

Leelanau Conservancy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2019 and 2018

CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
STATEMENTS OF FINANCIAL POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
STATEMENT OF FUNCTIONAL EXPENSES.....	8
STATEMENTS OF CASH FLOWS.....	9
NOTES TO FINANCIAL STATEMENTS.....	11
SUPPLEMENTAL INFORMATION	
LAND ACQUIRED FOR CONSERVATION PURPOSES, CONSERVATION EASEMENTS, AND TRANSFER AND ASSIST PROJECTS.....	26
FEDERAL PROGRAMS	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	28
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.....	30
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	32
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	33
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	34

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Leelanau Conservancy

Report on the Financial Statements

We have audited the accompanying financial statements of *Leelanau Conservancy* (the "Conservancy"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 Conservancy'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 Conservancy'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.

To the Board of Directors
Leelanau Conservancy

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leelanau Conservancy as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors
Leelanau Conservancy

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2020, on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Conservancy internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leelanau Conservancy's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

April 20, 2020

Leelanau Conservancy

STATEMENTS OF FINANCIAL POSITION

December 31,

	2019	2018
ASSETS		
Operational assets		
Cash and cash equivalents	\$ 1,406,683	\$ 1,382,496
Investments (Note D and L)	153,943	143,294
Pledges receivable, net (Note E)	30,878	38,894
Prepaid expenses	37,191	14,126
Property and equipment, net (Note F)	598,307	401,658
Total operational assets	2,227,002	1,980,468
Land and easements acquired for conservation purposes		
Land	13,889,555	12,897,255
Land improvements, net	284,895	144,015
Conservation easements (Note A)	43,106,295	40,106,292
Allowance for development rights extinguished (Note A)	(43,106,119)	(40,106,119)
Total land and easements acquired for conservation purposes	14,174,626	13,041,443
Land and water conservation assets		
Investments (Note D and L)	4,129,281	4,993,524
Accounts receivable	47,751	49,973
Pledges receivable, net (Note E)	2,243,588	648,452
Option to purchase land and conservation easements	79,100	42,500
Property acquired for resale	222,500	-
Total land and water conservation assets	6,722,220	5,734,449
Endowment investments (Note D, G and L)	7,574,746	6,145,102
Total assets	\$ 30,698,594	\$ 26,901,462
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 84,330	\$ 81,792
Current portion of long-term debt (Note H)	486,712	486,712
Annuity obligations (Note A)	154,707	137,155
Debt (Note H)	162,845	637,712
Total liabilities	888,594	1,343,371
NET ASSETS		
Without Donor Restrictions		
Undesignated	7,117,992	4,957,865
Designated (Note I)	6,804,345	5,457,894
With Donor Restrictions (Note J)	15,887,663	15,142,332
Total net assets	29,810,000	25,558,091
Total liabilities and net assets	\$ 30,698,594	\$ 26,901,462

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Membership donations	\$ 1,047,215	\$ -	\$ 1,047,215
Contributions and pledges	849,695	2,283,632	3,133,327
Gifts of land or development rights	1,774,500	422,300	2,196,800
Program revenue	59,670	-	59,670
Grants	968,644	-	968,644
Investment income, net of fees of \$38,227	1,840,586	-	1,840,586
Other revenue	(11,845)	-	(11,845)
Net assets released due to satisfaction of program restrictions	<u>1,960,601</u>	<u>(1,960,601)</u>	<u>-</u>
Total revenue and support	<u>8,489,066</u>	<u>745,331</u>	<u>9,234,397</u>
EXPENSES			
Program services - conservation	4,146,306	-	4,146,306
Management and general	515,988	-	515,988
Fundraising	<u>320,194</u>	<u>-</u>	<u>320,194</u>
Total expenses	<u>4,982,488</u>	<u>-</u>	<u>4,982,488</u>
CHANGE IN NET ASSETS	3,506,578	745,331	4,251,909
NET ASSETS, beginning of year	<u>10,415,759</u>	<u>15,142,332</u>	<u>25,558,091</u>
NET ASSETS, end of year	<u>\$ 13,922,337</u>	<u>\$ 15,887,663</u>	<u>\$ 29,810,000</u>

