THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

THE LAND TRUST ALLIANCE, INC.

We have audited the accompanying combined financial statements of The Land Trust Alliance, Inc. and Affiliates, which comprise the statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and changes in net assets and cash flows for the years 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 combined 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 the combined 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 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 the entity'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Land Trust Alliance, Inc. and Affiliates as of December 31, 2012 and 2011, 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
April 10, 2013

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,183,353	$ 3,403,851
Receivables	79,407	13,387
Promises to give	4,374,641	4,222,035
Investments	5,174,235	2,444,533
Prepaid expenses	281,195	137,867
Inventories	56,973	55,416
TOTAL CURRENT ASSETS	14,149,804	10,277,089
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $1,025,244 ($940,083 in 2011)	356,220	379,742
OTHER ASSETS		
Promises to give, long-term	2,093,107	662,155
Investments	3,431,690	2,228,621
Deposits	11,169	18,569
TOTAL OTHER ASSETS	5,535,966	2,909,345
TOTAL ASSETS	$ 20,041,990	$ 13,566,176
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 273,139	$ 200,371
Grants payable	406,169	1,655,881
Deferred rent	55,413	42,639
Capital lease obligations	3,916	3,603
TOTAL CURRENT LIABILITIES	738,637	1,902,494
OTHER LIABILITIES		
Deferred rent	258,958	314,372
Deferred compensation	78,765	54,283
Capital lease obligations	12,609	16,525
TOTAL OTHER LIABILITIES	350,332	385,180
NET ASSETS		
NET ASSETS		
Unrestricted	2,321,217	2,833,979
Temporarily restricted	13,536,206	5,352,950
Permanently restricted	3,095,598	3,091,573
TOTAL NET ASSETS	18,953,021	11,278,502
TOTAL LIABILITIES AND NET ASSETS	$ 20,041,990	$ 13,566,176

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Grants	$ 135,500	$ 14,441,123	$ 4,025	$ 14,580,648
Contributions				
Individual memberships and donations	1,487,313	197,803	-	1,685,116
Organizational memberships	1,000,253	-	-	1,000,253
Other donations	208,100	-	-	208,100
Conference fees	899,948	-	-	899,948
Investment income	57,381	310,530	-	367,911
Accreditation fees	303,778	-	-	303,778
Donated services	322,128	-	-	322,128
Publication sales	22,849	-	-	22,849
Other programs	99,545	-	-	99,545
Net assets released from restrictions	6,766,200	(6,766,200)	-	-
TOTAL SUPPORT AND REVENUE	11,302,995	8,183,256	4,025	19,490,276
EXPENSES				
Program services	9,061,410	-	-	9,061,410
Management and general	591,816	-	-	591,816
Fundraising	2,162,531	-	-	2,162,531
TOTAL EXPENSES	11,815,757	-	-	11,815,757
CHANGE IN NET ASSETS	(512,762)	8,183,256	4,025	7,674,519
NET ASSETS, BEGINNING OF YEAR	2,833,979	5,352,950	3,091,573	11,278,502
NET ASSETS, END OF YEAR	$ 2,321,217	$ 13,536,206	$ 3,095,598	$ 18,953,021

See Notes to Financial Statements

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

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 AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 7,674,519	$ 1,898,205
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	126,795	103,102
Donated securities	(3,693,956)	(175,718)
Deferred rent	(42,640)	(27,403)
Increase in discount on promises to give	43,534	19,939
(Gain) on disposal of property and equipment	(863)	-
Realized and unrealized (gain) loss on investments	(254,886)	42,130
Contributions, restricted for long-term purposes - endowment	(4,025)	(369,060)
Decrease (increase) in operating assets		
Receivables	(66,020)	(6,026)
Promises to give	(1,627,092)	(1,561,089)
Prepaid expenses	(143,328)	27,523
Inventories	(1,557)	6,633
Deposits	7,400	(10,150)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	72,768	(262,534)
Grants payable	(1,249,712)	1,630,881
Other long-term liabilities	24,482	16,504
NET CASH FLOWS FROM OPERATING ACTIVITIES	865,419	1,332,937
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,001	-
Purchase of property and equipment	(103,411)	(58,562)
Purchase of investments	(8,200,425)	(1,562,827)
Proceeds from sale of investments	8,216,496	1,623,384
NET CASH FLOWS FROM INVESTING ACTIVITIES	(86,339)	1,995
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions, restricted for long-term purposes - endowment	4,025	369,060
Curtailment of capitalized lease obligations	(3,603)	(852)
NET CASH FLOWS FROM FINANCING ACTIVITIES	422	368,208
NET INCREASE IN CASH AND CASH EQUIVALENTS	779,502	1,703,140
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,403,851	1,700,711
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,183,353	$ 3,403,851

