

**THE LAND CONSERVANCY OF
MCHENRY COUNTY, INC.**

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015 AND 2014**

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 the statement of financial position as of December 31, 2015, 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, 2015 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 2014 financial statements and in our report dated June 1, 2015, we expressed an unmodified opinion on those statements.

Dugan + Lopatka

DUGAN & LOPATKA

Wheaton, Illinois
June 24, 2016

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ 113,640	\$ 33,916
- Temporarily restricted	-	4,385
- Cash held for others	102,103	103,426
Promises to give	102,605	80,871
Investments	167,352	270,059
Prepaid expenses	9,938	5,300
Total current assets	<u>495,638</u>	<u>497,957</u>
PROPERTY AND EQUIPMENT, at cost:		
Land	2,188,204	1,938,851
Office equipment	18,482	16,141
Total property and equipment	<u>2,206,686</u>	<u>1,954,992</u>
Less - Accumulated depreciation	<u>8,438</u>	<u>6,592</u>
Net property and equipment	<u>2,198,248</u>	<u>1,948,400</u>
OTHER ASSETS:		
Deposits	12,679	12,679
Investments	422,053	447,677
Total current assets	<u>434,732</u>	<u>460,356</u>
	<u>\$ 3,128,618</u>	<u>\$ 2,906,713</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Note payable, current maturities	-	\$ 36,982
Accounts payable and accrued liabilities	21,466	12,449
Agency funds	102,103	103,426
Total current liabilities	<u>123,569</u>	<u>152,857</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted - Undesignated	(12,268)	45,209
- Net property and equipment, less note payable for property and equipment	2,198,248	1,911,418
- Board designated	148,372	146,335
Temporarily restricted	670,697	650,894
Total net assets	<u>3,005,049</u>	<u>2,753,856</u>
	<u>\$ 3,128,618</u>	<u>\$ 2,906,713</u>

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, 2015
 (with summarized financial information for the year ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2014 (for comparative purposes only)</u>
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 56,349	\$ 70,392	\$ 126,741	\$ 123,759
Grants	107,919	340,851	448,770	372,026
Program service fees	34,464	-	34,464	29,061
Special events, net of expense of \$15,606	36,351	-	36,351	28,402
Unrealized and realized gain (loss) on investments	(6,020)	(16,428)	(22,448)	37,599
Other revenue	392	-	392	235
Dividends and interest	28,347	2,032	30,379	33,383
In-kind contributions	11,095	-	11,095	10,800
	<u>268,897</u>	<u>396,847</u>	<u>665,744</u>	<u>635,265</u>
Net assets released from restrictions - Restriction satisfied by payments	<u>377,044</u>	<u>(377,044)</u>	<u>-</u>	<u>-</u>
Net public support and revenue	<u>645,941</u>	<u>19,803</u>	<u>665,744</u>	<u>635,265</u>
FUNCTIONAL EXPENSES:				
Program services	338,237	-	338,237	251,424
Management and general	40,389	-	40,389	33,791
Fundraising	35,925	-	35,925	29,276
	<u>414,551</u>	<u>-</u>	<u>414,551</u>	<u>314,491</u>
CHANGE IN NET ASSETS	231,390	19,803	251,193	320,774
NET ASSETS, Beginning of year	<u>2,102,962</u>	<u>650,894</u>	<u>2,753,856</u>	<u>2,433,082</u>
NET ASSETS, End of year	<u>\$ 2,334,352</u>	<u>\$ 670,697</u>	<u>\$ 3,005,049</u>	<u>\$ 2,753,856</u>

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 251,193	\$ 320,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,846	1,223
Contributions restricted for long-term purposes	(253,220)	(224,317)
Unrealized (gain) loss on investments	22,448	(28,541)
Realized (gain) on sales of investments	-	(9,058)
(Increase) in promises to give	(21,734)	(48,901)
(Increase) in prepaid expenses	(4,638)	(2,791)
Increase (decrease) in accounts payable and accrued liabilities	9,017	(3,200)
Increase (decrease) in agency funds	(1,323)	3,125
Total adjustments	<u>(247,604)</u>	<u>(312,460)</u>
Net cash provided by operating activities	<u>3,589</u>	<u>8,314</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(251,694)	(225,370)
Purchase of investments	(30,201)	(163,752)
Sales of investments	136,084	219,829
Net cash (used in) investing activities	<u>(145,811)</u>	<u>(169,293)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term purposes	253,220	224,317
Payments on notes payable	(36,982)	(1,310)
Net cash provided by financing activities	<u>216,238</u>	<u>223,007</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	74,016	62,028
CASH AND CASH EQUIVALENTS, Beginning of year	<u>141,727</u>	<u>79,699</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 215,743</u>	<u>\$ 141,727</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 461</u>	<u>\$ 1,911</u>

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(with summarized financial information for the year ended December 31, 2014)