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Membership donations	\$ 900,488	\$ -	\$ 900,488
Contributions and pledges	130,969	686,456	817,425
Gifts of land or development rights	863,100	-	863,100
Program revenue	24,513	-	24,513
Grants	752,704	-	752,704
Investment income, net of fees of \$41,007	(438,328)	-	(438,328)
Other revenue	(7,500)	-	(7,500)
Restricted proceeds from the sale of land	(330,339)	330,339	-
Net assets released due to satisfaction of program restrictions	<u>479,802</u>	<u>(479,802)</u>	<u>-</u>
Total revenue and support	<u>2,375,409</u>	<u>536,993</u>	<u>2,912,402</u>
EXPENSES			
Program services - conservation	2,938,973	-	2,938,973
Management and general	515,365	-	515,365
Fundraising	<u>283,667</u>	<u>-</u>	<u>283,667</u>
Total expenses	<u>3,738,005</u>	<u>-</u>	<u>3,738,005</u>
CHANGE IN NET ASSETS	(1,362,596)	536,993	(825,603)
NET ASSETS , beginning of year	<u>11,778,355</u>	<u>14,605,339</u>	<u>26,383,694</u>
NET ASSETS , end of year	<u>\$ 10,415,759</u>	<u>\$ 15,142,332</u>	<u>\$ 25,558,091</u>

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

	<u>Program Services - Conservation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 454,724	\$ 186,439	\$ 205,055	\$ 846,218
Employee benefits	110,455	45,290	49,809	205,554
Payroll taxes	33,180	13,603	14,962	61,745
Professional fees	52,964	28,986	3,117	85,067
Interest	-	24,362	-	24,362
Supplies	9,424	12,317	-	21,741
Telephone	-	3,825	-	3,825
Postage and shipping	-	7,348	9,858	17,206
Occupancy	-	19,608	-	19,608
Equipment rental and repair	6,292	3,184	-	9,476
Repairs and maintenance	18,315	-	-	18,315
Printing and publications	17,111	-	7,497	24,608
Travel	423	11,570	2,879	14,872
Professional development	-	3,898	516	4,414
Depreciation	2,366	76,492	-	78,858
Communication	-	9,255	15,202	24,457
Meals and entertainment	-	3,280	1,440	4,720
Utilities	1,991	-	-	1,991
Dues and subscriptions	-	18,615	5,085	23,700
Insurance	-	30,857	-	30,857
Bank charges	-	8,808	-	8,808
Property taxes	11,577	-	-	11,577
Miscellaneous	1,649	8,251	4,774	14,674
Contracted services and grant expenses	5,560	-	-	5,560
Land protection costs	136,463	-	-	136,463
Conservation easement valuation expense	3,202,497	-	-	3,202,497
Natural areas and conservation easement management	<u>81,315</u>	<u>-</u>	<u>-</u>	<u>81,315</u>
	<u>\$ 4,146,306</u>	<u>\$ 515,988</u>	<u>\$ 320,194</u>	<u>\$ 4,982,488</u>

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	<u>Program Services - Conservation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 391,926	\$ 183,741	\$ 177,361	\$ 753,028
Employee benefits	115,437	54,118	52,240	221,795
Payroll taxes	28,082	13,164	12,709	53,955
Professional fees	63,529	27,375	2,693	93,597
Interest	-	38,964	-	38,964
Supplies	9,244	10,127	-	19,371
Telephone	-	4,413	-	4,413
Postage and shipping	-	6,004	7,095	13,099
Occupancy	-	18,683	-	18,683
Equipment rental and repair	5,024	1,436	-	6,460
Repairs and maintenance	14,272	10,469	-	24,741
Printing and publications	13,443	-	5,958	19,401
Travel	748	10,322	2,894	13,964
Professional development	-	10,453	637	11,090
Depreciation	1,564	50,846	-	52,410
Communication	-	13,959	14,264	28,223
Meals and entertainment	-	3,714	462	4,176
Utilities	1,784	-	-	1,784
Dues and subscriptions	-	16,076	7,091	23,167
Insurance	-	30,781	-	30,781
Bank charges	-	7,171	-	7,171
Property taxes	11,270	-	-	11,270
Miscellaneous	2,336	3,549	263	6,148
Contracted services and grant expenses	9,831	-	-	9,831
Land protection costs	103,156	-	-	103,156
Conservation easement valuation expense	2,064,995	-	-	2,064,995
Natural areas and conservation easement management	57,671	-	-	57,671
Loss on sale of property	<u>44,661</u>	<u>-</u>	<u>-</u>	<u>44,661</u>
	<u>\$ 2,938,973</u>	<u>\$ 515,365</u>	<u>\$ 283,667</u>	<u>\$ 3,738,005</u>

