THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2011 and 2010

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3 Bethesda Metro Center, Suite 600
Bethesda, Maryland 20814
301-951-3636 ph
301-951-0425 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

THE LAND TRUST ALLIANCE, INC.

We have audited the accompanying combined statements of financial position of The Land Trust Alliance, Inc. and Affiliate as of December 31, 2011 and 2010, and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Land Trust Alliance, Inc. and Affiliate as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Bethesda, Maryland
March 29, 2012

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,403,851	$ 1,700,711
Receivables	13,387	7,361
Promises to give	4,222,035	3,012,756
Investments	2,527,912	2,782,533
Prepaid expenses	137,867	165,390
Inventories	55,416	62,049
TOTAL CURRENT ASSETS	10,360,468	7,730,800
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $940,083 ($913,963 in 2010)	379,742	403,302
OTHER ASSETS		
Promises to give, long-term	662,155	330,284
Investments - endowments	2,145,242	1,817,590
Deposits	18,569	8,419
TOTAL OTHER ASSETS	2,825,966	2,156,293
TOTAL ASSETS	$ 13,566,176	$ 10,290,395
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 200,371	$ 462,905
Grants payable	1,655,881	25,000
Deferred rent	42,639	27,404
Capital lease obligations	3,603	-
TOTAL CURRENT LIABILITIES	1,902,494	515,309
OTHER LIABILITIES		
Deferred rent	314,372	357,010
Deferred compensation	54,283	37,779
Capital lease obligations	16,525	-
TOTAL OTHER LIABILITIES	385,180	394,789
NET ASSETS		
NET ASSETS		
Unrestricted	2,833,979	2,842,143
Temporarily restricted	5,352,950	5,010,938
Permanently restricted	3,091,573	1,527,216
TOTAL NET ASSETS	11,278,502	9,380,297
TOTAL LIABILITIES AND NET ASSETS	$ 13,566,176	$ 10,290,395

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Grants	$ 225,813	$ 6,632,827	$ 1,564,357	$ 8,422,997
Contributions				
Individual memberships and donations	1,988,141	325,873	-	2,314,014
Organizational memberships	1,021,066	-	-	1,021,066
Other donations	82,600	25,000	-	107,600
Conference fees	789,201	-	-	789,201
Investment income	40,259	12,342	-	52,601
Accreditation fees	415,112	-	-	415,112
Donated services	371,499	-	-	371,499
Publication sales	46,204	-	-	46,204
Other programs	26,920	-	-	26,920
Net assets released from restrictions	6,654,030	(6,654,030)	-	-
TOTAL SUPPORT AND REVENUE	11,660,845	342,012	1,564,357	13,567,214
EXPENSES				
Program services	9,496,630	-	-	9,496,630
Management and general	518,268	-	-	518,268
Fundraising	1,654,111	-	-	1,654,111
TOTAL EXPENSES	11,669,009	-	-	11,669,009
CHANGE IN NET ASSETS	(8,164)	342,012	1,564,357	1,898,205
NET ASSETS, BEGINNING OF YEAR	2,842,143	5,010,938	1,527,216	9,380,297
NET ASSETS, END OF YEAR	$ 2,833,979	$ 5,352,950	$ 3,091,573	$ 11,278,502

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Grants	$ 43,125	$ 4,070,679	$ 175,000	$ 4,288,804
Contributions				
Individual memberships and donations	1,936,369	27,800	-	1,964,169
Organizational memberships	972,427	-	-	972,427
Other donations	36,924	-	-	36,924
Conference fees	897,717	-	-	897,717
Investment income	72,252	196,132	-	268,384
Accreditation fees	241,917	-	-	241,917
Publication sales	38,004	-	-	38,004
Other programs	15,750	-	-	15,750
Net assets released from restrictions	3,684,062	(3,684,062)	-	-
TOTAL SUPPORT AND REVENUE	7,938,547	610,549	175,000	8,724,096
EXPENSES				
Program services	6,223,250	-	-	6,223,250
Management and general	461,503	-	-	461,503
Fundraising	1,252,122	-	-	1,252,122
TOTAL EXPENSES	7,936,875	-	-	7,936,875
CHANGE IN NET ASSETS	1,672	610,549	175,000	787,221
NET ASSETS, BEGINNING OF YEAR	2,840,471	4,400,389	1,352,216	8,593,076
NET ASSETS, END OF YEAR	$ 2,842,143	$ 5,010,938	$ 1,527,216	$ 9,380,297