See Notes to Financial Statements

(1) Summary of significant accounting policies

Nature of operations – The Land Trust Alliance, Inc. and Affiliates (the "Organization") is comprised of three entities: The Land Trust Alliance, Inc. (the "Alliance"), The Land Trust Accreditation Commission (the "Commission") and Alliance Risk Management Services ("ARMS").

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.

In 2011, ARMS, a not-for-profit, member managed limited liability company, was organized under the laws of Vermont and its sole member is The Land Trust Alliance, Inc. Its exclusive purpose is to act as Manager for Terrafirma Risk Retention Group LLC ("Terrafirma") pursuant to the Limited Liability Operating Agreement for Terrafirma. Terrafirma is an independent not-for-profit manager managed limited liability company organized under the laws of Vermont. Terrafirma's exclusive purpose is to act as a charitable risk pool, organized and operated to pool and insure the insurable risks of members and to provide information to members with respect to loss control and risk management.

Principles of combination – The accounts of the Alliance, the Commission and ARMS, 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.

(1) Summary of significant accounting policies (continued)

Basis of presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Organization presents information regarding its financial position and activities according to three classes of net assets described as follows:

Unrestricted – All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Temporarily restricted net assets – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently restricted net assets – Resources accumulated through donations or grants that are subject to a restriction. These net assets include the original value of the gift, plus any subsequent additions.

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.

Classifications of net assets – As of December 31, 2012, the Alliance's net assets consisted of temporarily restricted net assets of $13,536,206, permanently restricted net assets of $3,095,598, and unrestricted net assets of $2,080,399. The Commission's net assets consisted of unrestricted net assets of $240,093. The net assets of ARMS consisted of unrestricted net assets of $725.

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.

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.

(1) Summary of significant accounting policies (continued)

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).

Fair value standards establish 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 are described below.

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes certificates of deposit, money market funds, and unrestricted securities listed in active markets. The Organization does not adjust the quoted price for these investments, even in situations where the Organization holds a large position.

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. At this time, the Organization does not hold any investments which would be included in this category.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation.

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.

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, 2012 or 2011.

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 collectability of past donations. Promises to give are written-off when deemed uncollectable. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2012 or 2011.

(1) Summary of significant accounting policies (continued)

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, 2012 or 2011.

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 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.

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.

Income taxes – The Alliance, the Commission and ARMS 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 ended December 31, 2012 or 2011.

(1) Summary of significant accounting policies (continued)

Accounting for Uncertainty in Income Taxes – The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal and state tax returns are generally open for examination for three years following the date filed.

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.

Conditional contributions – During 2012, the Alliance was awarded a $4.3 million grant to provide land trust capacity–building and technical assistance in Oregon. The grant includes $1,662,000 payable in future years conditioned on the funder's assessment of the success of the program and decision to complete the final two years of the project. In accordance with GAAP, the conditional portion of the grant was not recorded as income in 2012.

During 2011, the Alliance satisfied matching requirements for two conditional grants, $500,000 from a 2008 grant and $500,000 from a 2009 grant, and recorded $1,000,000 as grant revenue on the combined statement of activities and changes in net assets.

Donated services – Donated services using specialized skills that would have been required to be purchased if not provided by donation are recognized under GAAP.

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.

(1) Summary of significant accounting policies (continued)

Subsequent events – The Organization has evaluated subsequent events through April 10, 2013, which is the date the combined financial statements were available to be issued.

