

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

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014 AND 2013**

TOGETHER WITH AUDITOR'S REPORT

Dugan & Lopatka

Certified Public Accountants & Consultants
A Professional Corporation
104 East Roosevelt Road
Wheaton, Illinois 60187
(630) 665-4440
Fax (630) 665-5030
www.duganlopatka.com
e-mail: info@duganlopatka.com

Michael J. Dugan
Jerry L. Lopatka
Mark F. Schultz
Peter J. Zich
Leo M. Misdorn

T. Brett Flickinger
Karen M. Olson
Hugh E. Elliott

Gwen S. Henry

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, 2014 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, 2014 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 2013 financial statements and in our report dated June 2, 2014 we expressed an unmodified opinion on those statements.


DUGAN & LOPATKA

Wheaton, Illinois
June 1, 2015

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ (51,632)	\$ (20,772)
- Temporarily restricted	4,385	170
- Cash held for others	103,426	100,301
Promises to give	93,550	44,649
Investments	355,607	306,187
Prepaid expenses	5,300	2,509
Total current assets	<u>510,636</u>	<u>433,044</u>
PROPERTY AND EQUIPMENT, at cost:		
Land	1,938,851	1,717,081
Office equipment	16,141	12,541
Total property and equipment	1,954,992	1,729,622
Less - Accumulated depreciation	6,592	5,369
Net property and equipment	<u>1,948,400</u>	<u>1,724,253</u>
OTHER ASSETS:		
Investments	447,677	430,027
	<u>\$ 2,906,713</u>	<u>\$ 2,587,324</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Note payable, current maturities	\$ 36,982	\$ 1,340
Accounts payable and accrued liabilities	12,449	15,649
Agency funds	103,426	100,301
Total current liabilities	152,857	117,290
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	-	36,952
Total liabilities	<u>152,857</u>	<u>154,242</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted - Undesignated	45,209	(12,439)
- Net property and equipment, less note payable for property and equipment	1,911,418	1,685,961
- Board designated	146,335	160,631
Temporarily restricted	650,894	598,929
Total net assets	<u>2,753,856</u>	<u>2,433,082</u>
	<u>\$ 2,906,713</u>	<u>\$ 2,587,324</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, 2014
(with summarized financial information for the year ended December 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2013 (for comparative purposes only)</u>
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 58,324	\$ 65,435	\$ 123,759	\$ 106,593
Grants	122,026	250,000	372,026	57,510
Program service fees	29,061	-	29,061	12,260
Special events, net of expense of \$17,655	28,402	-	28,402	22,246
Unrealized and realized gain (loss) on investments	22,582	15,017	37,599	(31,929)
Other revenue	235	-	235	4,245
Dividends and interest	30,735	2,648	33,383	29,455
In-kind contributions	10,800	-	10,800	369,340
	<u>302,165</u>	<u>333,100</u>	<u>635,265</u>	<u>569,720</u>
Net assets released from restrictions - Restriction satisfied by payments	<u>281,135</u>	<u>(281,135)</u>	<u>-</u>	<u>-</u>
Net public support and revenue	<u>583,300</u>	<u>51,965</u>	<u>635,265</u>	<u>569,720</u>
FUNCTIONAL EXPENSES:				
Program services	251,424	-	251,424	263,300
Management and general	33,791	-	33,791	32,551
Fundraising	29,276	-	29,276	33,724
	<u>314,491</u>	<u>-</u>	<u>314,491</u>	<u>329,575</u>
CHANGE IN NET ASSETS	268,809	51,965	320,774	240,145
NET ASSETS, Beginning of year	<u>1,834,153</u>	<u>598,929</u>	<u>2,433,082</u>	<u>2,192,937</u>
NET ASSETS, End of year	<u>\$ 2,102,962</u>	<u>\$ 650,894</u>	<u>\$ 2,753,856</u>	<u>\$ 2,433,082</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 320,774	\$ 240,145
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated property and equipment	-	(358,500)
Depreciation	1,223	588
Contributions restricted for long-term purposes	(224,317)	-
Unrealized (gain) loss on investments	(28,541)	31,929
Realized (gain) on sales of investments	(9,058)	-
(Increase) decrease in promises to give	(48,901)	66,454
(Increase) decrease in prepaid expenses	(2,791)	2,560
(Decrease) in accounts payable and accrued liabilities	(3,200)	(548)
Increase (decrease) in agency funds	3,125	(8,362)
Total adjustments	<u>(312,460)</u>	<u>(265,879)</u>
Net cash provided by (used in) operating activities	<u>8,314</u>	<u>(25,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(225,370)	(11,477)
Purchase of investments	(163,752)	(364,092)
Sales of investments	134,281	256,932
Net cash (used in) investing activities	<u>(254,841)</u>	<u>(118,637)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term purposes	224,317	-
Payments on notes payable	(1,310)	(1,235)
Net cash provided by (used in) financing activities	<u>223,007</u>	<u>(1,235)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(23,520)	(145,606)
CASH AND CASH EQUIVALENTS, Beginning of year	79,699	225,305
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 56,179</u>	<u>\$ 79,699</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 1,911</u>	<u>\$ 1,986</u>