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,898,205	$ 787,221
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	103,102	104,305
Donated securities	(175,718)	(92,600)
Deferred rent	(27,403)	(18,088)
Increase (decrease) in discount on promises to give	19,939	(13,840)
Realized and unrealized loss (gain) on investments	42,130	(163,339)
Contributions, restricted for long-term purposes - endowment	(369,060)	(175,000)
Decrease (increase) in operating assets		
Receivables	(6,026)	6,433
Promises to give	(1,561,089)	(665,530)
Prepaid expenses	27,523	(20,853)
Inventories	6,633	(6,819)
Deposits	(10,150)	-
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(262,534)	(467,837)
Grants payable	1,630,881	-
Other long-term liabilities	16,504	10,904
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,332,937	(715,043)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(58,562)	(43,089)
Purchase of investments	(1,562,827)	(2,792,523)
Proceeds from sale of investments	1,623,384	2,937,487
NET CASH FLOWS FROM INVESTING ACTIVITIES	1,995	101,875
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions, restricted for long-term purposes - endowment	369,060	175,000
Curtailment of capitalized lease obligations	(852)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	368,208	175,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,703,140	(438,168)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,700,711	2,138,879
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,403,851	$ 1,700,711

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations – The Land Trust Alliance, Inc. and Affiliate (the "Organization") is comprised of two entities: The Land Trust Alliance, Inc. (the "Alliance") and The Land Trust Accreditation Commission (the "Commission").

The Alliance is a not-for-profit corporation organized under the laws of Massachusetts. The Alliance was formed in 1982 to advance the mission of land trusts. Since then, it has trained thousands of conservation leaders, won new federal incentives for conservation of private land, and developed standards and practices to professionalize and safeguard land trust work. The Alliance has championed the use of conservation easements, a legal device that restricts certain types of development but keeps the land in the hands of the current owners or their families. Farms, forests, ranches, waterways, and scenic vistas have all been protected through the efforts of land trusts nationwide.

Through its programs and services, the Alliance leads the movement by facilitating state-of-the-art information collection and exchange; national and regional training, including providing tools and training on how to plan and prioritize their conservation work; ensuring the continued protection, in perpetuity, of land already set aside for conservation; and advancing public policies to accelerate the pace of private voluntary conservation. More than 1,100 land trusts are members of the Alliance, which operates through a national office in Washington, D.C. and regional programs around the country.

In 2006, the Commission, an independent program of the Alliance, was created to support the mission of the Alliance by operating a land trust accreditation program to ensure public confidence in land conservation and to build strong land conservation organizations by verifying land trust implementation of specific indicator practices from the *Land Trust Standards and Practices*, as established by the Alliance. The Commission is headquartered in Saratoga Springs, New York.

Principles of combination – The accounts of the Alliance and the Commission which are under common control of the Alliance's Board of Directors are included in the combined financial statements. All inter-organizational balances and significant transactions have been eliminated.

Basis of accounting – The Organization's policy is to prepare its combined financial statements on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation – The Organization follows the presentation requirements of Financial Accounting Standards Board Codification of ASC Topic 958-Not for Profit Entities. Under ASC Topic 958, the Organization is required to report information regarding its combined financial position and activities according to three classes of net assets: permanently restricted (net assets which cannot be spent due to donor-imposed permanent restrictions on the use of funds), temporarily restricted (net assets can be expended but only in accordance with donor-imposed restrictions), or unrestricted (net assets may be spent in accordance with management and Board wishes).

(1) Summary of significant accounting policies (continued)

As of December 31, 2011, the Alliance's net assets consisted of temporarily restricted net assets of $5,267,950, permanently restricted net assets of $3,091,573, and unrestricted net assets of $2,485,330. The Commission's net assets consisted of temporarily restricted net assets of $85,000 and unrestricted net assets of $348,649.

As of December 31, 2010, the Alliance's net assets consisted of temporarily restricted net assets of $4,811,558, permanently restricted net assets of $1,527,216, and unrestricted net assets of $2,656,782. The Commission's net assets consisted of temporarily restricted net assets of $199,380 and unrestricted net assets of $185,361.

Use of 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 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.