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,251,909	\$ (825,603)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	78,858	52,410
Loss on sale of land acquired for resale	-	44,661
Development rights extinguished	3,202,497	2,064,995
Net realized (gain) loss on investments	(46,516)	(79,318)
Net unrealized (gain) loss on investments	(1,522,119)	753,423
Endowment contributions	(306,640)	(387,150)
Noncash contributions of land	(422,300)	-
Noncash contributions of land held for resale	(202,500)	-
Noncash contributions of investments	(127,590)	(93,372)
Noncash contributions - conservation easements	(1,572,000)	(863,100)
Noncash change in timber obligation	11,845	11,000
Changes in operating assets and liabilities		
Account receivables	2,222	2,123
Prepaid expenses	(23,065)	11,226
Pledges receivable	(1,587,120)	489,106
Accounts payable and accrued expenses	20,090	(32,222)
Net cash from operating activities	<u>1,757,571</u>	<u>1,148,179</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(249,482)	(673,162)
Proceeds from sale of investments	1,369,657	1,278,798
Purchase of protected land	(570,000)	-
Sale of land held for resale	-	330,339
(Purchase) of land for resale	(222,500)	-
Exercise (acquisitions) of option to purchase land	(36,600)	(32,500)
Acquisition of conservation easements	(1,428,000)	(1,201,901)
Purchases of property, equipment, and land improvements	(416,387)	(238,172)
Net cash from investing activities	<u>(1,553,312)</u>	<u>(536,598)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(486,712)	(715,462)
Endowment contributions	306,640	387,150
Net cash from financing activities	<u>(180,072)</u>	<u>(328,312)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	24,187	283,269
Cash and cash equivalents, beginning of year	<u>1,382,496</u>	<u>1,099,227</u>
Cash and cash equivalents, end of year	<u>\$ 1,406,683</u>	<u>\$ 1,382,496</u>

The accompanying notes are an integral part of these financial statements.

Leelanau Conservancy

NOTES TO FINANCIAL STATEMENTS

NOTE A - MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Leelanau Conservancy (the "Conservancy") is a not-for-profit corporation, incorporated in the State of Michigan on December 1, 1986. The Conservancy's mission is to conserve the land, water and scenic character of Leelanau County. Membership donations and gifts of land development rights made up to 35% and 61% of total revenue and support during 2019 and 2018, respectively.

A significant source of the Conservancy's revenue and support comes from the Northwest Michigan region.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and otherwise in accordance with generally accepted accounting principles applicable to not-for-profit organizations in the United States of America ("GAAP").

Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions and restrictions imposed by specific fund agreements. Accordingly, net assets of the Conservancy and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a timber obligation and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Land under protection is carried in net assets with donor restrictions.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates. Items that may involve significant estimation include gifts of land and development rights, pledges, gift annuities and contributed services.

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposits in the bank and investments in money market funds used for operating purposes. Conservation and Endowment investments include certain cash equivalents which have been classified as investments because they are part of a larger investment portfolio.

The bank accounts periodically exceeded the \$250,000 limit of FDIC insurance for deposits at the financial institution.

Investments

Investments are stated at fair value and consist of cash equivalents, bonds, common stocks and mutual funds. Contributed securities are recorded at fair value at the date of receipt and generally sold shortly thereafter. Changes in fair value of investments are recorded in the accompanying statements of activities as net unrealized appreciation (depreciation) on investments. Realized gains or losses on securities sold are determined using the specific identification method.

Property and Equipment

Property and equipment, consisting primarily of the Conservancy's office building and related furniture, fixtures and equipment, are recorded at cost if purchased or, if donated, at fair value at the time of receipt for items over the \$2,000 capitalization policy. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 30 years.

Land

Land is recorded at cost when purchased at market value, or market value if all or a portion of the parcel is donated. Contributions of land are valued at appraised value on the date of the gift.

