,070	47,070
Vehicles	<u>102,614</u>	<u>73,024</u>
	839,867	791,191
Less accumulated depreciation	<u>(273,878)</u>	<u>(248,532)</u>
Net office land, buildings and equipment	<u>\$ 565,989</u>	<u>\$ 542,659</u>

Depreciation expense for the years ended June 30, 2020 and 2019 was \$25,343 and \$25,403, respectively. Land and buildings and improvements are partially pledged for the line-of-credit.

NOTE 6 – LAND

Petchesky Land

In 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 Santa Fe Conservation Trust (240 acres) and trail easement 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 a portion of the acreage not used in NMLC operations, what was valued at \$374,000 as of June 30, 2020 and 2019, respectively. This land is partially pledged for the line-of-credit.

In 2011, NMLC was the recipient of a bequest of 20 acres of land adjacent to the Petchesky Ranch, from the Jane Petchesky will. The value of this land was \$320,000 as of June 30, 2020 and 2019, respectively. This land is partially pledged for the line-of-credit.

El Prado Land

In 2020, NMLC was the recipient of a gift of 70 acres of development land located north of the Millicent Rogers Museum in El Prado, NM. NMLC intends to dispose of the land when it can maximize the return from its sale in the real estate market and apply the eventual proceeds toward its conservation mission. The value of this land was \$675,000 as of June 30, 2020.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 7 – FUNDS HELD-FOR-OTHERS

NMLC enters into agreements with other organizations in which NMLC acts as a fiscal agent by receiving and disbursing funds on behalf of these organizations. In return for these services, NMLC typically retains a 1% management fee. As of June 30, 2020 and 2019, the amount of funds held-for-others was \$121,366 and \$8,859, respectively.

NOTE 8 – LINE-OF-CREDIT

NMLC has a bank line-of-credit with a limit of \$200,000; borrowings are subject to a borrowing base formula. This agreement is collateralized by a right of cash offset on the NMLC's operating facility and excess land. Interest is payable at 5.75%. The line matures in April 2023 and has an outstanding balance of zero as of June 30, 2020 and 2019, respectively.

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program specific purpose	\$ 2,907	\$ 95,820
Endowment	<u>315,657</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 318,564</u>	<u>\$ 95,820</u>

Net assets released from restrictions consists of collections of time restricted pledges, as well as expenditures of funds in accordance with donor restrictions. Net assets released from restrictions were \$92,913 and \$1,002,780 in 2020 and 2019, respectively.

NOTE 10 – BOARD DESIGNATED NET ASSETS

In 2013, NMLC's Board of Directors approved a policy to maintain "stewardship fund" at an amount approximating \$8,000 per easement. These amounts have been set aside from NMLC's operating asset accounts and are held in separate investment accounts. Applicable investment income has been added to the fund. NMLC has enrolled in a conservation easement insurance program covering \$500,000 of combined annual insurance coverage for the legal defense of the easement portfolio. Board designated stewardship funds total \$696,414 and \$686,863 at June 30, 2020 and 2019, respectively.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 10 – BOARD DESIGNATED NET ASSETS – CONTINUED

In 2014, NMLC’s Board of Directors approved a designation of a Petchesky Conservation Center (PCC) maintenance fund. The PCC maintenance fund is to cover large expenditures for general maintenance costs of the operations facility. Board designated PCC maintenance funds were \$114,418 and \$71,118 at June 30, 2020 and 2019, respectively.

NOTE 11 – ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to NMLC. The State of New Mexico adopted UPMIFA effective July 1, 2009. NMLC has determined that certain net assets meet the definition of endowment funds under UPMIFA.

NMLC’s endowment fund was established in 2020 and consists entirely of a single donor-restricted fund to support specific conservation easement efforts. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

NMLC has interpreted UPMIFA as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contract. As a result of this interpretation, NMLC classifies as net assets with donor restrictions (a) the original value of the gifts donated to the restricted endowment, (b) the original value of subsequent gifts to the restricted endowment, and (c) accumulated investment earnings and losses, net of investment management fees, until those amounts are appropriated for expenditure by NMLC in a manner consistent with the donor-restricted purpose of the endowment. NMLC considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. NMLC has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, NMLC 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 NMLC 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 NMLC
- The investment policies of NMLC.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 11 – ENDOWMENTS – CONTINUED

Endowment Investment and Spending Policies

NMLC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for initiatives supported by its endowments while seeking to maintain the purchasing power of the endowments.

In determining the prudent amount to distribute in a given year, NMLC considers the donor's intent, the purpose of the fund as stated in the fund agreement, and relevant economic factors. NMLC's current spending policy with regards to its endowment is determined annually by the Board of Directors.

