

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

May 18, 2010

Ms. Lisa Haderlein, Executive Director
The Land Conservancy of McHenry County, Inc.
Post Office Box 352
Woodstock, Illinois 60098

TRANSMITTED VIA EMAIL

Dear Lisa:

Attached is a copy of the financial statements for The Land Conservancy of McHenry County, Inc. as of December 31, 2009 and 2008, together with auditor's report.

Please call should you have any questions.

Sincerely,

DUGAN & LOPATKA



Mark F. Schultz

MFS:bdb
Attachment

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

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2009 AND 2008**

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, 2009 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 2008 financial statements and in our report dated June 1, 2009 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, 2009 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

Wheaton, Illinois
May 10, 2010

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 13,393	\$ 5,796
Agency funds	<u>108,626</u>	<u>167,321</u>
Total current liabilities	<u>122,019</u>	<u>173,117</u>
 COMMITMENTS		
 NET ASSETS:		
Unrestricted - Non-board designated	1,074,896	729,824
- Board designated	72,636	182,467
Temporarily restricted	<u>736,513</u>	<u>449,698</u>
Total net assets	<u>1,884,045</u>	<u>1,361,989</u>
	<u>\$ 2,006,064</u>	<u>\$ 1,535,106</u>

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009
(with summarized financial information for the year ended December 31, 2008)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2008 (for comparative purposes only)</u>
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 72,794	\$ 27,085	\$ 99,879	\$ 104,728
Grants	111,037	495,990	607,027	574,346
Program service fees	26,025	-	26,025	16,035
Special events	15,082	-	15,082	22,448
Unrealized and realized gain (loss) on investments	19,575	-	19,575	(26,200)
Other revenue	444	-	444	9,252
Loss on sale of office equipment	-	-	-	(2,583)
Dividends and interest	19,993	2,580	22,573	24,824
In-kind contributions	64,619	-	64,619	1,732
Total public support and revenue	329,569	525,655	855,224	724,582
Net assets released from restrictions - Restriction satisfied by payments	238,840	(238,840)	-	-
Net public support and revenue	568,409	286,815	855,224	724,582
FUNCTIONAL EXPENSES:				
Program services	244,329	-	244,329	185,044
Management and general	62,051	-	62,051	34,444
Fundraising	26,788	-	26,788	26,259
Total functional expenses	333,168	-	333,168	245,747
CHANGE IN NET ASSETS	235,241	286,815	522,056	478,835
NET ASSETS, Beginning of year	912,291	449,698	1,361,989	883,154
NET ASSETS, End of year	\$ 1,147,532	\$ 736,513	\$ 1,884,045	\$ 1,361,989

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 522,056	\$ 478,835
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property and equipment	(60,000)	-
Depreciation	475	1,018
Loss on sale of office equipment	-	2,583
Unrealized (gain) loss on investments	(19,575)	23,641
Realized loss on sales of investments	-	2,559
Decrease in promises to give	10,593	31,524
(Increase) decrease in prepaid expenses	400	(500)
Increase (decrease) in accounts payable and accrued liabilities	7,597	(1,012)
Total adjustments	(60,510)	59,813
Net cash provided by operating activities	461,546	538,648
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(270,687)	(308,546)
Proceeds from sale of office equipment	-	650
Purchase of investments	(311,104)	(97,972)
Sales of investments	167,652	71,468
Net cash (used in) investing activities	(414,139)	(334,400)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	-	(42,987)
NET INCREASE IN CASH	47,407	161,261
CASH AND CASH EQUIVALENTS, Beginning of year	164,835	3,574
CASH AND CASH EQUIVALENTS, End of year	\$ 212,242	\$ 164,835

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, 2009
(with summarized financial information for the year ended December 31, 2008)