Fair value – For cash and short-term investments, receivables and payables, the carrying amount is a reasonable estimate of fair value. Marketable equity securities and fixed maturity investments held for investment purposes are carried at market value, which approximates fair value. Market values for these investments are based on quoted prices in an active market or dealer quotes for identical assets or liabilities (Level 1 inputs, under the terminology of ASC Topic 820-10).

Cash and cash equivalents – The Organization considers all highly liquid money market funds and certificates of deposit with original maturities of less than ninety days to be cash equivalents. Money funds and certificates of deposit held by investment custodians are considered investments.

Investments – Investments with readily determinable fair values are reflected at fair market value. To adjust the carrying value of these investments, the change in fair market value is recorded as a component of investment income in the combined statements of activities and changes in net assets.

Receivables – Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received. There was no provision for doubtful accounts at December 31, 2011 or 2010.

(1) Summary of significant accounting policies (continued)

Promises to give – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Promises to give are carried at fair value. Management reviews all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectibility of past donations. Promises to give are written-off when deemed uncollectible. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2011 or 2010.

Inventory – Inventories, which consist primarily of publications for re-sale, are stated at the lower of cost or market value. Cost has been determined on the first-in, first-out (FIFO) basis. Management establishes a reserve for any inventory deemed to be non-saleable by identifying nonmarketable items and by using historical experience applied to recent sales. Items are written-off when deemed unmarketable. There was no allowance for obsolescence, based on management's evaluation of the salability of inventory, at December 31, 2011 or 2010.

Property and equipment – Property and equipment (including software) is recorded at cost. Donated equipment is stated at the estimated fair market value at the time of donation. The Organization capitalizes all property and equipment purchased with a cost of $500 or more. Depreciation and amortization are computed on the straight-line method over the following estimated useful lives:

Assets	Useful Lives
Office equipment	3 - 5 years
Furniture and fixtures	7 years
Leasehold improvements	10 years

Leases – Leases which meet the criteria of ASC 840-10-25-1 are classified as capitalized leases. Capitalized leased assets and the related obligations are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease. Interest expense relating to the lease obligations is recorded to effect constant rates of interest over the term of the lease.

Leases which do not meet the aforementioned criteria are classified as operating leases and the related rentals are charged to expense as incurred.

Conditional contributions – During 2008, the Alliance received a conditional grant of $500,000 for the endowment fund, payable in a future year based on the Alliance raising $3,000,000 in endowment contributions.

During 2009, the Alliance received a grant of $1,000,000 which includes $500,000 payable in future years that required 100% matching by the Alliance.

(1) Summary of significant accounting policies (continued)

During 2011, the Alliance satisfied the matching requirements for both conditional grants and recorded the remaining $1,000,000 as grant revenue on the statement of activities and changes in net assets.

Deferred rent – Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent in the combined statements of financial position. In addition, deferred rent also includes the landlord incentive on a portion of the leasehold improvement cost, which is being amortized over the life of the lease.

Support and revenue recognition – Contributions received, including grants, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

Membership dues revenue is recognized when received.

Conference fees are recognized during the period the conference is held.

Expenses – Direct costs associated with specific programs are recorded as program expenses. Administrative overhead expenses are allocated to the various programs based on personnel time spent on these activities. Fringe benefits are allocated based on labor dollars spent on these activities.

Income taxes – The Alliance and the Commission are generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Alliance and the Commission qualify for charitable contributions deductions and have been classified as organizations that are not private foundations. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. Neither the Alliance nor the Commission had any net unrelated business income for the years ending December 31, 2011 or 2010.

Accounting for Uncertainty in Income Taxes – The Alliance and the Commission have adopted ASC Topic 740-10 which prescribes measurement and disclosure requirements for current and deferred income tax provisions. The topic provides for a consistent approach in identifying and reporting uncertain tax provisions. It is management's belief that both the Alliance and the Commission do not hold any uncertain tax positions. The Alliance's and Commission's returns for 2011, 2010, 2009 and 2008 are subject to examination by the IRS generally for three years after they were filed.

(1) Summary of significant accounting policies (continued)

Subsequent events – The Organization has evaluated subsequent events through March 29, 2012, which is the date the combined financial statements were available to be issued.

Reclassifications – Certain 2010 financial information has been reclassified to conform to the 2011 presentation. The reclassifications have no impact on the previously reported change in net assets.