Reclassifications – Certain 2011 financial information has been reclassified to conform to the 2012 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, 2012 and 2011. Promises to give consisted of the following:

	December 31,	
	2012	2011
Promises to give in less than one year	$ 4,374,641	$ 4,222,035
Promises to give in one to two years	2,161,296	686,810
Total unconditional promises to give	6,535,937	4,908,845
Less discount to net present value	68,189	24,655
	$ 6,467,748	$ 4,884,190

(3) Property and equipment

Property and equipment consisted of the following:

	December 31,	
	2012	2011
Cost		
Furniture and office equipment	$ 970,545	$ 908,906
Leasehold improvements	410,919	410,919
Total cost	1,381,464	1,319,825
Accumulated depreciation and amortization	1,025,244	940,083
Net property and equipment	$ 356,220	$ 379,742

Depreciation and amortization expense was $126,795 and $103,102 for the years ended December 31, 2012 and 2011, respectively.

(4) Investments

Investments at fair market value consisted of the following:

	December 31, 2012	December 31, 2011
Certificates of deposit	$ 4,019,174	$ 2,250,126
Equity funds	1,836,145	1,330,566
Money funds	1,801,909	393,660
Bond funds	948,697	698,802
	$ 8,605,925	$ 4,673,154

Investment income consisted of the following:

	Years Ended December 31, 2012	Years Ended December 31, 2011
Interest and dividends from investments	$ 108,607	$ 92,331
Realized and unrealized gain (loss) on investments	254,886	(42,130)
	363,493	50,201
Interest and dividends from cash accounts	4,418	2,400
	$ 367,911	$ 52,601

(5) Fair value measurements

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, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Equity funds:				
Foreign large blend	$ 322,903	$ -	$ -	$ 322,903
Diversified emerging markets	324,884	-	-	324,884
Large growth	882,205	-	-	882,205
Large blend	124,319	-	-	124,319
Mid-cap blend	89,953	-	-	89,953
Small blend	91,881	-	-	91,881
Total equity funds	1,836,145	-	-	1,836,145

(5) Fair value measurements (continued)

	Investments at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Bond funds:				
High yield bond	258,577	-	-	258,577
Intermediate term bond	561,184	-	-	561,184
Short term bond	128,936	-	-	128,936
Total bonds	948,697	-	-	948,697
Money funds:				
Prime reserve mutual fund	70,759	-	-	70,759
Money market	1,731,150	-	-	1,731,150
Total money funds	1,801,909	-	-	1,801,909
Promises to give	-	-	6,467,748	6,467,748
Certificates of deposit	4,019,174	-	-	4,019,174
	4,019,174	-	6,467,748	10,486,922
Total investments at fair value	$ 8,605,925	$ -	$ 6,467,748	$ 15,073,673

	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)

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

	Years Ended December 31,	
	2012	2011
Balance, beginning of year	$ 4,884,190	$ 3,343,040
New promises	9,967,430	8,777,501
Collections	(8,383,872)	(7,236,351)
Balance, end of year	$ 6,467,748	$ 4,884,190

(6) Temporarily restricted net assets

Temporarily restricted net assets during the years ended December 31, 2012 and 2011 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,	
	2012	2011
Program:		
Education and Capacity Building	$ 6,779,122	$ 2,610,107
Policy and Outreach	3,604,340	637,485
Conservation Defense	1,344,748	1,404,029
Accreditation	462,920	328,105
Campaign	1,000,000	-
Time restricted:		
National office	345,076	373,224
Total temporarily restricted net assets	$ 13,536,206	$ 5,352,950

(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 Alliance in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Alliance 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

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 Alliance 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.

(7) Permanently restricted net assets (continued)

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, 2012 or 2011.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 249,716	$ 3,091,573	$ 3,341,289
Investment return:				
Investment income	-	74,256	-	74,256
Net realized and unrealized gains	-	236,273	-	236,273
Total investment return	-	560,245	3,091,573	3,651,818
Contributions	-	-	4,025	4,025
Appropriation of endowment assets for expenditure	-	(78,000)	-	(78,000)
Endowment net assets, end of year	$ -	$ 482,245	$ 3,095,598	$ 3,577,843

Permanently restricted net assets were comprised as follows:

	December 31, 2012	December 31, 2011
Berkley Endowment	$ 2,993,882	$ 2,989,857
Kingsbury Browne Award Endowment	101,716	101,716
Total permanently restricted net assets	$ 3,095,598	$ 3,091,573

(8) Retirement and deferred compensation plans

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 ranges from 13.92% to 18.06% (12.49% in 2011). Total retirement expense for the years ended December 31, 2012 and 2011 was $280,196 and $264,330, respectively.