Land Improvements

Land improvements, such as boardwalks and observation decks at nature preserves, are recorded at cost if purchased, or at fair value on the date received if donated. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over an estimated useful life of 15 years. Land improvements are presented net of accumulated depreciation of \$113,472 and \$93,077 at December 31, 2019 and 2018, respectively. Depreciation expense on land improvements was \$20,395 and \$11,627 for the years ended December 31, 2019 and 2018, respectively.

Conservation Easements and Allowance for Development Rights Extinguished

A conservation easement is a legal agreement between a landowner and a qualified conservation organization (i.e., the Conservancy) that permanently limits a property's use in order to protect its conservation values. Conservation easements, either purchased or donated, are initially valued at their appraised value. The difference between the purchase price and appraised value is reflected as a gift of land or development rights in the statement of activities. Once the development rights for a specific conservation easement are extinguished, generally immediately after acquisition, a valuation allowance is established to reduce the value of the conservation easement to \$1. This value reflects the lack of marketability related to the easements. The reduction in value due to extinguishment of development rights is reflected as a program expense in the statement of activities and conservation easement valuation expense on the statement of functional expenses.

Annuity Obligation

Three annuity agreements require annual payments during the life of the annuitants in the aggregate annual amount of \$18,359. The obligation for the annuity payable is reported at the present value of the future payments based upon the life expectancy tables and an implied discount rate as prescribed by the Internal Revenue Service. Changes in the value of the annuity obligation are reported in the statements of activities as an adjustment to other revenue and support.

Membership Donations

The Conservancy has elected to use the caption "membership donations" for general donations received from the public as a way to recognize the donors for their gift. The donors do not receive a membership in exchange for their gift nor do they receive any membership related benefits. Membership donations are recognized as revenue upon receipt of the gift.

Revenue Recognition for Program Revenue

Program revenue consists primarily of amounts received for educational events or classes related to the Conservancy's mission. Revenues are generally recognized upon commencement of the class or event. Funds received in advance are deferred and recognized when the class or event commences.

Contributions

Contributions and bequests received are recorded as increases in net assets. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

Pledges

Pledges are recognized as support at the present value of estimated future receipts, when the donor makes a promise to give to the Conservancy that is, in substance, unconditional and collection is reasonably assured. Pledges are periodically written off as a reduction in support when management has deemed collection unlikely.

Contributed Services

A portion of the Conservancy's activities is conducted by volunteers without compensation and by professional and business organizations at significantly reduced charges. Support for services contributed is only recognized to the extent such contributions (1) require specialized skills (and are provided by individuals possessing those skills) and are typically purchased if not provided by donation or (2) create or enhance the non-financial assets of the Conservancy.

Program Service Expenses

Program service expenses include all expenses other than management and general and fund raising, including contributions by the Conservancy to other land conservation projects and the value assigned to extinguished development rights.

Income Taxes

No provision for Federal and State income taxes has been made since the Conservancy is exempt under Section 501(c)(3) of the Internal Revenue Code.

The Conservancy files information returns in the U.S. Federal jurisdiction and these returns are generally no longer subject to examination by tax authorities for years before 2016. The Conservancy has not had any business income unrelated to its exempt purpose and, therefore, has not filed income tax returns in any jurisdiction.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Conservancy has evaluated subsequent events and transactions for potential recognition and disclosure through April 20, 2020, the date the financial statements were available to be issued.

Market Losses

The economy has experienced a significant downturn subsequent to year-end, resulting in market losses on investments. Management is not currently able to determine if these market losses will be other than temporary. Investment fair values could change by significant amounts in the near-term.

COVID-19

The Conservancy believes it understands the risk associated with COVID-19. The Conservancy is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to all aspects of the Conservancy's business transactions with customers and vendors and human interaction within and outside of the Conservancy. The effect of potential interruption of business operations is unknown at this time.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE B - REVENUE RECOGNITION TRANSITION

On January 1, 2019 the Conservancy adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Analysis of various provisions of this standard resulted in no significant changes in the way the Conservancy recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

NOTE C - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,406,683	\$ 1,382,496
Investments	153,943	143,294
Pledges receivable, net	<u>30,878</u>	<u>38,894</u>
Totals	<u>\$ 1,591,504</u>	<u>\$ 1,564,684</u>

NOTE D - INVESTMENTS

The investments of the Conservancy consist of the following at December 31:

