THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND 2011

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 financial statements of The Land Conservancy of McHenry County, Inc. (the Organization), which comprise of the statement of financial position as of December 31, 2012 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
The Land Conservancy of McHenry County, Inc.
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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, 2012 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.

Other Matters

The prior year's summarized comparative information has been derived from the Organization's 2011 financial statements and in our report dated May 7, 2012 we expressed an unmodified opinion on those statements.

Dugan & Lopatka

DUGAN & LOPATKA

Wheaton, Illinois
May 6, 2013

EXHIBIT 1

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	$ 90,931	$ 71,135
- Temporarily restricted	25,711	3,000
Cash held for others	108,663	105,487
Promises to give	111,103	37,493
Investments	193,754	303,492
Prepaid expenses	5,069	1,556
Total current assets	535,231	522,163
PROPERTY AND EQUIPMENT, at cost:		
Land	1,354,828	1,155,492
Office equipment	4,817	4,817
Total property and equipment	1,359,645	1,160,309
Less - Accumulated depreciation	4,781	4,672
Net property and equipment	1,354,864	1,155,637
OTHER ASSETS:		
Investments	467,229	442,737
	$ 2,357,324	$ 2,120,537
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Note payable, current maturities	$ 1,275	$ -
Accounts payable and accrued liabilities	16,197	12,571
Agency funds	108,663	105,487
Total current liabilities	126,135	118,058
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	38,252	-
Total liabilities	164,387	118,058
COMMITMENTS		
NET ASSETS:		
Unrestricted - Non-board designated	1,336,875	1,198,232
- Board designated	85,881	120,908
Temporarily restricted	770,181	683,339
Total net assets	2,192,937	2,002,479
	$ 2,357,324	$ 2,120,537

The accompanying notes are an integral part of this statement.

EXHIBIT 2

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012
(with summarized financial information for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Total	2011 (for comparative purposes only)
PUBLIC SUPPORT AND REVENUE:				
Contributions	$ 43,705	$ 46,260	$ 89,965	$ 119,290
Grants	83,982	190,853	274,835	60,551
Program service fees	28,100	-	28,100	14,736
Special events	35,868	-	35,868	28,528
Unrealized and realized gain on investments	410	15,793	16,203	28,328
Other revenue	785	-	785	3,412
Dividends and interest	19,955	3,920	23,875	24,984
In-kind contributions	69,213	-	69,213	140,219
Total public support and revenue	282,018	256,826	538,844	420,048
Net assets released from restrictions - Restriction satisfied by payments	169,984	(169,984)	-	-
Net public support and revenue	452,002	86,842	538,844	420,048
FUNCTIONAL EXPENSES:				
Program services	272,210	-	272,210	337,364
Management and general	37,578	-	37,578	35,020
Fundraising	38,598	-	38,598	32,340
Total functional expenses	348,386	-	348,386	404,724
CHANGE IN NET ASSETS	103,616	86,842	190,458	15,324
NET ASSETS, Beginning of year	1,319,140	683,339	2,002,479	1,987,155
NET ASSETS, End of year	$ 1,422,756	$ 770,181	$ 2,192,937	$ 2,002,479

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, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 190,458	$ 15,324
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated property and equipment	(55,090)	(130,000)
Depreciation	109	320
Unrealized (gain) on investments	(15,763)	(28,127)
Realized (gain) on sales of investments	(30)	-
(Increase) decrease in promises to give	(73,610)	100,341
(Increase) in prepaid expenses	(3,513)	(515)
Increase (decrease) in accounts payable and accrued liabilities	3,626	(186)
Total adjustments	(144,271)	(58,167)
Net cash provided by (used in) operating activities	46,187	(42,843)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(103,821)	(3,358)
Purchase of investments	(48,601)	(115,738)
Sales of investments	149,640	14,447
Net cash (used in) investing activities	(2,782)	(104,649)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(898)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	42,507	(147,492)
CASH AND CASH EQUIVALENTS, Beginning of year	74,135	221,627
CASH AND CASH EQUIVALENTS, End of year	$ 116,642	$ 74,135
NON-CASH TRANSACTIONS:		
Fixed assets financed with notes payable	$ 40,425	$ -