The Organization may make non-elective, discretionary employer contributions under a 457(b) plan. For the years ended December 31, 2012 and 2011, discretionary contributions totaled $24,475 and $16,500, respectively.

(8) Retirement and deferred compensation plans (continued)

The Organization has a 457(f) deferred compensation plan agreement that calls for $375,000 in total contributions by January 1, 2017, with a vesting schedule commencing on January 1, 2014. Since deferred compensation expense will be recorded in the year vested, there was no 457(f) expense recorded in 2012.

(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, Montana and Washington. 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,	
2013	$ 459,500
2014	442,100
2015	453,500
2016	441,600
2017	148,400
	$ 1,945,100

Total rent expense for 2012 was $462,956, net of sublease revenue of $1,000 received in 2012. Total rent expenses for 2011 was $451,389.

(10) Capital lease

Assets recorded as leased property under capital leases and classified as property and equipment on the combined statements of financial position include office equipment for $16,525 at December 31, 2012 ($20,128) at December 31, 2011). 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.

(10) Capital lease (continued)

The future minimum lease payments at December 31, 2012 are as follows:

Years Ending December 31,		
2013	$	5,148
2014		5,148
2015		5,148
2016		3,861
		19,305
Less amounts representing imputed interest		(2,780)
	$	16,525

(11) Commitments

The Organization has entered into several contracts for hotel rooms relating to various events through September 2014. 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, 2012 and 2011, 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 $29,174 included in investments on the combined statements of financial position.

(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 the Federal Deposit Insurance Corporation (FDIC). At least annually, the chairman of the Finance & Investments Committee will review the annual report and credit ratings of any bank in which uninsured operating accounts are maintained to ensure that maintaining the accounts does not pose a significant risk to the organization. Any findings are communicated to the Committee.

(14) Concentrations (continued)

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, bond funds, 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.

As of December 31, 2012, approximately 45% of the Organization's promises to give were provided by three sources (one state agency, one foundation and one individual). Additionally, approximately 54% of the Organization's support from individual and foundation donor contributions was provided from two of the same sources (one state agency and one foundation) for the year ended December 31, 2012. A substantial portion of the support from the state agency will be used for re-grants and not ongoing operations.

For the year ended December 31, 2011, approximately 50% of the Organization's promises to give were provided by four foundations or family foundations. Also, approximately 72% of payables was for a grant payable to one organization.

(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, 2012 and 2011. In keeping with the principles of combination in Note 1, the resulting revenue and expense have been eliminated in the combined financial statements.

The Alliance entered into a $31,000 contract for services with a company of which an Alliance director is a principal. The contract was awarded after evaluating responses to a request for proposals. The potential conflict of interest was reviewed internally and by the development committee, and was subsequently raised with the board, with the contract being deemed approved by the board.

The Alliance entered into a sublease with a land trust for an office. The executive director is a board member of the Alliance. It is management's opinion that the lease terms are comparable to other leases in the geographic area.

(16) Program expenses

For the years ended December 31, 2012 and 2011, program services included the following:

	Years Ended December 31,	
	2012	2011
Education and Capacity Building	$ 6,211,267	$ 5,864,190
Policy and Outreach	1,646,745	1,349,765
Conservation Defense	677,994	1,875,099
Accreditation	525,404	407,576
Total program	$ 9,061,410	$ 9,496,630

(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) 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.

