

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

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017**

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, 2018, 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.

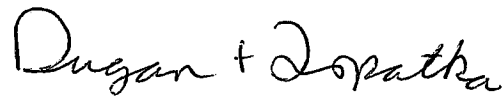
To the Board of Directors of
The Land Conservancy of McHenry County, Inc.
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Opinion

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, 2018, 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.

Report on Summarized Comparative Information

We have previously audited The Land Conservancy of McHenry County's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



DUGAN & LOPATKA

Warrenville, Illinois
June 3, 2019

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

<u>A S S E T S</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 336,962	\$ 335,688
Promises to give	180,664	94,410
Investments	164,293	116,125
Prepaid expenses	6,646	6,537
Total current assets	<u>688,565</u>	<u>552,760</u>
PROPERTY AND EQUIPMENT, at cost:		
Land	2,630,632	2,629,332
Office equipment	20,595	20,595
Total property and equipment	<u>2,651,227</u>	<u>2,649,927</u>
Less - Accumulated depreciation	<u>16,402</u>	<u>13,688</u>
Net property and equipment	<u>2,634,825</u>	<u>2,636,239</u>
OTHER ASSETS:		
Deposits	12,679	12,679
Investments	432,828	447,760
Total current assets	<u>445,507</u>	<u>460,439</u>
	<u>\$ 3,768,897</u>	<u>\$ 3,649,438</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Note payable, current maturities	\$ -	\$ 50,000
Accounts payable and accrued liabilities	9,401	9,244
Agency funds	37,530	36,174
Total current liabilities	<u>46,931</u>	<u>95,418</u>
LONG-TERM LIABILITIES:		
Note payable, net of current maturities	<u>50,000</u>	<u>100,000</u>
Total liabilities	<u>96,931</u>	<u>195,418</u>
COMMITMENTS		
NET ASSETS:		
Without donor restrictions - Undesignated	(1,850)	(39,441)
- Net property and equipment, less note payable for property and equipment	2,584,825	2,486,239
- Board designated	219,571	196,184
With donor restrictions	<u>869,420</u>	<u>811,038</u>
Total net assets	<u>3,671,966</u>	<u>3,454,020</u>
	<u>\$ 3,768,897</u>	<u>\$ 3,649,438</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, 2018
(with summarized financial information for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total	2017 (for comparative purposes only)
PUBLIC SUPPORT AND REVENUE:				
Contributions	\$ 150,765	\$ 138,953	\$ 289,718	\$ 283,759
Grants	172,123	185,000	357,123	290,374
Program service fees	32,292	-	32,292	24,138
Special events, net of expense of \$13,937	28,733	-	28,733	38,184
Unrealized and realized gain (loss) on investments	(14,107)	(31,282)	(45,389)	15,656
Other revenue	39,719	-	39,719	11,047
Dividends and interest	8,158	850	9,008	21,120
In-kind contributions	10,800	-	10,800	10,800
	<u>428,483</u>	<u>293,521</u>	<u>722,004</u>	<u>695,078</u>
Net assets released from restrictions - Restriction satisfied by payments	<u>235,139</u>	<u>(235,139)</u>	<u>-</u>	<u>-</u>
Net public support and revenue	<u>663,622</u>	<u>58,382</u>	<u>722,004</u>	<u>695,078</u>
FUNCTIONAL EXPENSES:				
Program services	420,644	-	420,644	354,719
Management and general	45,468	-	45,468	43,496
Fundraising	37,946	-	37,946	36,798
	<u>504,058</u>	<u>-</u>	<u>504,058</u>	<u>435,013</u>
CHANGE IN NET ASSETS	159,564	58,382	217,946	260,065
NET ASSETS, Beginning of year	<u>2,642,982</u>	<u>811,038</u>	<u>3,454,020</u>	<u>3,193,955</u>
NET ASSETS, End of year	<u>\$ 2,802,546</u>	<u>\$ 869,420</u>	<u>\$ 3,671,966</u>	<u>\$ 3,454,020</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, 2017 AND 2016