The investment policies establish a return objective through diversification of asset classes. The current long-term return objective is the rate of inflation plus spending, net of any investment fees. To satisfy its long-term rate of return objectives, NMLC relies on a total return strategy in which investment returns may be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). NMLC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

In 2020, NMLC was designated as the manager of a long-term management endowment fund for the Lost Draw Prairie Chicken Conservation Bank (LDPCCB) and was the recipient of \$357,645 in endowment funds from Tomahawk LLC. As the manager of these funds, NMLC is responsible for ensuring that the endowment principal is permanently restricted. The investment interest income generated from this endowment may be used to fund short and long-term management activities defined in the management plans for the LDPCCB and this investment interest income is classified as temporarily restricted. As the endowment manager, NMLC may also annually withdraw a one percent administrative fee from the endowment fund.

Changes in Endowment Net Assets for the Year Ending June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ -	\$ -	\$ -
Contributions	-	357,645	357,645
Investment loss, net of fees	-	(41,988)	(41,988)
Endowment net assets, June 30, 2020	<u>\$ -</u>	<u>\$ 315,657</u>	<u>\$ 315,657</u>

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 11 – ENDOWMENTS – CONTINUED

Funds with Deficiencies

From time to time, the fair value of assets associated with donor restricted endowment funds may fall below the total amount of the gifts made to the endowment by the donor. Deficiencies of this nature that are reported with donor restrictions were \$41,988 as of June 30, 2020. This deficiency resulted from unfavorable market conditions.

NOTE 12 – PAYCHECK PROTECTION PROGRAM (PPP) LOAN

On April 30, 2020, NMLC entered into a Loan Agreement and Promissory Note (SBA Loan) pursuant to the Paycheck Protection Program (PPP) under the recently enacted Coronavirus Aid, Relief, and Economic Security Act (CARES Act) administered by the U.S. Small Business Administration. NMLC received total loan proceeds of \$103,320. The loan is scheduled to mature on April 1, 2022, carries a 1.00% interest rate, and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be prepaid by NMLC at any time prior to maturity with no prepayment penalties. The loan contains customary events of default relating to, among other things, payment defaults and breaches of representations and warranties.

Subject to certain conditions, the loan may be forgiven in whole or in part by applying for forgiveness pursuant to the CARES Act and the PPP. The amount of loan proceeds eligible for forgiveness is determined on a formula based on a number of factors, including the amount of loan proceeds used during the 24-week forgiveness period after the loan origination for certain purposes, including payroll costs, interest on certain mortgage obligations, rent payments on certain leases, and certain qualified utility payments, provided that, among other matters, a least 60% of the loan amount is used for eligible payroll costs, the maintenance or rehiring of employees, and maintaining salaries at certain levels. In accordance with the requirements of the CARES Act and the PPP, NMLC intends to use the proceeds from the loan primarily for payroll costs.

NMLC has elected to account for this transaction as a conditional contribution, pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, Financial Statements for Not-For-Profit Organizations – Revenue Recognition. Accordingly, NMLC asserts that loan forgiveness pursuant to the CARES Act and the PPP constitute the condition placed on the funds to be met and therefore a contribution should be recorded at that time. As of June 30, 2020, loan forgiveness had not been granted, and accordingly all loan proceeds are recorded as a liability in the accompanying statements of financial position. NMLC believes full forgiveness of the loan proceeds will be granted during fiscal year 2021.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Funding Sources

NMLC receives a substantial percentage of its total revenue from its federal cooperative agreement with the U.S. Department of Defense. Notwithstanding, the majority of these funds are used to pay for the acquisitions of conservation easements from private landowners and the associated due diligence, transactional and stewardship costs. Only a fraction of these federal revenues is used to pay for NMLC operating costs.

Conservation Easement Activities

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. No accrual for the costs of future stewardship efforts has been made at June 30, 2020 and 2019.

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.

Operating Leases

NMLC leases small pieces of office equipment under short term or month to month operating agreements. Total expense related to these rentals was \$4,853 and \$3,792 in 2020 and 2019, respectively.

Employee Benefit Plan

NMLC has established a Simple IRA plan for qualifying employees. Plan participants may elect to defer compensation to the plan up to statutory limits. NMLC contributes 2% of employee compensation. Total expense related to this plan was \$7,220 and \$7,200 in 2020 and 2019, respectively.

COVID-19 Pandemic

The Secretary for the New Mexico Department of Health has mandated temporary closing of businesses that were deemed non-essential and requested citizens to adopt certain behavioral changes in response to the worldwide COVID-19 pandemic. At a national and international level, government restrictions on travel and the behavioral changes by the public due to COVID-19 outbreaks across the globe are negatively impacting various industries and the world markets. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and ultimate financial impact of these actions.