(2) Promises to give

Promises to give in one year or more are measured using the present value of future cash flows based on a discount rate of 3% at December 31, 2011 and 2010. Promises to give consisted of the following:

	December 31, 2011	December 31, 2010
Promises to give in less than one year	$ 4,222,035	$ 3,012,756
Promises to give in one to two years	686,810	335,000
Total unconditional promises to give	4,908,845	3,347,756
Less discount to net present value	24,655	4,716
	$ 4,884,190	$ 3,343,040

(3) Property and equipment

Property and equipment consisted of the following:

	December 31, 2011	December 31, 2010
Cost		
Furniture and office equipment	$ 908,906	$ 906,346
Leasehold improvements	410,919	410,919
Total cost	1,319,825	1,317,265
Accumulated depreciation and amortization	940,083	913,963
Net property and equipment	$ 379,742	$ 403,302

Depreciation and amortization expense was $103,102 and $104,305 for the years ended December 31, 2011 and 2010, respectively.

(4) Investments

Investments at fair market value consisted of the following:

	December 31, 2011	December 31, 2010
Certificates of deposit	$ 2,250,126	$ 2,426,286
Equity funds	1,330,566	1,148,846
Money funds	393,660	479,189
Bond funds	698,802	545,802
	$ 4,673,154	$ 4,600,123

Investment income consisted of the following:

	Years Ended December 31, 2011	Years Ended December 31, 2010
Interest and dividends	$ 94,731	$ 105,045
Realized and unrealized (loss) gain on investments	(42,130)	163,339
	$ 52,601	$ 268,384

(5) Fair value measurements

FASB ASC 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described below.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

(5) Fair value measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	Investments at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Equity funds:				
Foreign large blend	$ 136,745	$ -	$ -	$ 136,745
Diversified emerging markets	143,612	-	-	143,612
Large growth	765,834	-	-	765,834
Large blend	98,489	-	-	98,489
Mid-cap blend	91,148	-	-	91,148
Small blend	94,738	-	-	94,738
Total equity funds	1,330,566	-	-	1,330,566
Bond funds:				
High yield bond	187,791	-	-	187,791
Intermediate term bond	417,368	-	-	417,368
Short term bond	93,643	-	-	93,643
Total bonds	698,802	-	-	698,802
Money funds:				
Prime reserve mutual fund	54,253	-	-	54,253
Money market	339,407	-	-	339,407
Total money funds	393,660	-	-	393,660
Promises to give	-	-	4,884,190	4,884,190
Certificates of deposit	2,250,126	-	-	2,250,126
	2,250,126	-	4,884,190	7,134,316
Total investments at fair value	$ 4,673,154	$ -	$ 4,884,190	$ 9,557,344

(5) Fair value measurements (continued)

	Investments at Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Equity funds:				
Foreign large blend	$ 102,389	$ -	$ -	$ 102,389
Diversified emerging markets	129,914	-	-	129,914
Large growth	698,976	-	-	698,976
Large blend	52,327	-	-	52,327
Mid-cap blend	81,530	-	-	81,530
Small blend	83,712	-	-	83,712
Total equity funds	1,148,848	-	-	1,148,848
Bond funds:				
High yield bond	148,203	-	-	148,203
Intermediate term bond	325,450	-	-	325,450
Short term bond	72,149	-	-	72,149
Total bonds	545,802	-	-	545,802
Money funds:				
Prime reserve mutual fund	37,749	-	-	37,749
Money market	441,440	-	-	441,440
Total money funds	479,189	-	-	479,189
Promises to give	-	-	3,343,040	3,343,040
Certificates of deposit	2,426,284	-	-	2,426,284
	2,426,284	-	3,343,040	5,769,324
Total investments at fair value	$ 4,600,123	$ -	$ 3,343,040	$ 7,943,163

The following presents a summary of changes in the fair value of Level 3 investments:

	Years Ended December 31,	
	2011	2010
Balance, beginning of year	$ 3,343,040	$ 2,663,670
New promises	8,777,501	3,012,756
Collections	(7,236,351)	(2,333,386)
Balance, end of year	$ 4,884,190	$ 3,343,040

