

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

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2013 AND 2012**

**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, 2013 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.

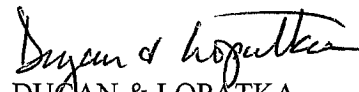
To the Board of Directors of  
The Land Conservancy of McHenry County, Inc.  
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*Opinion*

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, 2013 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 2012 financial statements and in our report dated May 6, 2013 we expressed an unmodified opinion on those statements.

  
DUGAN & LOPATKA

Wheaton, Illinois  
June 2, 2014

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>A S S E T S</u>		
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ (20,772)	\$ 90,931
- Temporarily restricted	170	25,711
Cash held for others	100,301	108,663
Promises to give	44,649	111,103
Investments	306,187	193,754
Prepaid expenses	2,509	5,069
Total current assets	<u>433,044</u>	<u>535,231</u>
PROPERTY AND EQUIPMENT, at cost:		
Land	1,717,081	1,354,828
Office equipment	12,541	4,817
Total property and equipment	<u>1,729,622</u>	<u>1,359,645</u>
Less - Accumulated depreciation	5,369	4,781
Net property and equipment	<u>1,724,253</u>	<u>1,354,864</u>
OTHER ASSETS:		
Investments	430,027	467,229
	<u>\$ 2,587,324</u>	<u>\$ 2,357,324</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Note payable, current maturities	\$ 1,340	\$ 1,275
Accounts payable and accrued liabilities	15,649	16,197
Agency funds	100,301	108,663
Total current liabilities	<u>117,290</u>	<u>126,135</u>
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	36,952	38,252
Total liabilities	<u>154,242</u>	<u>164,387</u>
COMMITMENTS		
NET ASSETS:		
Unrestricted - Undesignated	(72,439)	21,538
- Net property and equipment, less note payable for property and equipment	1,685,961	1,315,337
- Board designated	220,631	118,881
Temporarily restricted	598,929	737,181
Total net assets	<u>2,433,082</u>	<u>2,192,937</u>
	<u>\$ 2,587,324</u>	<u>\$ 2,357,324</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, 2013  
(with summarized financial information for the year ended December 31, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>2012 (for comparative purposes only)</u>
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Contributions	\$ 87,153	\$ 19,440	\$ 106,593	\$ 89,965
Grants	27,510	30,000	57,510	274,835
Program service fees	12,260	-	12,260	28,100
Special events, net of expense of \$16,300	22,246	-	22,246	23,704
Unrealized and realized gain (loss) on investments	(16,518)	(15,411)	(31,929)	16,203
Other revenue	4,245	-	4,245	785
Dividends and interest	27,346	2,109	29,455	23,875
In-kind contributions	369,340	-	369,340	69,213
	<u>533,582</u>	<u>36,138</u>	<u>569,720</u>	<u>526,680</u>
<b>Total public support and revenue</b>				
Net assets released from restrictions - Restriction satisfied by payments	174,390	(174,390)	-	-
	<u>707,972</u>	<u>(138,252)</u>	<u>569,720</u>	<u>526,680</u>
<b>Net public support and revenue</b>				
<b>FUNCTIONAL EXPENSES:</b>				
Program services	263,300	-	263,300	272,210
Management and general	32,551	-	32,551	37,578
Fundraising	33,724	-	33,724	26,434
	<u>329,575</u>	<u>-</u>	<u>329,575</u>	<u>336,222</u>
<b>Total functional expenses</b>				
<b>CHANGE IN NET ASSETS</b>	378,397	(138,252)	240,145	190,458
<b>NET ASSETS, Beginning of year</b>	<u>1,455,756</u>	<u>737,181</u>	<u>2,192,937</u>	<u>2,002,479</u>
<b>NET ASSETS, End of year</b>	<u>\$ 1,834,153</u>	<u>\$ 598,929</u>	<u>\$ 2,433,082</u>	<u>\$ 2,192,937</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 240,145	\$ 190,458
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated property and equipment	(358,500)	(55,090)
Depreciation	588	109
Unrealized (gain) loss on investments	31,929	(15,763)
Realized (gain) on sales of investments	-	(30)
(Increase) decrease in promises to give	66,454	(73,610)
(Increase) decrease in prepaid expenses	2,560	(3,513)
Increase (decrease) in accounts payable and accrued liabilities	(548)	3,626
Total adjustments	<u>(257,517)</u>	<u>(144,271)</u>
Net cash provided by (used in) operating activities	<u>(17,372)</u>	<u>46,187</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(11,477)	(103,821)
Purchase of investments	(364,092)	(48,601)
Sales of investments	256,932	149,640
Net cash (used in) investing activities	<u>(118,637)</u>	<u>(2,782)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(1,235)	(898)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(137,244)	42,507
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	116,642	74,135
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<u>\$ (20,602)</u>	<u>\$ 116,642</u>
<b>NON-CASH TRANSACTIONS:</b>		
Fixed assets financed with notes payable	\$ -	\$ 40,425
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	<u>\$ 1,986</u>	<u>\$ 1,518</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, 2013  
(with summarized financial information for the year ended December 31, 2012)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>2012 (for comparative purposes only)</u>
Salaries	\$ 145,727	\$ 18,216	\$ 18,216	\$ 182,159	\$ 181,368
Payroll taxes and benefits	16,570	2,071	2,071	20,712	22,222
Consulting	-	-	-	-	1,063
Depreciation	-	588	-	588	109
Bad debt expense	-	498	-	498	-
Donated materials, supplies, and service	-	-	-	-	2,504
Insurance	7,852	872	-	8,724	5,889
Interest	1,986	-	-	1,986	1,518
Mailings	6,256	1,251	5,005	12,512	4,840
Meetings	284	-	-	284	634
Membership dues	1,584	198	198	1,980	2,424
Miscellaneous	4,593	574	574	5,741	3,308
Office supplies	3,556	445	445	4,446	2,782
Outside services	774	-	-	774	-
Printing	2,277	-	2,277	4,554	5,544
Professional fees - Accounting	-	6,400	-	6,400	6,250
- Legal	3,875	-	-	3,875	2,445
Real estate taxes	2,659	-	-	2,659	4,758
Rent	9,679	1,210	1,210	12,099	11,666
Stewardship	53,804	-	3,500	57,304	73,875
Telephone	1,809	226	226	2,261	2,077
Travel	15	2	2	19	946
	<u>15</u>	<u>2</u>	<u>2</u>	<u>19</u>	<u>946</u>
Total functional expenses	<u>\$ 263,300</u>	<u>\$ 32,551</u>	<u>\$ 33,724</u>	<u>\$ 329,575</u>	<u>\$ 336,222</u>