(19) Donated services

For the years ended December 31, 2012 and 2011, the Organization received $322,128 and $371,499, respectively, of donated legal services toward program initiatives.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY 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 Affiliates as of and for the years ended December 31, 2012 and 2011, and our report thereon dated April 10, 2013, which expressed an unmodified opinion on those combined financial statements. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedule of functional expenses for the year ended December 31, 2012 and comparative totals for 2011, which follow, are presented for purposes of additional analysis and are not a required part of the 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
April 10, 2013

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION - COMBINING SCHEDULES OF FINANCIAL POSITION

December 31, 2012
(With Comparative Totals for December 31, 2011)

ASSETS

	The Alliance	The Commission	ARMS	Eliminations	Total 2012	Total 2011
CURRENT ASSETS						
Cash and cash equivalents	$ 3,992,780	$ 190,573	$ -	$ -	$ 4,183,353	$ 3,403,851
Receivables	94,111	-	-	(14,704)	79,407	13,387
Promises to give	4,354,641	20,000	-	-	4,374,641	4,222,035
Investments	5,174,235	-	-	-	5,174,235	2,444,533
Prepaid expenses	264,389	16,081	725	-	281,195	137,867
Inventories	56,973	-	-	-	56,973	55,416
TOTAL CURRENT ASSETS	13,937,129	226,654	725	(14,704)	14,149,804	10,277,089
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $1,025,244 ($940,083 in 2011)	315,455	40,765	-	-	356,220	379,742
OTHER ASSETS						
Promises to give, long-term	2,093,107	-	-	-	2,093,107	662,155
Investments	3,431,690	-	-	-	3,431,690	2,228,621
Deposits	7,669	3,500	-	-	11,169	18,569
TOTAL OTHER ASSETS	5,532,466	3,500	-	-	5,535,966	2,909,345
TOTAL ASSETS	$ 19,785,050	$ 270,919	$ 725	$ (14,704)	$ 20,041,990	$ 13,566,176

LIABILITIES

CURRENT LIABILITIES						
Accounts payable and accrued expenses	$ 257,017	$ 30,826	$ -	$ (14,704)	$ 273,139	$ 200,371
Grants payable	406,169	-	-	-	406,169	1,655,881
Deferred rent	55,413	-	-	-	55,413	42,639
Capital lease obligations	3,916	-	-	-	3,916	3,603
TOTAL CURRENT LIABILITIES	722,515	30,826	-	(14,704)	738,637	1,902,494
OTHER LIABILITIES						
Deferred rent	258,958	-	-	-	258,958	314,372
Deferred compensation	78,765	-	-	-	78,765	54,283
Capital lease obligations	12,609	-	-	-	12,609	16,525
TOTAL OTHER LIABILITIES	350,332	-	-	-	350,332	385,180

NET ASSETS

NET ASSETS						
Unrestricted	2,080,399	240,093	725	-	2,321,217	2,833,979
Temporarily restricted	13,536,206	-	-	-	13,536,206	5,352,950
Permanently restricted	3,095,598	-	-	-	3,095,598	3,091,573
TOTAL NET ASSETS	18,712,203	240,093	725	-	18,953,021	11,278,502
TOTAL LIABILITIES AND NET ASSETS	$ 19,785,050	$ 270,919	$ 725	$ (14,704)	$ 20,041,990	$ 13,566,176

See Independent Auditors' Report on Supplementary Information

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

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

Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	The Alliance	The Commission	ARMS	Eliminations	Total 2012	Total 2011
SUPPORT AND REVENUE						
Grants	$ 14,576,648	$ 149,000	$ -	$ (145,000)	$ 14,580,648	$ 8,422,997
Contributions						
Individual memberships and donations	1,685,116	-	-	-	1,685,116	2,314,014
Organizational memberships	1,000,253	-	-	-	1,000,253	1,021,066
Other donations	208,100	-	-	-	208,100	107,600
Conference fees	899,948	-	-	-	899,948	789,201
Investment income	367,662	249	-	-	367,911	52,601
Accreditation fees	-	303,778	-	-	303,778	415,112
Donated services	319,573	2,555	-	-	322,128	371,499
Publication sales	22,849	-	-	-	22,849	46,204
Other programs	119,545	-	63,086	(83,086)	99,545	26,920
TOTAL SUPPORT AND REVENUE	19,199,694	455,582	63,086	(228,086)	19,490,276	13,567,214
EXPENSES						
Program services	8,681,730	545,405	62,361	(228,086)	9,061,410	9,496,630
Management and general	488,084	103,732	-	-	591,816	518,268
Fundraising	2,162,531	-	-	-	2,162,531	1,654,111
TOTAL EXPENSES	11,332,345	649,137	62,361	(228,086)	11,815,757	11,669,009
CHANGE IN NET ASSETS	7,867,349	(193,555)	725	-	7,674,519	1,898,205
NET ASSETS, BEGINNING OF YEAR	10,844,854	433,648	-	-	11,278,502	9,380,297
NET ASSETS, END OF YEAR	$ 18,712,203	$ 240,093	$ 725	$ -	$ 18,953,021	$ 11,278,502