(6) Temporarily restricted net assets

Temporarily restricted net assets during the years ended December 31, 2011 and 2010 were released from restrictions by incurring expenses satisfying the restricted purpose. Temporarily restricted net assets were released and are available in the following programs:

	December 31,	
	2011	2010
Program:		
Education and Capacity Building	$ 2,610,107	$ 3,557,947
Policy and Outreach	637,485	222,627
Conservation Defense	1,404,029	648,397
Accreditation	328,105	489,755
Time restricted:		
National office	373,224	92,212
Total temporarily restricted net assets	$ 5,352,950	$ 5,010,938

(7) Permanently restricted net assets

Interpretation of Relevant Law

The Board of Directors of the Alliance has interpreted the District of Columbia enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Alliance classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the organization and the donor-restricted endowment fund
c. General economic conditions
d. The possible effects of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

(7) Permanently restricted net assets (continued)

Return Objective and Risk Parameters

The Alliance's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. The Organization recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Alliance targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Alliance has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-time horizons based upon long-term expected returns. The Alliance has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending Policy

The Alliance will appropriate for expenditure in its annual budget a maximum of 5% of the rolling average of the market value of the endowment assets over the preceding 12 quarters, the base to be adjusted for new capital contributions to the endowment. There may be times when the Alliance may opt not to take the maximum spending rate, but rather reinvest some of the annual return. This spending rate is based on the long-term assumption of 8% of nominal investment returns and a 3% inflation rate.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Alliance to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles (GAAP), there were no deficiencies of this nature reported in unrestricted net assets as of December 31, 2011 or 2010.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 290,374	$ 1,527,216	$ 1,817,590
Investment return:				
Investment income	-	55,015	-	55,015
Net (depreciation) realized and unrealized	-	(42,673)	-	(42,673)
Total investment return	-	302,716	1,527,216	1,829,932
Contributions	-	-	1,564,357	1,564,357
Appropriation of endowment assets for expenditure	-	(53,000)	-	(53,000)
Endowment net assets, end of year	$ -	$ 249,716	$ 3,091,573	$ 3,341,289

(7) Permanently restricted net assets (continued)

Permanently restricted net assets were comprised as follows:

	December 31, 2011	December 31, 2010
Berkley Endowment	$ 2,989,857	$ 1,425,000
Kingsbury Browne Award Endowment	101,716	102,216
Total permanently restricted net assets	$ 3,091,573	$ 1,527,216

(8) Retirement plan

The Organization maintains a 403(b) defined contribution retirement plan that covers all eligible employees. Effective January 1, 2010, the Organization contributes 8% for employees starting in the 37th month of employment and 6.5% of salary between the 7th and 36th months of service. Certain staff elected to reduce compensation and increase the contribution percentage. Currently this percentage is 12.49%. Total retirement expense for the years ended December 31, 2011 and 2010 was $280,196 and $264,330, respectively.

The Organization provides certain employees the opportunity to defer current compensation under a 457(b) plan. Total contributions to this plan for the years ended December 31, 2011 and 2010 were $16,500 and $10,900, respectively.

(9) Operating leases

The Alliance leases its Washington, D.C. office under an operating lease expiring in 2017. This lease agreement provides for the Alliance to pay a stated minimum annual rent and a proportionate percentage of increases in operating expenses. Also, the Alliance has leases on offices in the states of Colorado, New York, Michigan, North Carolina, Connecticut and Montana. In addition, a landlord improvements allowance was provided to be applied toward reimbursement of the costs incurred by the Alliance for the preparation of its headquarters. Deferred rent was recognized to allocate the benefit of these improvements throughout the remaining term of the lease.

The future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are as follows:

Years Ending December 31,	
2012	$ 429,700
2013	416,900
2014	425,400
2015	435,900
2016	445,400
Thereafter	148,400
	$ 2,301,700

Total rent expense for 2011 and 2010 was $451,389 and $444,520, respectively.

(10) Capital lease

Assets recorded as leased property under capital leases and classified as property and equipment on the statements of financial position include office equipment for $20,980. Under the expiration of the lease agreement and exercise of the purchase option, leased property under capital leases are reclassified to owned equipment. Amortization of assets held under capital leases is included with depreciation expense.