	Program Services	Management and General	Fundraising	Total	2008 (for comparative purposes only)
Salaries	\$ 111,082	\$ 13,885	\$ 13,885	\$ 138,852	\$ 128,761
Payroll taxes and benefits	9,639	1,205	1,205	12,049	11,705
Consulting	80	-	-	80	195
Depreciation expense	-	475	-	475	1,018
Donated materials and supplies	369	-	-	369	1,732
Insurance	-	5,970	-	5,970	5,477
Interest	-	-	-	-	1,872
Mailings	1,984	397	1,587	3,968	4,654
Meetings	3,762	-	-	3,762	3,310
Miscellaneous expense	10,305	1,288	1,288	12,881	7,579
Office supplies	3,547	443	443	4,433	3,800
Printing	4,576	-	4,576	9,152	7,734
Professional fees - Accounting	-	5,800	-	5,800	5,500
- Legal	7,575	-	-	7,575	6,667
Rent	11,535	11,535	-	23,070	13,046
Real estate taxes	6,320	-	-	6,320	1,027
Special Events expenses	-	-	3,543	3,543	5,069
Stewardship	71,466	-	-	71,466	33,840
Telephone	2,043	255	255	2,553	2,643
Bad debt expense	-	20,792	-	20,792	-
Travel	46	6	6	58	118
Total functional expenses	\$ 244,329	\$ 62,051	\$ 26,788	\$ 333,168	\$ 245,747

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

(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 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 10, 2010, 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, 2009 and 2008, temporarily restricted net assets of \$736,513 and \$449,698, 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.

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

Cash and Cash Equivalents -

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

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 assets 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, 2008, 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, 2009 and 2008, temporarily restricted investments are \$396,640 and \$347,009, respectively.

Investments consist of the following:

	<u>2009</u>	<u>2008</u>
Corporate bonds and U.S. government securities	\$ 229,876	\$ 146,854
Mutual funds	26,980	14,982
Money market accounts	-	135,073
Certificates of deposits	<u>355,113</u>	<u>152,033</u>
Total investments	<u>\$ 611,969</u>	<u>\$ 448,942</u>

(3) EASEMENTS:

The Organization has received 52 easements since it began operations. There have been 1,618 easement acres donated to the Organization as of December 31, 2009.

(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, 2009 and 2008.

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

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

(4) FAIR VALUE MEASUREMENTS: (Continued)

Certificates of Deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Money Market: Valued at cost as of the year end, which approximates market.

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 hierarchy, the Organization's assets at fair value:

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds and U.S. government securities	\$ 229,876	\$ -	\$ -	\$ 229,876
Mutual funds	26,980	-	-	26,980
Certificates of deposits	-	355,113	-	355,113
Total assets at fair value	<u>\$ 256,856</u>	<u>\$ 355,113</u>	<u>\$ -</u>	<u>\$ 611,969</u>

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2008</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds and U.S. government securities	\$ 146,854	\$ -	\$ -	\$ 146,854
Mutual funds	14,982	-	-	14,982
Money Market	135,073	-	-	135,073
Certificates of deposits	-	152,033	-	152,033
Total assets at fair value	<u>\$ 296,909</u>	<u>\$ 152,033</u>	<u>\$ -</u>	<u>\$ 448,942</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) CASH FLOW INFORMATION:

	<u>2009</u>	<u>2008</u>
Interest paid	<u>\$ -</u>	<u>\$ 1,872</u>

(6) COMMITMENTS:

The Organization rented office space from a third party until July, 2009. In July, 2009, 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 \$4,250 was recognized in December, 2009.

Building rent for the years ended December 31, 2009 and 2008 was \$21,195 and \$9,701, respectively.

(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 2006. 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	\$ 125,269
Interest	625
Payment to vendors	<u>(66,288)</u>
Ending balance	<u>\$ 59,606</u>

The Organization is acting as a fiscal agent for a non-for-profit organization that holds and disburses the funds per their request.

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

Beginning balance	\$ 42,052
Receipts	33,498
Disbursements	<u>(26,530)</u>
Ending balance	<u>\$ 49,020</u>