	<u>2019</u>		
	<u>Cost</u>	<u>Fair Market</u>	<u>Cumulative Appreciation (Depreciation)</u>
Cash equivalents	\$ 341,748	\$ 341,748	\$ -
Mutual funds - growth funds	4,938,681	6,823,658	1,884,977
Mutual funds - fixed income funds	4,241,254	4,320,096	78,842
U.S. Government securities	90,064	90,509	445
Corporate bonds	<u>281,433</u>	<u>281,959</u>	<u>526</u>
Total investments	<u>\$ 9,893,180</u>	<u>\$ 11,857,970</u>	<u>\$ 1,964,790</u>

NOTES TO FINANCIAL STATEMENTS- Continued

	2018		
	Cost	Fair Market	Cumulative Appreciation (Depreciation)
Cash equivalents	\$ 573,689	\$ 573,689	\$ -
Mutual funds - growth funds	4,726,550	5,282,073	555,523
Mutual funds - fixed income funds	4,575,323	4,466,424	(108,899)
U.S. Government securities	406,979	406,056	(923)
Corporate bonds	<u>556,708</u>	<u>553,678</u>	<u>(3,030)</u>
Total investments	<u>\$ 10,839,249</u>	<u>\$ 11,281,920</u>	<u>\$ 442,671</u>

Financial statement presentation	2019	2018
Investments - operational assets	\$ 153,943	\$ 143,294
Investments - land and water conservation	4,129,281	4,993,524
Endowment investments	<u>7,574,746</u>	<u>6,145,102</u>
	<u>\$ 11,857,970</u>	<u>\$ 11,281,920</u>

Investment income (loss) consisted of the following for the year ended December 31:

	2019	2018
Interest and dividends	\$ 310,178	\$ 276,784
Realized gains (losses)	46,516	79,318
Unrealized gains (losses)	1,522,119	(753,423)
Investment fees	<u>(38,227)</u>	<u>(41,007)</u>
Net investment income (loss)	<u>\$ 1,840,586</u>	<u>\$ (438,328)</u>

Concentration of Credit Risk - Investments

The brokerage accounts have insurance of \$1,000,000 provided by the Securities Investor Protection Corporation. The balance of investments were uninsured at December 31, 2019 and 2018.

NOTE E - PLEDGES RECEIVABLE

As of December 31, 2019, the Conservancy has received pledges for the various projects totaling approximately \$3,337,000, of which approximately \$838,349 has been collected. New pledges during the year ended December 31, 2019 totaled \$2,670,000.

During 2019, the Conservancy received substantially all scheduled payments on a timely basis.

NOTES TO FINANCIAL STATEMENTS- Continued

Pledges receivable at December 31, 2019 are expected to be collected as follows:

<u>Years</u>	<u>Amount</u>
2020	\$ 936,051
2021	742,184
2022	399,933
2023	345,100
2024	108,500
Thereafter	<u>1,000</u>
Total	2,532,768
Discounts to net present value	<u>(258,302)</u>
Pledges receivable, net	<u>\$ 2,274,466</u>

Pledges having an original maturity of greater than one year have been discounted to the present value of the future cash flows using a discount rate of 5.0%. The Conservancy amortizes imputed interest through a charge to pledges receivable and a credit to contributions.

Financial statement presentation	<u>2019</u>	<u>2018</u>
Pledges receivable, net - operational assets	\$ 30,878	\$ 38,894
Pledges receivable, net - land and water conservation assets	<u>2,243,588</u>	<u>648,452</u>
	<u>\$ 2,274,466</u>	<u>\$ 687,346</u>

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 22,000	\$ 22,000
Buildings and improvements	842,991	600,971
Equipment	111,048	106,628
Furniture and fixtures	72,807	64,135
Vehicles and boat	<u>72,587</u>	<u>72,587</u>
Total property and equipment, at cost	1,121,433	866,321
Less accumulated depreciation	<u>(523,126)</u>	<u>(464,663)</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 598,307</u>	<u>\$ 401,658</u>

Total depreciation expense on property and equipment was \$58,463 and \$40,783 for the years ended December 31, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE G - ENDOWMENT INVESTMENTS

