THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011 AND 2010

TOGETHER WITH AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Land Conservancy of McHenry County, Inc.:

We have audited the accompanying statement of financial position of The Land Conservancy of McHenry County, Inc. (the Organization) as of December 31, 2011 and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Organization's 2010 financial statements and in our report dated June 6, 2011 we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Land Conservancy of McHenry County, Inc. at December 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dugan & Lopatka
DUGAN & LOPATKA

Wheaton, Illinois
May 7, 2012

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	$ 71,135	$ 142,372
- Temporarily restricted	3,000	79,255
Cash held for others	105,487	105,775
Promises to give	37,493	137,834
Investments	303,492	214,643
Prepaid expenses	1,556	1,041
Total current assets	522,163	680,920
PROPERTY AND EQUIPMENT, at cost:		
Land	1,155,492	1,022,133
Office equipment	4,817	4,817
Total property and equipment	1,160,309	1,026,950
Less - Accumulated depreciation	4,672	4,352
Net property and equipment	1,155,637	1,022,598
OTHER ASSETS:		
Investments	442,737	402,169
	$ 2,120,537	$ 2,105,687
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 12,571	$ 12,757
Agency funds	105,487	105,775
Total current liabilities	118,058	118,532
COMMITMENTS		
NET ASSETS:		
Unrestricted - Non-board designated	1,198,232	1,163,077
- Board designated	120,908	75,177
Temporarily restricted	683,339	748,901
Total net assets	2,002,479	1,987,155
	$ 2,120,537	$ 2,105,687

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
(with summarized financial information for the year ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Total	2010 (for comparative purposes only)
PUBLIC SUPPORT AND REVENUE:				
Contributions	$ 83,037	$ 36,253	$ 119,290	$ 106,073
Grants	40,551	20,000	60,551	204,316
Program service fees	14,736	-	14,736	15,455
Special events	28,528	-	28,528	29,149
Unrealized and realized gain on investments	201	28,127	28,328	16,191
Other revenue	3,412	-	3,412	2,766
Dividends and interest	21,145	3,839	24,984	27,417
In-kind contributions	140,219	-	140,219	10,934
Total public support and revenue	331,829	88,219	420,048	412,301
Net assets released from restrictions - Restriction satisfied by payments	153,781	(153,781)	-	-
Net public support and revenue	485,610	(65,562)	420,048	412,301
FUNCTIONAL EXPENSES:				
Program services	337,364	-	337,364	245,340
Management and general	35,020	-	35,020	37,047
Fundraising	32,340	-	32,340	26,804
Total functional expenses	404,724	-	404,724	309,191
CHANGE IN NET ASSETS	80,886	(65,562)	15,324	103,110
NET ASSETS, Beginning of year	1,238,254	748,901	1,987,155	1,884,045
NET ASSETS, End of year	$ 1,319,140	$ 683,339	$ 2,002,479	$ 1,987,155

The accompanying notes are an integral part of this statement.

EXHIBIT 3

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 15,324	$ 103,110
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Donated property and equipment	(130,000)	-
Depreciation	320	371
Unrealized (gain) on investments	(28,127)	(16,109)
Realized (gain) on sales of investments	-	(82)
(Increase) decrease in promises to give	100,341	(88,451)
(Increase) in prepaid expenses	(515)	(166)
(Decrease) in accounts payable and accrued liabilities	(186)	(636)
Total adjustments	(58,167)	(105,073)
Net cash (used in) operating activities	(42,843)	(1,963)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,358)	-
Purchase of investments	(115,738)	(281,218)
Sales of investments	14,447	292,566
Net cash provided by (used in) investing activities	(104,649)	11,348
NET INCREASE IN CASH AND CASH EQUIVALENTS	(147,492)	9,385
CASH AND CASH EQUIVALENTS, Beginning of year	221,627	212,242
CASH AND CASH EQUIVALENTS, End of year	$ 74,135	$ 221,627

The accompanying notes are an integral part of this statement.

EXHIBIT 4

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
(with summarized financial information for the year ended December 31, 2010)

	Program Services	Management and General	Fundraising	Total	2010 (for comparative purposes only)
Salaries	$ 117,088	$ 14,636	$ 14,636	$ 146,360	$ 139,394
Payroll taxes and benefits	15,198	1,900	1,900	18,998	17,851
Consulting	3,125	-	-	3,125	60
Depreciation	-	320	-	320	371
Donated materials and supplies	19	-	-	19	734
Insurance	-	4,035	-	4,035	6,738
Mailings	1,528	306	1,222	3,056	5,003
Meetings	665	-	-	665	7,857
Miscellaneous	8,469	1,055	1,059	10,583	10,925
Office supplies	2,878	360	360	3,598	2,291
Printing	2,639	-	2,639	5,278	6,327
Professional fees - Accounting	-	6,100	-	6,100	5,950
- Legal	5,150	-	-	5,150	3,100
Real estate taxes	107	-	-	107	3,458
Rent	6,054	6,054	-	12,108	12,436
Special Events expenses	-	-	10,270	10,270	4,369
Stewardship	172,413	-	-	172,413	80,090
Telephone	1,582	198	198	1,978	2,082
Travel	449	56	56	561	155
Total functional expenses	$ 337,364	$ 35,020	$ 32,340	$ 404,724	$ 309,191

The accompanying notes are an integral part of this statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Land Conservancy of McHenry County, Inc. (the Organization) is a private not-for-profit organization dedicated to the conservation and preservation of McHenry County landscape. Its mission is to preserve the natural heritage of McHenry County by protecting undeveloped land and provide for open space needs. Through the preservation of land, the Organization helps to preserve the agricultural heritage and offers opportunities to observe and study nature, while providing a habitat for native plants and animals. The mission is accomplished primarily through the use of conservation easements, a strategy by which private property owners retain ownership of their lands, but donate their development right to the Organization.