The future minimum lease payments at December 31, 2011 are as follows:

Years Ending December 31,		
2012	$	5,148
2013		5,148
2014		5,148
2015		5,148
2016		3,861
		24,453
Less amounts representing imputed interest		(4,325)
	$	20,128

(11) Commitments

The Organization has entered into several contracts for hotel rooms relating to various events through September 2013. In the event of cancellation, the Organization is required to pay various costs of the hotel rooms as stipulated in the contracts, the amounts of which are dependent upon the date of cancellation.

(12) Line of credit

The Organization has an unsecured line of credit agreement with a bank in the amount of $500,000. Borrowings on the line accrue interest at an annual rate of 1.75% plus the London Inter Bank Offered Rate (LIBOR) with a floor of 3%. At December 31, 2011 and 2010, the Organization had no borrowings on the line of credit.

(13) Letter of credit

The Organization has a letter of credit for the deposit on its office in the amount of $29,077. The letter is secured by a certificate of deposit in the amount of $29,126.

(14) Concentrations

Financial instruments which potentially subject the Organization to concentration of credit risk consist principally of cash balances maintained at creditworthy financial institutions. The Organization maintained cash balances in bank accounts including certificates of deposit and money funds which, at times, may exceed insured limits set by

(14) Concentrations (continued)

the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

The Organization invests in certificates of deposit, money funds, bonds, and equities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the combined financial statements.

For the year ended December 31, 2011, approximately 50% of the Organization's promises to give were provided by four foundations or family foundations.

As of December 31, 2010, approximately 47% of the Organization's promises to give were provided by one state agency. Additionally, approximately 18% of the Organization's support from individual and foundation donor contributions was provided from the same Restate agency for the year ended December 31, 2010. A substantial portion of the support from the state agency will be used for re-grants and not ongoing operations.

(15) Related party transactions

The Land Trust Accreditation Commission is a supporting organization of The Land Trust Alliance, Inc. There is an agreement between the Alliance and the Commission for the Alliance to manage the Commission's finances and provide human resources, fundraising, and information technology support. Fees for these services totaled $20,000 and $20,000 for the years ended December 31, 2011 and 2010, respectively. In keeping with the principles of combination in Note 1, the resulting revenue and expense have been eliminated in the combined financial statements.

(16) Program expenses

For the years ending December 31, 2011 and 2010, program services included the following:

	Years Ended December 31, 2011	Years Ended December 31, 2010
Education and Capacity Building	$ 5,864,190	$ 4,252,616
Policy and Outreach	1,349,765	1,366,741
Conservation Defense	1,875,099	213,597
Accreditation	407,576	390,296
Total program	$ 9,496,630	$ 6,223,250

(17) Fair value of financial instruments

The Alliance and the Commission have adopted FASB Codification Topic 825-10 for the purpose of valuing promises to give. The provisions of Topic 825-10 give entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in changes in net assets at each subsequent reporting date. The Alliance and the Commission did not elect fair value accounting for any other assets or liabilities that are not currently required to be measured at fair value, with the exception of promises to give.

(18) New venture

At its annual meeting on February 4, 2011, the Board of The Land Trust Alliance, Inc. approved the governance and tax structure for a new conservation defense insurance company. Terrafirma Risk Retention Group, LLC ("Terrafirma") was created but not yet fully operational in 2011. A request for determination of the tax-exempt status for Terrafirma is pending with the Internal Revenue Service and the Alliance is currently raising $4,000,000 in capital on its behalf. At December 31, 2011, the Alliance had grants payable to Terrafirma of $1,252,500 in the statement of financial position representing a portion of this capital. The Commissioner of the Vermont Department of Banking, Insurance, Securities and Health Care Administration has indicated that it will approve Terrafirma's license application upon evidence this capital requirement has been satisfied. Terrafirma will not commence issuing insurance until the Alliance has raised the required capital, the insurance regulators have approved the program, and the Board has given final approval for the program. For the year ended December 31, 2010, the Organization held deposits related to Terrafirma totaling $207,285. All deposit funds held by the Alliance were transferred to Terrafirma in 2011.

(19) Cash flow disclosures

Additional information to the combined statements of cash flows with regard to certain non-cash investing and financing activities is as follows:

The Organization has entered into a capitalized lease of equipment costing $20,980.

(20) Contributed services

For the year ended December 31, 2011, the Organization received $371,499 of contributed legal services toward program initiatives.