The assets of the Endowment Fund, including amounts designated by the Board of Directors, consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Investments		
Cash and cash equivalents	\$ 53,488	\$ 58,551
Mutual funds - fixed income funds	2,135,816	1,972,941
Mutual funds - growth funds	<u>5,385,442</u>	<u>4,113,610</u>
Total investments	7,574,746	6,145,102
Due from Agency investments	<u>98,932</u>	<u>93,485</u>
Total Endowment investments	<u>\$ 7,673,678</u>	<u>\$ 6,238,587</u>

The Conservancy is a named beneficiary of several planned giving arrangements. Information regarding the composition of the trust assets and other factors necessary to establish the net present value of trust assets is not readily available to, or verifiable by, the Conservancy, and accordingly, no recognition of the Conservancy's beneficial interest in such trust assets has been made in the accompanying financial statements.

The Conservancy's endowment consists of donor restricted donations, Board designated amounts, and undistributed investment returns. The Conservancy has interpreted the Michigan Uniform Prudent Management of Institutional Funds Public Act 87 of 2009 as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation and as required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Conservancy's endowment spending policy provides for distributions determined based on 4% of the rolling average market value of Endowment fund assets for three years. Average market value is based on the value of the account on December 31 of each of the three years in the rolling period.

The Conservancy's endowment investment policy is to preserve the real purchasing power of the endowment assets after all withdrawals by earning a total rate of return over a five year cycle which will support the spending policy above. Endowment assets are invested in a diversified portfolio to maximize the long-term return while assuming a reasonable level of risk.

NOTES TO FINANCIAL STATEMENTS- Continued

The net changes in endowment net assets are as follows for December 31:

	2019		Total
	Board Designated Net Assets Without Donor Restrictions	Donor Restricted Net Assets With Donor Restrictions	
Endowment net assets, beginning of year	<u>\$ 5,227,894</u>	<u>\$ 1,010,693</u>	<u>\$ 6,238,587</u>
Investment return			
Investment income	173,097	-	173,097
Net appreciation (realized and unrealized)	<u>1,202,531</u>	<u>-</u>	<u>1,202,531</u>
Total investment return	<u>1,375,628</u>	<u>-</u>	<u>1,375,628</u>
Contributions/designations	218,000	88,640	306,640
Fees and other	(17,177)	-	(17,177)
Appropriation and expenditure of endowment assets	<u>(230,000)</u>	<u>-</u>	<u>(230,000)</u>
	<u>\$ 6,574,345</u>	<u>\$ 1,099,333</u>	<u>\$ 7,673,678</u>
	2018		
	Board Designated Net Assets Without Donor Restrictions	Donor Restricted Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	<u>\$ 5,455,859</u>	<u>\$ 978,543</u>	<u>\$ 6,434,402</u>
Investment return			
Investment income	153,242	-	153,242
Net depreciation (realized and unrealized)	<u>(511,663)</u>	<u>-</u>	<u>(511,663)</u>
Total investment return	<u>(358,421)</u>	<u>-</u>	<u>(358,421)</u>
Contributions/designations	355,000	32,150	387,150
Fees and other	(16,544)	-	(16,544)
Appropriation and expenditure of endowment assets	<u>(208,000)</u>	<u>-</u>	<u>(208,000)</u>
	<u>\$ 5,227,894</u>	<u>\$ 1,010,693</u>	<u>\$ 6,238,587</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE H - DEBT

During February of 2016, the Conservancy purchased property in Glen Arbor (Palmer Woods) for \$3,041,949 on a five year land contract, due September 1, 2020. The Conservancy has a liability to provide approximately \$700,000 to the sellers through 2026 in lieu of future timber sales. This liability will be offset by revenue from timber sales, if any, plus Board designated funds of \$230,000 for the future liability.

Debt consists of the following obligations at December 31:

	<u>2019</u>	<u>2018</u>
Land contract payable to a corporation in the amount of \$3,041,949 with interest imputed at 3.00%; payable in 5 yearly installments of \$486,712; maturing in September 2020 and secured by real property.	\$ 486,712	\$ 973,424
Timber obligation - Payment in lieu of timber sales to a corporation in the original amount of approximately \$700,000 less Board designated funds of \$230,000, with interest imputed at 3%; due in 2026.	<u>162,845</u>	<u>151,000</u>
Total debt	649,557	1,124,424
Less current portion	<u>(486,712)</u>	<u>(486,712)</u>
Long term portion	<u>\$ 162,845</u>	<u>\$ 637,712</u>

Interest expense related to the above debt obligations amounted to \$24,362 and \$38,964 at December 31, 2019 and 2018, respectively.