See Independent Auditors' Report on Supplementary Information

THE LAND TRUST ALLIANCE, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION - COMBINING SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012
(With Comparative Totals for the Year Ended December 31, 2011)

	Education and Capacity Building	Policy and Outreach	Conservation Defense	Accreditation	Total Program	Management and General	Fundraising	Total 2012	Total 2011
PERSONNEL EXPENSES									
Salaries and benefits	$ 1,931,908	$ 894,139	$ 209,857	$ 425,408	$ 3,461,312	$ 368,185	$ 1,386,139	$ 5,215,636	$ 4,658,304
Contractors/consultants	525,931	232,552	39,441	8,740	806,664	16,016	110,201	932,881	874,935
TOTAL PERSONNEL EXPENSES	2,457,839	1,126,691	249,298	434,148	4,267,976	384,201	1,496,340	6,148,517	5,533,239
NONPERSONNEL EXPENSES									
Grants, scholarships and awards	2,355,906	42,354	45,000	-	2,443,260	-	-	2,443,260	3,299,150
Rent	238,386	61,869	16,129	6,129	322,513	39,019	101,424	462,956	451,389
Information technology	213,343	82,492	15,467	2,576	313,878	12,997	100,711	427,586	304,630
Staff and project travel and expenses	267,850	76,733	10,293	19,956	374,832	9,641	133,980	518,453	365,836
Facility, exhibiting, meals and a/v fees	332,882	780	-	-	333,662	-	-	333,662	343,286
Printing, design and copying	78,394	141,775	9,087	5,560	234,816	2,110	91,939	328,865	246,319
Staff training and recruitment	6,844	3,581	1,889	1,308	13,622	2,092	9,410	25,124	30,537
Depreciation and amortization	52,305	19,371	5,050	-	76,726	18,313	31,756	126,795	103,102
Postage and delivery	28,301	25,902	3,561	9,164	66,928	8,051	44,457	119,436	99,633
Equipment lease and maintenance	18,728	1,204	314	376	20,622	366	1,973	22,961	28,721
Telecommunications	67,330	16,292	5,717	11,158	100,497	8,417	15,715	124,629	105,688
Meetings/receipts	15,699	12,975	3,484	3,680	35,838	15,540	72,070	123,448	97,737
Supplies	22,783	4,224	1,985	5,567	34,559	3,199	12,913	50,671	36,141
Board and committee meetings	-	-	-	21,341	21,341	30,742	-	52,083	56,596
Bank service charges	35,901	494	129	3,731	40,255	319	16,389	56,963	42,331
Professional fees	4,940	4,315	309,466	-	318,721	33,674	2,999	355,394	452,283
Dues/subscriptions/library	3,043	25,142	739	360	29,284	12	14,037	43,333	32,897
Commercial insurance	3,818	-	242	-	4,060	22,697	-	26,757	23,576
Small equipment	450	-	-	-	450	258	-	708	1,506
Royalties	1,363	-	-	-	1,363	-	-	1,363	1,510
Interest expense	706	261	68		1,035	81	429	1,545	435
Other	4,456	290	76	350	5,172	87	15,989	21,248	12,467
TOTAL NONPERSONNEL EXPENSES	3,753,428	520,054	428,696	91,256	4,793,434	207,615	666,191	5,667,240	6,135,770
TOTAL EXPENSES	$ 6,211,267	$ 1,646,745	$ 677,994	$ 525,404	$ 9,061,410	$ 591,816	$ 2,162,531	$ 11,815,757	$ 11,669,009

See Independent Auditors' Report on Supplementary Information