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 217,946	\$ 260,065
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,714	2,714
Contributions restricted for long-term purposes	-	(311,323)
Unrealized and realized (gain) loss on investments	45,389	(15,656)
(Increase) decrease in promises to give	(86,254)	141,569
Decrease in prepaid expenses	(109)	592
Increase (decrease) in accounts payable and accrued liabilities	157	(24,964)
(Decrease) in agency funds	1,356	(60,318)
Total adjustments	<u>(36,747)</u>	<u>(267,386)</u>
Net cash provided by (used in) operating activities	<u>181,199</u>	<u>(7,321)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,300)	(211,032)
Purchase of investments	(460,418)	(43,957)
Sales of investments	381,793	57,715
Net cash (used in) investing activities	<u>(79,925)</u>	<u>(197,274)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term purposes	-	311,323
Payments on notes payable	(100,000)	(50,000)
Net cash provided by (used in) financing activities	<u>(100,000)</u>	<u>261,323</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,274	56,728
CASH AND CASH EQUIVALENTS, Beginning of year	<u>335,688</u>	<u>278,960</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 336,962</u>	<u>\$ 335,688</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 5,247</u>	<u>\$ -</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, 2018

(with summarized financial information for the year ended December 31, 2017)

	Program Services	Management and General	Fundraising	Total	2017 (for comparative purposes only)
Salaries	\$ 207,148	\$ 25,894	\$ 25,894	\$ 258,936	\$ 262,439
Payroll taxes and benefits	22,145	2,768	2,768	27,681	25,684
Cost of direct benefits to donors	-	-	13,937	13,937	15,435
Depreciation	-	2,714	-	2,714	2,714
Grant expense	74,506	-	-	74,506	25,884
Insurance	23,856	2,651	-	26,507	14,244
Interest	5,247	-	-	5,247	7,116
Mailings	3,642	729	2,914	7,285	5,057
Meetings	3,991	-	-	3,991	1,322
Membership dues	1,779	223	223	2,225	4,785
Miscellaneous	10,422	1,303	1,303	13,028	5,646
Office supplies	2,963	370	370	3,703	4,132
Outside services	4,994	-	-	4,994	2,539
Printing	2,758	-	2,758	5,516	5,577
Professional fees - Accounting	-	7,100	-	7,100	6,865
- Legal	15,332	-	-	15,332	17,008
Real estate taxes	351	-	-	351	464
Rent	11,438	1,430	1,430	14,298	12,472
Stewardship	27,786	-	-	27,786	26,351
Telephone	2,050	256	256	2,562	2,760
Travel	236	30	30	296	1,954
Total expenses by function	420,644	45,468	51,883	517,995	450,448
Less expenses included with revenues on the statement of activities	-	-	(13,937)	(13,937)	(15,435)
Total expenses included in the expense section on the statement of activities	\$ 420,644	\$ 45,468	\$ 37,946	\$ 504,058	\$ 435,013

The accompanying notes are an integral part of this statement.

THE LAND CONSERVANCY OF MCHENRY COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

(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 rights to the Organization.

The financial statements were available to be issued on June 3, 2019, 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.

Basis of Presentation –

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). Under GAAP, the Organization is required to report information regarding its financial position and activities according to two classes of net assets, which are without donor restrictions and with donor restrictions.

Without donor restrictions - Net assets that are not subject to donor-imposed stipulations and may be expensed for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the board of directors.

With donor restrictions - Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

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.

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

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.

Revenue and Support -

Contributions that are restricted by the grantor/donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or a purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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.

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.

Functional Allocation of Expenses -

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses, depreciation, rent and utilities, and other expenses which are allocated on the basis of estimates of time and effort.

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, 2017, from which the summarized information was derived.

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

New Accounting Pronouncement -

During 2018, the Organization adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. This update to ASU 958 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(2) INVESTMENTS:

The investments are recorded on the books at fair market value. Some of these investments are with donor restrictions and can only be released upon the occurrence of a legal defense of an easement. As of December 31, 2018 and 2017, investments with donor restrictions are \$432,828 and \$447,760, respectively.

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Bonds	\$ 299,901	\$ 313,083
Stocks	275,438	5,890
Mutual funds	3,007	178,013
Real estate investment trusts	18,775	-
U.S. Government securities	<u>-</u>	<u>66,899</u>
Total investments	<u>\$ 597,121</u>	<u>\$ 563,885</u>

(3) EASEMENTS:

The Organization has received 90 easements since it began operations. There have been 2,017 easement acres donated to the Organization as of December 31, 2018.

(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.

(4) FAIR VALUE MEASUREMENTS: (Continued)

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, 2018 and 2017.

Stocks, Corporate Bonds, U.S. Government Securities and Real Estate Investment Trusts:

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.