Scheduled principal maturities of debt for the years succeeding December 31, 2019 are summarized as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>
2020	\$ 486,712
Thereafter	<u>162,845</u>
Total	<u>\$ 649,557</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE I - NET ASSETS WITHOUT DONOR RESTRICTIONS - DESIGNATED NET ASSETS

Net Assets Without Donor Restrictions - designated net assets, consists of the following amounts at December 31:

	<u>2019</u>	<u>2018</u>
Board designated for endowment	\$ 6,574,345	\$ 5,227,894
Board designated for timber obligation	<u>230,000</u>	<u>230,000</u>
Total net assets without donor restrictions - designated net assets	<u>\$ 6,804,345</u>	<u>\$ 5,457,894</u>

NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consists of the following amounts at December 31:

	<u>2019</u>	<u>2018</u>
Operating pledges receivable	\$ 30,878	\$ 38,894
Stewardship	165,094	229,979
Contributions for the preservation of land	1,189,337	1,938,768
Protected land, net of related debt	4,796,658	4,309,946
Conservation easements, net of extinguishes development rights	176	173
Preserved land	8,606,187	7,613,879
Endowment Fund corpus	<u>1,099,333</u>	<u>1,010,693</u>
Total net assets with donor restrictions	<u>\$15,887,663</u>	<u>\$15,142,332</u>

NOTE K - RETIREMENT PLAN

The Conservancy maintains a 403(b)(7) defined contribution plan (the "Plan") that covers all eligible employees. Under the Plan, participants may make contributions in amounts up to limits established by the Internal Revenue Code. The Plan provides for discretionary employer contributions. Employees with one to three years of service receive a contribution from the Conservancy of 1.67% of compensation and a matching contribution of up to 1.33% of compensation; employees with four or five years of service receive a contribution from the Conservancy of 3.34% of compensation and a matching contribution of up to 2.66% of compensation; employees with six or more years of service receive a contribution from the Conservancy of 4% of compensation and a matching contribution of up to 5% of compensation. Employer contributions to the Plan totaled \$56,128 and \$50,977 for 2019 and 2018, respectively.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Accounting Standards Codification 820.10, *Fair Value Measurements*, 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Conservancy has the ability to access.

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's 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, 2019.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Conservancy at year-end.

Common stocks, municipal bonds, U.S. Government Bonds and Corporate Bonds: Valued at fair value based on quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Conservancy believes its 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.

NOTES TO FINANCIAL STATEMENTS- Continued

The following table sets forth by level, within the fair value hierarchy, the Conservancy's assets at fair value as of December 31:

2019				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - growth funds	\$ 6,823,658	\$ -	\$ -	\$ 6,823,658
Mutual funds - fixed income funds	4,320,096	-	-	4,320,096
U.S. Government securities	90,509	-	-	90,509
Corporate bonds	<u>281,959</u>	<u>-</u>	<u>-</u>	<u>281,959</u>
	<u>\$11,516,222</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,516,222</u>
2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - growth funds	\$ 5,282,073	\$ -	\$ -	\$ 5,282,073
Mutual funds - fixed income funds	4,466,424	-	-	4,466,424
U.S. Government securities	406,056	-	-	406,056
Corporate bonds	<u>553,678</u>	<u>-</u>	<u>-</u>	<u>553,678</u>
	<u>\$ 10,708,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,708,231</u>

NOTE M - SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing and Financing Activities

During 2019, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$127,590 in non-cash contributions revenue.

During 2019, the Conservancy purchased development rights on two parcels of land below fair market value as determined by a State certified appraiser. The Conservancy recorded the development rights at the fair market value as of the date of the purchase and recognized \$577,000 in non-cash contribution revenues.

During 2019, the Conservancy received one donated conservation easement. The Conservancy recorded the donation at the fair market value as of the date of donation and recognized \$995,000 in non-cash contribution revenues.

During 2019, the Conservancy received donated land for a preserve and donated land for resale. The Conservancy recorded the donations at the fair market value at the date of the donations, and recognized \$422,300 and \$202,300, respectively, in non-cash contributions revenue.