New Mexico Land Conservancy

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 14 – PRIOR PERIOD ADJUSTMENT

In 2020, NMLC determined that revenue from transactions with landowners to create land easements was not properly recognized. Accordingly, the accompanying financial statements have been adjusted to record the effects of these items. The effects of this restatement are as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Promises to give, June 30, 2019	\$ 440,000	\$ (440,000)	\$ -
Landowner contribution revenue, 2019	575,000	(405,000)	170,000
Net assets with donor restrictions, June 30, 2019	535,820	(440,000)	95,820
Net assets with donor restrictions, June 30, 2018	469,791	(35,000)	434,791

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

New Mexico Land Conservancy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Defense			
Community Economic Adjustment Assistance for Compatible Use and Land Use Studies	12.610	W9124J1520005	\$ 3,313,380
 Total expenditures of federal awards			<u>\$ 3,313,380</u>

New Mexico Land Conservancy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of NMLC under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the *Uniform Guidance, Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

NMLC has elected not to use the 10% de minimus indirect cost rate for its federal programs. For its federal contract with the U.S. Department of Defense, NMLC negotiated and was approved for a 20% indirect cost rate.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
New Mexico Land Conservancy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the financial statements of the New Mexico Land Conservancy (NMLC), a nonprofit organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated March 12, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMLC's internal control. Accordingly, we do not express an opinion on the effectiveness of NMLC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of NMLC's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMLC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NMLC's Response to Findings

NMLC's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. NMLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NMLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 12, 2021

PULAKOS CPAs, PC

Pulakos CPAs, PC

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
New Mexico Land Conservancy

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Land Conservancy's (NMLC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NMLC's major federal programs for the year ended June 30, 2020. NMLC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of NMLC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMLC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NMLC's compliance.

Opinion on Each Major Federal Program

In our opinion, NMLC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reporting in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of NMLC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NMLC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NMLC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-002, that we consider to be a significant deficiency.

NMLC's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. NMLC's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PULAKOS CPAs, PC

Pulakos CPAs, PC

March 12, 2021

5921 Jefferson NE • Albuquerque, NM 87109 • (505) 338-1500 • www.pulakos.com



New Mexico Land Conservancy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? X Yes No
Significant deficiency(ies) identified? Yes X No
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? X Yes No
Type of auditors' report issued on compliance
for major programs: Unmodified
Any audit findings disclosed that are required
to be reported in accordance with 2 CFR section
200.516(a)? X Yes No

Identification of major programs:

<u>CFDA Numbers(s)</u>	<u>Name of Federal Program or Cluster</u>
12.610	Community Economic Adjustment Assistance for Compatible Use and Land Use
Studies	

Dollar threshold used to distinguish
between Type A and Type B programs: \$750,000
Auditee qualified as low-risk auditee? Yes X No

New Mexico Land Conservancy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

2020-001: Revenue Recognition

Criteria and Condition: Under accounting principles generally accepted in the United States of America (GAAP), revenue from landowner easement projects should be recognized at a time when those services are provided by NMLC.

Context: Audit procedures identified instances where revenue from landowner easement projects was recognized in full upon commencement of the project rather than as services provided.

Cause: NMLC was following professional guidance surrounding revenue recognition that was not in accordance with GAAP, which caused revenue to be recognized in advance of services being performed.

Effect: A material audit adjustment to correctly state revenue for 2019 and 2020 was posted.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: Appropriate written policies and procedures should be established to ensure proper revenue recognition under GAAP

Views of Responsible Officials and Planned Corrective Actions: We disagree with certain aspects of this finding. We do not believe that it is fair to characterize the way in which we have been recognizing and classifying landowner contributions as a lack of understanding on our part of accepted revenue recognition criteria. Believing that it was consistent with standard practices for accrual accounting, our previous auditor viewed the landowner contributions as “promises to give” or pledges and advised us to book them as revenue at the time we signed an agreement or letter of intent with the landowner. Pulakos, CPA takes a different view of these contributions, viewing them more as a fee for service. Based on that view, they have decided that we were recognizing the revenue incorrectly and have advised us to recognize it only once we have completed the project milestones per our agreements with the landowners. It is common in the land trust community to book these contributions both ways. We have agreed to change the timing of revenue recognition to that of recognizing it after the agreement is complete and will implement this practice for future revenue recognition.

New Mexico Land Conservancy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2020-002: Procurement – Community Economic Adjustment Assistance for Compatible Use and Land Use Studies (CFDA # 12.610)

Criteria and Condition: For the year ending June 30, 2020, NMLC did not have a written procurement policy to properly implement all the requirements of 2 CFR section 200.318 through 200.326 of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). In accordance with these requirements, non-federal entities must have written procedures for procurement transactions. Such policy should incorporate all requirements within 2 CFR section 200.318 through 200.326 of the Uniform Guidance.

Context: While audit procedures did not identify any instances of inappropriate procurement activity, there were no policies in place to govern procurement related matters.

Cause: NMLC does not have a written procurement policy in place that incorporates all requirements within 2 CFR section 200.318 through 200.326 of the Uniform Guidance.

Effect: Non-compliance with the Uniform Guidance could jeopardize future federal funding.

Questioned Costs: This finding does not result in questioned costs.

Recommendation: NMLC should implement a procurement policy that incorporates all requirements within 2 CFR section 200.318 through 200.326 of the Uniform Guidance.

Views of Responsible Officials and Planned Corrective Actions: NMLC agrees and will implement a procurement policy.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NONE