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, 2012
(with summarized financial information for the year ended December 31, 2011)

	Program Services	Management and General	Fundraising	Total	2011 (for comparative purposes only)
Salaries	$ 145,094	$ 18,137	$ 18,137	$ 181,368	$ 146,360
Payroll taxes and benefits	17,778	2,222	2,222	22,222	18,998
Consulting	850	-	213	1,063	3,125
Depreciation	-	109	-	109	320
Donated materials, supplies, and service	2,504	-	-	2,504	19
Insurance	2,500	3,389	-	5,889	4,035
Interest	1,518	-	-	1,518	-
Mailings	2,420	484	1,936	4,840	3,056
Meetings	634	-	-	634	665
Membership dues	1,940	242	242	2,424	-
Miscellaneous	2,646	331	331	3,308	10,583
Office supplies	2,226	278	278	2,782	3,598
Printing	2,772	-	2,772	5,544	5,278
Professional fees - Accounting	-	6,250	-	6,250	6,100
- Legal	2,445	-	-	2,445	5,150
Real estate taxes	4,758	-	-	4,758	107
Rent	5,833	5,833	-	11,666	12,108
Special events expenses	-	-	12,164	12,164	10,270
Stewardship	73,875	-	-	73,875	172,413
Telephone	1,661	208	208	2,077	1,978
Travel	756	95	95	946	561
Total functional expenses	$ 272,210	$ 37,578	$ 38,598	$ 348,386	$ 404,724

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

(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 6, 2013, 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, 2012 and 2011, temporarily restricted net assets of $770,181 and $683,339, 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 $1,000 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, 2011, 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, 2012 and 2011, temporarily restricted investments are $467,229 and $460,003, respectively.

Investments consist of the following:

	2012	2011
Bonds	$ 250,170	$ 270,144
Mutual funds	29,899	26,791
U.S. government securities	73,759	67,492
Certificates of deposits	271,957	381,802
Money market	35,198	-
Total investments	$ 660,983	$ 746,229

(3) EASEMENTS:

The Organization has received 76 easements since it began operations. There have been 1,578 easement acres donated to the Organization as of December 31, 2012.

(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, 2012 and 2011.

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, 2012			
Description	Level 1	Level 2	Level 3	Total
Bonds:				
Municipal	$ 77,109	$ -	$ -	$ 77,109
Corporate	173,061	-	-	173,061
Mutual funds:				
Bond	4,512	-	-	4,512
Equity	25,387	-	-	25,387
U.S. Government securities	73,759	-	-	73,759
Certificates of deposit	-	51,284	-	51,284
Total assets at fair value	$ 353,828	$ 51,284	$ -	405,112
Money market not assessed at fair market value				35,198
Certificates of deposits not assessed at fair market value				220,673
Total investments				$ 660,983

	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 deposit	-	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

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, 2015. An in-kind donation of $10,500 and $10,200 was recognized in December, 2012 and 2011, respectively.

(6) NOTE PAYABLE:

	2012	2011
Payable to a bank, due in monthly installments of \$268, principal and interest, bearing interest at 5%, with a balloon payment due in March, 2015, and secured by land.	\$ 39,527	\$ -
Less - Current portion	1,275	-
Long-term portion	\$ 38,252	\$ -

Aggregate maturities required on long-term debt as of December 31, 2012, are due in future years as follows:

Year ending December 31	
2013	\$ 1,275
2014	1,340
2015	36,912
	\$ 39,527

(7) 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 2009. The Organization does not expect a material net change in unrecognized tax benefits in the next twelve months.

(8) 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	\$ 56,422
Interest	-
Settlement funds	-
Payment to vendors	-
Ending balance	\$ 56,422

(8) AGENCY FUNDS: (Continued)

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	$ 49,065
Receipts	31,838
Disbursements	(28,662)
Ending balance	$ 52,241

(9) EMPLOYEE RETIREMENT PLAN:

The Organization maintains a SIMPLE IRA plan for the benefit 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 years ended December 31, 2012 and 2011 were $3,238 and $2,917, respectively.