	Program Services	Management and General	Fundraising	Total	2014 (for comparative purposes only)
Salaries	\$ 182,904	\$ 22,863	\$ 22,863	\$ 228,630	\$ 187,065
Payroll taxes and benefits	26,286	3,286	3,286	32,858	22,163
Depreciation	-	1,846	-	1,846	1,223
Bad debt expense	-	-	-	-	3,850
Grant expense	25,000	-	-	25,000	-
Insurance	10,507	1,167	-	11,674	16,636
Interest	461	-	-	461	1,911
Mailings	5,354	1,071	4,282	10,707	8,508
Meetings	5,438	-	-	5,438	1,136
Membership dues	1,466	183	183	1,832	1,990
Miscellaneous	4,165	521	521	5,207	5,286
Office supplies	8,786	1,098	1,098	10,982	2,809
Printing	1,889	-	1,888	3,777	4,739
Professional fees - Accounting	-	6,550	-	6,550	6,550
- Legal	5,889	-	-	5,889	1,575
Real estate taxes	(122)	-	-	(122)	464
Rent	10,050	1,256	1,256	12,562	12,511
Stewardship	45,788	-	-	45,788	32,877
Telephone	2,452	307	307	3,066	2,332
Travel	1,924	241	241	2,406	866
Total functional expenses	\$ 338,237	\$ 40,389	\$ 35,925	\$ 414,551	\$ 314,491

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

(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 June 24, 2016, 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.

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 straight-line method over the estimated useful lives of the respective assets, ranging from 5-7 years.

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, 2014, from which the summarized information was derived.

Reclassification -

Certain prior year amounts have been reclassified to conform with the current year presentation.

(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, 2015 and 2014, temporarily restricted investments are \$422,053 and \$447,677, respectively.

Investments consist of the following:

	<u>2015</u>	<u>2014</u>
Bonds	\$ 371,745	\$ 492,176
Stocks	1,123	38,156
Mutual funds	153,544	121,531
U.S. Government securities	<u>62,993</u>	<u>65,873</u>
Total investments	<u>\$ 589,405</u>	<u>\$ 717,736</u>

(3) EASEMENTS:

The Organization has received 82 easements since it began operations. There have been 1,829 easement acres donated to the Organization as of December 31, 2015.

(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:

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, 2015 and 2014.

Stocks, 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.

(4) FAIR VALUE MEASUREMENTS: (Continued)

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.

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

Description	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Bonds:				
Municipal	\$ 54,532	\$ -	\$ -	\$ 54,532
Corporate	317,213	-	-	317,213
Stocks	1,123	-	-	1,123
Mutual funds:				
Bond	4,640	-	-	4,640
Equity	148,904	-	-	148,904
U.S. Government securities	62,993	-	-	62,993
Total assets at fair value	<u>\$ 589,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 589,405</u>

Description	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Bonds:				
Municipal	\$ 54,908	\$ -	\$ -	\$ 54,908
Corporate	437,268	-	-	437,268
Stocks	38,156	-	-	38,156
Mutual funds:				
Bond	4,624	-	-	4,624
Equity	116,907	-	-	116,907
U.S. Government securities	65,873	-	-	65,873
Total assets at fair value	<u>\$ 717,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 717,736</u>

(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, 2018. An in-kind donation of \$10,800 was recognized at December 31, 2015 and 2014.

(6) NOTE PAYABLE:

	<u>2015</u>	<u>2014</u>
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. The note was paid off in March, 2015.	\$ -	\$ 36,982
Less - Current portion	<u>-</u>	<u>36,982</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

(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 2012. 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	\$ 54,272
Interest	-
Settlement funds	-
Payment to vendors	<u>-</u>
Ending balance	<u>\$ 54,272</u>

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	\$ 49,154
Receipts	38,352
Disbursements	<u>(39,675)</u>
Ending balance	<u>\$ 47,831</u>

(9) NET ASSETS:

	<u>2015</u>	<u>2014</u>
Net assets that are board designated are as follows:		
Gateway Park restoration	\$ 6,959	\$ 18,000
Long-term management	58,298	54,928
Operating reserve	33,836	29,003
Land restoration	<u>49,278</u>	<u>44,404</u>
 Total designated net assets	 <u>\$ 148,372</u>	 <u>\$ 146,335</u>
Net assets that are temporarily restricted are as follows:		
Legal issues in regards to easements	\$ 423,853	\$ 442,805
Time restricted	68,936	36,423
Yonder restoration	132,926	114,891
Oak conservation	26,211	23,833
Gateway Park restoration	371	22,259
Ryder Woods restoration	13,400	-
Legal cost/maintenance for easements	<u>5,000</u>	<u>10,683</u>
 Total temporarily restricted net assets	 <u>\$ 670,697</u>	 <u>\$ 650,894</u>

(10) 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, 2015 and 2014, were \$4,061 and \$3,397, respectively.

(11) CONDITIONAL PROMISE TO GIVE:

As of December 31, 2015, a foundation made approximately a \$495,000 conditional promise to give to the Organization. The condition was that the Organization must have a signed contract to purchase land. As of December 31, 2015, the Organization had not signed a contract to purchase land.

(12) CONCENTRATION:

The Organization received funds of approximately 59% of its total public support and revenue from a foundation for the year ended December 31, 2015.