ADDITIONAL INFORMATION

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3 Bethesda Metro Center, Suite 600
Bethesda, Maryland 20814
301-951-3636 ph
301-951-0425 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors

THE LAND TRUST ALLIANCE, INC.

We have audited the combined financial statements of The Land Trust Alliance, Inc. and Affiliate as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 29, 2012 which contained an unqualified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining information and combined schedule of functional expenses for the year ended December 31, 2011 and comparative totals for 2010, which follow, are presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, changes in net assets, and functional expenses of the individual entities and are not a required part of the basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Mayer Hoffman McCann P.C.

Bethesda, Maryland
March 29, 2012

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

ADDITIONAL INFORMATION - COMBINING SCHEDULES OF FINANCIAL POSITION

December 31, 2011
(With Comparative Totals for December 31, 2010)

ASSETS

	The Alliance	The Commission	Eliminations	Total 2011	Total 2010
CURRENT ASSETS					
Cash and cash equivalents	$ 3,097,619	$ 306,232	$ -	$ 3,403,851	$ 1,700,711
Receivables	19,588	25	(6,226)	13,387	7,361
Promises to give	4,097,035	125,000	-	4,222,035	3,012,756
Investments	2,527,912	-	-	2,527,912	2,782,533
Prepaid expenses	131,018	6,849	-	137,867	165,390
Inventories	55,416	-	-	55,416	62,049
TOTAL CURRENT ASSETS	9,928,588	438,106	(6,226)	10,360,468	7,730,800
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $940,083 ($913,963 in 2010)	374,012	5,730	-	379,742	403,302
OTHER ASSETS					
Promises to give, long-term	662,155	-	-	662,155	330,284
Investments - endowments	2,145,242	-	-	2,145,242	1,817,590
Deposits	8,569	10,000	-	18,569	8,419
TOTAL OTHER ASSETS	2,815,966	10,000	-	2,825,966	2,156,293
TOTAL ASSETS	$ 13,118,566	$ 453,836	$ (6,226)	$ 13,566,176	$ 10,290,395

LIABILITIES

	The Alliance	The Commission	Eliminations	Total 2011	Total 2010
CURRENT LIABILITIES					
Accounts payable and accrued expenses	$ 186,410	$ 20,187	$ (6,226)	$ 200,371	$ 462,905
Grants payable	1,655,881	-	-	1,655,881	25,000
Deferred rent	42,639	-	-	42,639	27,404
Capital lease obligations	3,603	-	-	3,603	-
TOTAL CURRENT LIABILITIES	1,888,533	20,187	(6,226)	1,902,494	515,309
OTHER LIABILITIES					
Deferred rent	314,372	-	-	314,372	357,010
Deferred compensation	54,283	-	-	54,283	37,779
Capital lease obligations	16,525	-	-	16,525	-
TOTAL OTHER LIABILITIES	385,180	-	-	385,180	394,789

NET ASSETS

	The Alliance	The Commission	Eliminations	Total 2011	Total 2010
NET ASSETS					
Unrestricted	2,485,330	348,649	-	2,833,979	2,842,143
Temporarily restricted	5,267,950	85,000	-	5,352,950	5,010,938
Permanently restricted	3,091,573	-	-	3,091,573	1,527,216
TOTAL NET ASSETS	10,844,853	433,649	-	11,278,502	9,380,297
TOTAL LIABILITIES AND NET ASSETS	$ 13,118,566	$ 453,836	$ (6,226)	$ 13,566,176	$ 10,290,395

See Independent Auditors' Report on Additional Information

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

ADDITIONAL INFORMATION - COMBINING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	The Alliance	The Commission	Eliminations	Total 2011	Total 2010
SUPPORT AND REVENUE					
Grants	$ 8,344,377	$ 128,620	$ (50,000)	$ 8,422,997	$ 4,288,804
Contributions					
Individual memberships and donations	2,314,014	-	-	2,314,014	1,964,169
Organizational memberships	1,021,066	-	-	1,021,066	972,427
Other donations	107,600	-	-	107,600	36,924
Conference fees	789,201	-	-	789,201	897,717
Investment income	52,272	329	-	52,601	268,384
Accreditation fees	20,000	415,112	(20,000)	415,112	241,917
Donated services	371,499	-	-	371,499	-
Publication sales	46,204	-	-	46,204	38,004
Other programs	26,920	-	-	26,920	15,750
TOTAL SUPPORT AND REVENUE	13,093,153	544,061	(70,000)	13,567,214	8,724,096
EXPENSES					
Program services	9,139,055	427,575	(70,000)	9,496,630	6,223,250
Management and general	450,691	67,577	-	518,268	461,503
Fundraising	1,654,111	-	-	1,654,111	1,252,122
TOTAL EXPENSES	11,243,857	495,152	(70,000)	11,669,009	7,936,875
CHANGE IN NET ASSETS	1,849,296	48,909	-	1,898,205	787,221
NET ASSETS, BEGINNING OF YEAR	8,995,557	384,740	-	9,380,297	8,593,076
NET ASSETS, END OF YEAR	$ 10,844,853	$ 433,649	$ -	$ 11,278,502	$ 9,380,297

