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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, 2010 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 2009 financial statements and in our report dated May 10, 2010 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, 2010 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
June 6, 2011

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ 142,372	\$ 137,081
- Temporarily restricted	79,255	75,161
Cash held for others	105,775	108,626
Promises to give	137,834	49,383
Investments	214,643	215,329
Prepaid expenses	1,041	875
Total current assets	<u>680,920</u>	<u>586,455</u>
PROPERTY AND EQUIPMENT, at cost:		
Land	1,022,133	1,022,133
Office equipment	4,817	4,817
Total property and equipment	1,026,950	1,026,950
Less - Accumulated depreciation	4,352	3,981
Net property and equipment	<u>1,022,598</u>	<u>1,022,969</u>
OTHER ASSETS:		
Investments	402,169	396,640
	<u>\$ 2,105,687</u>	<u>\$ 2,006,064</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 12,757	\$ 13,393
Agency funds	105,775	108,626
Total current liabilities	<u>118,532</u>	<u>122,019</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted - Non-board designated	1,163,077	1,074,896
- Board designated	75,177	72,636
Temporarily restricted	748,901	736,513
Total net assets	<u>1,987,155</u>	<u>1,884,045</u>
	<u>\$ 2,105,687</u>	<u>\$ 2,006,064</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, 2010
(with summarized financial information for the year ended December 31, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2009 (for comparative purposes only)</u>
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 81,084	\$ 24,989	\$ 106,073	\$ 99,879
Grants	134,471	69,845	204,316	607,027
Program service fees	15,455	-	15,455	26,025
Special events	29,149	-	29,149	15,082
Unrealized and realized gain on investments	16,191	-	16,191	19,575
Other revenue	2,766	-	2,766	444
Dividends and interest	23,996	3,421	27,417	22,573
In-kind contributions	10,934	-	10,934	64,619
	<u>314,046</u>	<u>98,255</u>	<u>412,301</u>	<u>855,224</u>
Net assets released from restrictions - Restriction satisfied by payments	<u>85,867</u>	<u>(85,867)</u>	<u>-</u>	<u>-</u>
Net public support and revenue	<u>399,913</u>	<u>12,388</u>	<u>412,301</u>	<u>855,224</u>
FUNCTIONAL EXPENSES:				
Program services	245,340	-	245,340	244,329
Management and general	37,047	-	37,047	62,051
Fundraising	26,804	-	26,804	26,788
	<u>309,191</u>	<u>-</u>	<u>309,191</u>	<u>333,168</u>
CHANGE IN NET ASSETS	90,722	12,388	103,110	522,056
NET ASSETS, Beginning of year	<u>1,147,532</u>	<u>736,513</u>	<u>1,884,045</u>	<u>1,361,989</u>
NET ASSETS, End of year	<u>\$ 1,238,254</u>	<u>\$ 748,901</u>	<u>\$ 1,987,155</u>	<u>\$ 1,884,045</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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 103,110	\$ 522,056
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated property and equipment	-	(60,000)
Depreciation	371	475
Unrealized (gain) on investments	(16,109)	(19,575)
Realized (gain) on sales of investments	(82)	-
(Increase) decrease in promises to give	(88,451)	10,593
(Increase) decrease in prepaid expenses	(166)	400
Increase (decrease) in accounts payable and accrued liabilities	(636)	7,597
Total adjustments	<u>(105,073)</u>	<u>(60,510)</u>
Net cash provided by (used in) operating activities	<u>(1,963)</u>	<u>461,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(270,687)
Purchase of investments	(281,218)	(311,104)
Sales of investments	292,566	167,652
Net cash provided by (used in) investing activities	<u>11,348</u>	<u>(414,139)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,385	47,407
CASH AND CASH EQUIVALENTS, Beginning of year	<u>212,242</u>	<u>164,835</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 221,627</u>	<u>\$ 212,242</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, 2010

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

	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>	<u>2009 (for</u>
	<u>Services</u>	<u>and General</u>			<u>comparative</u>
					<u>purposes only)</u>
Salaries	\$ 111,516	\$ 13,939	\$ 13,939	\$ 139,394	\$ 138,852
Payroll taxes and benefits	14,281	1,785	1,785	17,851	12,049
Bad debt expense	-	-	-	-	20,792
Consulting	60	-	-	60	80
Depreciation expense	-	371	-	371	475
Donated materials and supplies	734	-	-	734	369
Insurance	-	6,738	-	6,738	5,970
Mailings	2,502	500	2,001	5,003	3,968
Meetings	7,857	-	-	7,857	3,762
Miscellaneous expense	8,739	1,093	1,093	10,925	12,881
Office supplies	1,833	229	229	2,291	4,433
Printing	3,163	-	3,164	6,327	9,152
Professional fees - Accounting	-	5,950	-	5,950	5,800
- Legal	3,100	-	-	3,100	7,575
Real estate taxes	3,458	-	-	3,458	6,320
Rent	6,218	6,218	-	12,436	23,070
Special Events expenses	-	-	4,369	4,369	3,543
Stewardship	80,090	-	-	80,090	71,466
Telephone	1,666	208	208	2,082	2,553
Travel	123	16	16	155	58
Total functional expenses	\$ 245,340	\$ 37,047	\$ 26,804	\$ 309,191	\$ 333,168

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

(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 6, 2011, 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, 2010 and 2009, temporarily restricted net assets of \$748,901 and \$736,513, 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, 2009, 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, 2010 and 2009, temporarily restricted investments are \$402,169 and \$396,640, respectively.

Investments consist of the following:

	<u>2010</u>	<u>2009</u>
Corporate bonds and U.S. government securities	\$ 247,341	\$ 190,118
Mutual funds	26,667	26,980
Municipal bonds	50,813	39,758
Certificates of deposits	<u>291,991</u>	<u>355,113</u>
Total investments	<u>\$ 616,812</u>	<u>\$ 611,969</u>

(3) EASEMENTS:

The Organization has received 62 easements since it began operations. There have been 1,638 easement acres donated to the Organization as of December 31, 2010.

(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, 2010 and 2009.

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 individuals bonds are traded.

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

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.

(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 hierarchy, the Organization's assets at fair value:

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate bonds and				
U.S. Government securities	\$ 247,341	\$ -	\$ -	\$ 247,341
Municipal bonds	50,813	-	-	50,813
Mutual funds	26,667	-	-	26,667
Certificates of deposit	-	291,991	-	291,991
Total assets at fair value	<u>\$ 324,821</u>	<u>\$ 291,991</u>	<u>\$ -</u>	<u>\$ 616,812</u>

<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	\$ 190,118	\$ -	\$ -	\$ 190,118
Municipal bonds	39,758	-	-	39,758
Mutual funds	26,980	-	-	26,980
Certificates of deposit	-	355,113	-	355,113
Total assets at fair value	<u>\$ 256,856</u>	<u>\$ 355,113</u>	<u>\$ -</u>	<u>\$ 611,969</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 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 \$10,200 and \$4,250 was recognized in December, 2010 and 2009, respectively.

Building rent for the year ended December 31, 2009 was \$21,195.