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012

(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 2, 2014, 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 double-declining method or straight-line method over the estimated useful lives of the respective assets, ranging from 5-7 years. The depreciation method of the double-declining 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, 2012, 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, 2013 and 2012, temporarily restricted investments are \$430,027 and \$467,229, respectively.

Investments consist of the following:

	<u>2013</u>	<u>2012</u>
Bonds	\$ 467,252	\$ 250,170
Stocks	75,910	-
Mutual funds	104,431	29,899
U.S. government securities	61,364	73,759
Certificates of deposits	21,997	271,957
Money market	<u>5,260</u>	<u>35,198</u>
Total investments	<u>\$ 736,214</u>	<u>\$ 660,983</u>

(3) EASEMENTS:

The Organization has received 80 easements since it began operations. There have been 1,900 easement acres donated to the Organization as of December 31, 2013.

(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, 2013 and 2012.

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:

Description	Assets at Fair Value as of December 31, 2013			
	Level 1	Level 2	Level 3	Total
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	-	21,997	-	21,997
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>

Description	Assets at Fair Value as of December 31, 2012			
	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	<u>\$ 353,828</u>	<u>\$ 51,284</u>	<u>\$ -</u>	405,112
Money market not assessed at fair market value				35,198
Certificates of deposits not assessed at fair market value				<u>220,673</u>
Total investments				<u>\$ 660,983</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 and \$10,500 was recognized in December, 2013 and 2012, respectively.

(6) NOTE PAYABLE:

	<u>2013</u>	<u>2012</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.	\$ 38,292	\$ 39,527
Less - Current portion	<u>1,340</u>	<u>1,275</u>
Long-term portion	<u>\$ 36,952</u>	<u>\$ 38,252</u>

Aggregate maturities required on long-term debt as of December 31, 2013, are due in future years as follows:

<u>Year ending</u> <u>December 31</u>	
2014	\$ 1,340
2015	<u>36,952</u>
	<u>\$ 38,292</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 2010. 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	<u>(2,150)</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	\$ 52,241
Receipts	34,800
Disbursements	<u>(41,012)</u>
Ending balance	<u>\$ 46,029</u>

(9) NET ASSETS:

	<u>2013</u>	<u>2012</u>
Net assets that are board designated are as follows:		
Gateway Park restoration	\$ 18,000	\$ 18,000
Long-term management	134,963	33,000
Operating reserve	24,059	7,200
Land restoration	<u>43,609</u>	<u>60,681</u>
Total designated net assets	<u>\$ 220,631</u>	<u>\$ 118,881</u>
Net assets that are temporarily restricted are as follows:		
Legal issues in regards to easements	\$ 432,860	\$ 447,587
Time restricted	2,202	93,853
Yonder restoration	107,735	129,315
Oak conservation	21,089	14,162
Development	5,750	18,011
Gateway Park restoration	21,285	18,102
Legal cost/maintenance for easements	<u>8,008</u>	<u>16,151</u>
Total temporarily restricted net assets	<u>\$ 598,929</u>	<u>\$ 737,181</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, 2013 and 2012 were \$3,517 and \$3,238, respectively.