THE LAND TRUST ALLIANCE, INC. AND AFFILIATE

ADDITIONAL INFORMATION - COMBINING SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	Education and Capacity Building	Policy and Outreach	Conservation Defense	Accreditation	Total Program	Management and General	Fundraising	Total 2011	Total 2010
PERSONNEL EXPENSES									
Salaries and benefits	$ 1,951,292	$ 847,588	$ 130,635	$ 288,525	$ 3,218,040	$ 357,392	$ 1,082,872	$ 4,658,304	$ 4,385,810
Contractors/consultants	500,268	187,317	18,569	28,271	734,425	775	139,735	874,935	874,677
TOTAL PERSONNEL EXPENSES	2,451,560	1,034,905	149,204	316,796	3,952,465	358,167	1,222,607	5,533,239	5,260,487
NONPERSONNEL EXPENSES									
Grants, scholarships and awards	2,045,900	750	1,252,500	-	3,299,150	-	-	3,299,150	381,635
Rent	257,059	62,825	8,594	8,673	337,151	29,455	84,783	451,389	444,520
Information technology	160,571	66,006	6,922	2,986	236,485	11,777	56,368	304,630	277,323
Staff and project travel and expenses	216,994	37,221	9,728	23,735	287,678	1,418	76,740	365,836	336,762
Facility, exhibiting, meals and a/v fees	343,286	-	-	-	343,286	-	-	343,286	335,196
Printing, design and copying	109,704	75,590	3,307	1,819	190,420	1,396	54,503	246,319	218,608
Staff training and recruitment	13,867	3,802	460	1,449	19,578	1,040	9,919	30,537	20,146
Depreciation and amortization	51,674	17,664	2,416	-	71,754	7,511	23,837	103,102	104,305
Postage and delivery	32,795	13,848	1,302	7,400	55,345	5,951	38,337	99,633	113,484
Equipment lease and maintenance	21,337	2,523	345	328	24,533	783	3,405	28,721	34,042
Telecommunications	61,930	13,444	7,036	7,875	90,285	7,141	8,262	105,688	93,646
Meetings/receipts	32,620	7,787	4,849	3,163	48,419	6,668	42,650	97,737	84,425
Supplies	19,911	3,732	661	4,646	28,950	1,375	5,816	36,141	39,008
Board and committee meetings	-	-	-	24,538	24,538	32,058	-	56,596	39,621
Bank service charges	29,852	451	62	2,890	33,255	565	8,511	42,331	42,429
Professional fees	1,025	350	426,526	-	427,901	23,909	473	452,283	40,491
Dues/subscriptions/library	5,863	8,516	1,139	383	15,901	8,063	8,933	32,897	34,299
Commercial insurance	2,692	-	-	-	2,692	20,884	-	23,576	20,654
Small equipment	781	-	-	725	1,506	-	-	1,506	1,048
Royalties	1,510	-	-	-	1,510	-	-	1,510	53
Advertising	-	-	-	-	-	-	-	-	2,500
Interest expense	222	76	10	-	308	24	103	435	-
Other	3,037	275	38	170	3,520	83	8,864	12,467	12,193
TOTAL NONPERSONNEL EXPENSES	3,412,630	314,860	1,725,895	90,780	5,544,165	160,101	431,504	6,135,770	2,676,388
TOTAL EXPENSES	$ 5,864,190	$ 1,349,765	$ 1,875,099	$ 407,576	$ 9,496,630	$ 518,268	$ 1,654,111	$ 11,669,009	7,936,875