The financial statements were available to be issued on May 7, 2012, with subsequent events being evaluated through this date.

The following summarizes the significant accounting policies and practices reflected in the accompanying financial statements.

Accounting Method -

The accounting records of the Organization are maintained on the accrual basis which recognizes revenue when earned and expenses as they are incurred.

Restricted and Unrestricted Support -

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2011 and 2010, temporarily restricted net assets of $683,339 and $748,901, respectively, are restricted for conservation easement programs and potential legal issues regarding easements.

Use of Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment -

Acquisitions of property and equipment in excess of $500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is calculated using the double-declining method over the estimated useful lives of the respective assets, ranging from 5-7 years. This depreciation method is not a generally accepted method and when compared to the straight-line method it was determined to be immaterially different.

Cash and Cash Equivalents -

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturities of less than three months.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Promises to Give -

Promises to give represent grants due to the Organization from individuals, foundations and government agencies. Promises to give were reviewed at year end and all significant amounts were deemed collectible.

Comparative Financial Information -

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

(2) INVESTMENTS:

The investments are recorded on the books at fair market value. Some of these investments are temporarily restricted and can only be released upon the occurrence of a legal defense of an easement. As of December 31, 2011 and 2010, temporarily restricted investments are $460,003 and $402,169, respectively.

Investments consist of the following:

	2011	2010
Bonds	$ 270,144	$ 242,735
Mutual funds	26,791	26,667
U.S. government securities	67,492	55,419
Certificates of deposits	381,802	291,991
Total investments	$ 746,229	$ 616,812

(3) EASEMENTS:

The Organization has received 66 easements since it began operations. There have been 1,673 easement acres donated to the Organization as of December 31, 2011.

(4) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value Measurements established a framework for measuring fair value. That framework provides 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 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this codification are described as follows:

(4) FAIR VALUE MEASUREMENTS: (Continued)

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 or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3:

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Corporate Bonds and U.S. Government Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Municipal Bonds: Valued at cost closing price reported on the active market on which the individual bonds are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(4) FAIR VALUE MEASUREMENTS: (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	Assets at Fair Value as of December 31, 2011			
Description	Level 1	Level 2	Level 3	Total
Bonds:				
Municipal	$ 76,381	$ -	$ -	$ 76,381
Corporate	193,763	-	-	193,763
Mutual funds:				
Bond	4,401	-	-	4,401
Equity	22,390	-	-	22,390
U.S. Government securities	67,492	-	-	67,492
Certificates of deposits	-	52,175	-	52,175
Total assets at fair value	$ 364,427	$ 52,175	$ -	416,602
Certificates of deposits not assessed at fair market value				329,627
Total investments				$ 746,229

	Assets at Fair Value as of December 31, 2010			
Description	Level 1	Level 2	Level 3	Total
Bonds:				
Municipal	$ 69,603	$ -	$ -	$ 69,603
Corporate	173,132	-	-	173,132
Mutual funds:				
Bond	4,342	-	-	4,342
Equity	22,325	-	-	22,325
U.S. Government securities	55,419	-	-	55,419
Certificates of deposit	-	51,975	-	51,975
Total assets at fair value	$ 324,821	$ 51,975	$ -	376,796
Certificates of deposits not assessed at fair market value				240,016
Total investments				$ 616,812

Certain assets and liabilities are measured at fair value on a non-recurring basis, and, therefore, are not included in the preceding table.

(5) COMMITMENTS:

The Organization signed an agreement with the City of Woodstock to become a Site Steward for a property. In exchange for being the Site Steward, the Organization is allowed to use this property free of rent for its operations until July, 2012. An in-kind donation of $10,200 was recognized in December, 2011 and 2010.

(6) INCOME TAXES:

The Organization has been determined by the Internal Revenue Service to be exempt from federal income tax under Section 501(a) as described under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been established.

The Organization files income tax returns in the U.S. federal jurisdiction and Illinois. With few exceptions, the Organization is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2008. The Organization does not expect a material net change in unrecognized tax benefits in the next twelve months.

(7) AGENCY FUNDS:

The Organization is acting as an agent for the United States Army Corps for lawsuit settlements relating to violations of land laws. The Organization holds the funds, less an administrative fee of 4% plus interest earned, and only disburses the funds to vendors who are rehabilitating the land.

The following is a show of the transactions that have occurred during the year:

Beginning balance	$ 54,922
Interest	-
Settlement funds	1,500
Payment to vendors	-
Ending balance	$ 56,422

The Organization is acting as a fiscal agent that holds and disburses the funds per the request of two not-for-profit organizations.

The following is a show of the transactions that have occurred during the year:

Beginning balance	$ 50,853
Receipts	30,250
Disbursements	(32,038)
Ending balance	$ 49,065

(8) EMPLOYEE RETIREMENT PLAN:

The Organization maintains a SIMPLE IRA plan for the benefits of eligible employees. Employees may start contributing to their IRA once their compensation is in excess of $5,000 in the two prior years and in the current year. The Organization will contribute 2% of the employee's compensation regardless if the eligible employee contributes to the plan.

Contributions to the plan for the year ended December 31, 2011 and 2010 were $2,917 and $1,280, respectively.

(9) SUBSEQUENT EVENT:

In March, 2012, the Organization purchased land through grants, donations and a loan from the bank. The land cost $125,251 and the Organization incurred a mortgage payable of $40,425. The mortgage bears interest at 5%, with monthly principal and interest payment of $268 and a balloon payment due in March, 2015.