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

(4) FAIR VALUE MEASUREMENTS: (Continued)

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds:				
Municipal	\$ 187,868	\$ -	\$ -	\$ 187,868
Corporate	112,033	-	-	112,033
Stocks	275,438	-	-	275,438
Real Estate Investment Trusts	18,775			18,775
Mutual funds:				
Bond	3,007	-	-	3,007
Equity	-	-	-	-
U.S. Government securities	-	-	-	-
Total assets at fair value	<u>\$ 597,121</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 597,121</u>

<u>Description</u>	<u>Assets at Fair Value as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bonds:				
Municipal	\$ 53,243	\$ -	\$ -	\$ 53,243
Corporate	259,840	-	-	259,840
Stocks	5,890	-	-	5,890
Mutual funds:				
Bond	4,761	-	-	4,761
Equity	173,252	-	-	173,252
U.S. Government securities	<u>66,899</u>	<u>-</u>	<u>-</u>	<u>66,899</u>
Total assets at fair value	<u>\$ 563,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 563,885</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 2021. An in-kind donation of \$10,800 was recognized at December 31, 2018 and 2017.

(6) NOTE PAYABLE:

	<u>2018</u>	<u>2017</u>
Payable to a bank, due in annual principal installments of \$50,000, due December 2020 with monthly interest payments at 4%, and secured by land.	\$ 50,000	\$ 150,000
Less - Current portion	-	<u>50,000</u>
Long-term portion	<u>\$ 50,000</u>	<u>\$ 100,000</u>

(6) NOTE PAYABLE: (Continued)

Aggregate maturities required on the notes payable as of December 31, 2018, are due in future years as follows:

<u>Years ending</u> <u>December 31</u>	
2020	<u>\$ 50,000</u>

(7) AGENCY FUNDS:

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	\$ 36,174
Receipts	37,312
Disbursements	<u>(35,956)</u>
Ending balance	<u>\$ 37,530</u>

(8) 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 2015. The Organization does not expect a material net change in unrecognized tax benefits in the next twelve months.

(9) NET ASSETS:

Net assets that are board designated are as follows:

	<u>2018</u>	<u>2017</u>
Gateway Park restoration	\$ -	\$ 2,259
Long-term management	93,094	72,122
Operating reserve	78,696	75,207
Land restoration	<u>47,781</u>	<u>46,596</u>
Total designated net assets	<u>\$ 219,571</u>	<u>\$ 196,184</u>

(9) NET ASSETS:

Net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Legal issues with regard to easements	\$ 434,228	\$ 449,160
Land acquisition fund	51,505	153,770
Land trust project	80,666	-
Time restricted	101,265	20,250
Yonder restoration	159,241	142,606
Woodstock 77 acres	15,000	15,000
Oak conservation	22,515	25,172
Gateway Park restoration	-	80
Legal cost/maintenance for easements	<u>5,000</u>	<u>5,000</u>
Total net assets with donor restrictions	<u>\$ 869,420</u>	<u>\$ 811,038</u>

(10) AVAILABILITY AND LIQUIDITY:

	December 31,	
	<u>2018</u>	<u>2017</u>
Financial Assets -		
Cash and cash equivalents	\$ 336,962	\$ 335,688
Investments	164,293	116,125
Promises to give	<u>180,664</u>	<u>94,410</u>
Total financial assets	681,919	546,223
Less cash held for others	<u>37,530</u>	<u>36,174</u>
Net financial assets after cash held for others	644,389	510,049
Internal designations -		
Board advised funds	<u>219,571</u>	<u>196,184</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 424,818</u>	<u>\$ 313,865</u>

The Organization receives significant contributions, some of which are restricted by donors to fund specific programs or projects. Such restricted funds are tracked for use for the identified program or project. Restricted contributions of \$323,953 and \$322,373 were received and included in financial assets for the years ended December 31, 2018 and 2017, respectively.

(10) AVAILABILITY AND LIQUIDITY: (Continued)

The Organization manages its liquidity and reserves following three guiding principles:

- operating within a prudent range of financial soundness and stability
- maintaining adequate liquid assets to fund near-term operating needs
- maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

(11) 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, 2018 and 2017, were \$4,512 and \$4,649, respectively.

(12) CONCENTRATION:

The Organization received funds of approximately 29% and 43% of its total public support and revenue from two and one foundations for the years ended December 31, 2018 and 2017, respectively.