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, 2014

(with summarized financial information for the year ended December 31, 2013)

	Program Services	Management and General	Fundraising	Total	2013 (for comparative purposes only)
Salaries	\$ 149,651	\$ 18,707	\$ 18,707	\$ 187,065	\$ 182,159
Payroll taxes and benefits	17,731	2,216	2,216	22,163	20,712
Depreciation	-	1,223	-	1,223	588
Bad debt expense	3,850	-	-	3,850	498
Insurance	14,972	1,664	-	16,636	8,724
Interest	1,911	-	-	1,911	1,986
Mailings	4,254	851	3,403	8,508	12,512
Meetings	1,136	-	-	1,136	284
Membership dues	1,592	199	199	1,990	1,980
Miscellaneous	4,228	529	529	5,286	5,741
Office supplies	2,247	281	281	2,809	4,446
Outside services	-	-	-	-	774
Printing	2,369	-	2,370	4,739	4,554
Professional fees - Accounting	-	6,550	-	6,550	6,400
- Legal	1,575	-	-	1,575	3,875
Real estate taxes	464	-	-	464	2,659
Rent	10,009	1,251	1,251	12,511	12,099
Stewardship	32,877	-	-	32,877	57,304
Telephone	1,866	233	233	2,332	2,261
Travel	692	87	87	866	19
Total functional expenses	\$ 251,424	\$ 33,791	\$ 29,276	\$ 314,491	\$ 329,575

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

(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 1, 2015, 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, 2013, 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, 2014 and 2013, temporarily restricted investments are \$447,677 and \$430,027, respectively.

Investments consist of the following:

	<u>2014</u>	<u>2013</u>
Bonds	\$ 492,176	\$ 467,252
Stocks	38,156	75,910
Mutual funds	121,531	104,431
U.S. government securities	65,873	61,364
Certificates of deposits	-	21,997
Money market	<u>85,548</u>	<u>5,260</u>
Total investments	<u>\$ 803,284</u>	<u>\$ 736,214</u>

(3) EASEMENTS:

The Organization has received 81 easements since it began operations. There have been 1,800 easement acres donated to the Organization as of December 31, 2014.

(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, 2014 and 2013.

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.

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:

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>65,873</u>	<u>-</u>	<u>-</u>	<u>65,873</u>
Total assets at fair value	<u>\$ 717,736</u>	<u>\$ -</u>	<u>\$ -</u>	717,736
Money market not assessed at fair market value				<u>85,548</u>
Total investments				<u>\$ 803,284</u>

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds:				
Municipal	\$ 71,702	\$ -	\$ -	\$ 71,702
Corporate	395,550	-	-	395,550
Stocks	75,910	-	-	75,910
Mutual funds:				
Bond	4,593	-	-	4,593
Equity	99,838	-	-	99,838
U.S. Government securities	61,364	-	-	61,364
Certificates of deposit	<u>-</u>	<u>21,997</u>	<u>-</u>	<u>21,997</u>
Total assets at fair value	<u>\$ 708,957</u>	<u>\$ 21,997</u>	<u>\$ -</u>	730,954
Money market not assessed at fair market value				<u>5,260</u>
Total investments				<u>\$ 736,214</u>

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 \$10,800 was recognized at December 31, 2014 and 2013.

(6) NOTE PAYABLE:

	<u>2014</u>	<u>2013</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	\$ 38,292
Less - Current portion	<u>36,982</u>	<u>1,340</u>
Long-term portion	<u>\$ -</u>	<u>\$ 36,952</u>

Aggregate maturities required on long-term debt as of December 31, 2014, are due in future years as follows:

<u>Year ending</u> <u>December 31</u>	
2015	<u>\$ 36,982</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 2011. 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>

(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	\$ 46,029
Receipts	38,638
Disbursements	<u>(35,513)</u>
Ending balance	<u>\$ 49,154</u>

(9) NET ASSETS:

	<u>2014</u>	<u>2013</u>
Net assets that are board designated are as follows:		
Gateway Park restoration	\$ 18,000	\$ 18,000
Long-term management	54,928	74,963
Operating reserve	29,003	24,059
Land restoration	<u>44,404</u>	<u>43,609</u>
Total designated net assets	<u>\$ 146,335</u>	<u>\$ 160,631</u>
Net assets that are temporarily restricted are as follows:		
Legal issues in regards to easements	\$ 442,805	\$ 432,860
Time restricted	36,423	2,202
Yonder restoration	114,891	107,735
Oak conservation	23,833	21,089
Development	-	5,750
Gateway Park restoration	22,259	21,285
Legal cost/maintenance for easements	<u>10,683</u>	<u>8,008</u>
Total temporarily restricted net assets	<u>\$ 650,894</u>	<u>\$ 598,929</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, 2014 and 2013 were \$3,397 and \$3,517, respectively.

(11) CONDITIONAL PROMISE TO GIVE:

As of December 31, 2014, a foundation made approximately a \$250,000 conditional promise to give. The condition was that the Organization must have a signed contract to purchase land. In February, 2015, the Organization purchased 38.5 acres of land and the condition of the grant was met.