NOTES TO FINANCIAL STATEMENTS- Continued

During 2018, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$93,372 in non-cash contributions revenue.

During 2018, the Conservancy purchased development rights on five parcels of land below fair market value as determined by a State certified appraiser. The Conservancy recorded the development rights at the fair market value as of the date of the purchase and recognized \$698,100 in non-cash contribution revenues.

During 2018, the Conservancy received one donated conservation easement. The Conservancy recorded the donation at the fair market value as of the date of donation and recognized \$165,000 in non-cash contribution revenues.

Other Cash Flows Information

Cash paid for interest amounted to \$29,203 and \$43,804 for the years ended December 31, 2019 and 2018, respectively.

NOTE N - COMMITMENTS AND CONTINGENCIES

The Conservancy received Federal grants from the Agricultural Conservation Easement Program. The Conservancy must continuously monitor the conservation easements to ensure there are no changes to the easements. The grant program is subject to audit by agents of the granting authority; the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement, which may arise as a result of these audits, is not believed to be material.

SUPPLEMENTAL INFORMATION

Leelanau Conservancy

LAND ACQUIRED FOR CONSERVATION PURPOSES, CONSERVATION EASEMENTS AND TRANSFER AND ASSIST PROJECTS

	Acres Acquired During the Year Ended <u>December 31, 2019</u>	Cumulative Acres Acquired Through <u>December 31, 2019</u>
Land acquired for conservation purposes	49	2,919
Conservation easements	300	9,965
Transfer and assist projects	<u>80</u>	<u>1,347</u>
Total acres	<u><u>429</u></u>	<u><u>14,231</u></u>

FEDERAL PROGRAMS



DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

Certified Public Accountants

Thomas E. Gartland, Retired
 Brad P. Niergarth, CPA
 James G. Shumate, CPA
 Robert C. Thompson, CPA
 Michael D. Shaw, Retired
 Mary F. Krantz, CPA
 Shelly K. Bedford, CPA
 Heidi M. Wendel, CPA
 Shelly A. Ashmore, CPA
 James M. Taylor, CPA
 Trina B. Edwards, CPA
 John A. Blair, CPA
 James V. Cusenza, CPA
 Laurie A. Bamberg, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
 FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
 MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
 ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
 Leelanau Conservancy

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Leelanau Conservancy** (the "Conservancy"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Conservancy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Conservancy's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompany Schedule of Findings and Questioned Costs as Finding 2019-001 that we consider to be a material weakness.

To the Board of Directors
Leelanau Conservancy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Conservancy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Conservancy's Response to Findings

The Conservancy's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Conservancy's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the Conservancy's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Conservancy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

April 20, 2020



DENNIS, GARTLAND & NIERGARTH

Business Advisors Since 1973

Certified Public Accountants

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, Retired
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA
Trina B. Edwards, CPA
John A. Blair, CPA
James V. Cusenza, CPA
Laurie A. Bamberg, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Leelanau Conservancy

Report on Compliance for Each Major Federal Program

We have audited the *Leelanau Conservancy's* (the "Conservancy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Conservancy's major Federal program for the year ended December 31, 2019. The Conservancy's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations and the terms and conditions applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Conservancy's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Conservancy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the Conservancy's compliance.

-30-

To the Board of Directors
Leelanau Conservancy

Opinion of Each Major Federal Program

In our opinion, the Conservancy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Conservancy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Conservancy's internal control over compliance with the types of requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Conservancy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be a material weakness. However material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dennis, Gartland & Niergarth

April 20, 2020

Leelanau Conservancy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2019

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Pass Through Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture, Natural Resources Conservation Service			
Agricultural Conservation Easement Program	68-5D21-18-015	10.931	<u>\$ 946,000</u>
Total United States Department of Agriculture			<u>946,000</u>
Total Federal financial assistance			<u><u>\$ 946,000</u></u>

Leelanau Conservancy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2019

- Note 1** The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.
- Note 2** Management has reported that expenditures in the Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements, and amounts claimed or used for matching, are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with the consolidated financial statements is as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	\$ 946,000
State and local grants	<u>22,644</u>
Grants per financial statements	<u>\$ 968,644</u>

- Note 5** The Conservancy did not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Leelanau Conservancy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2019

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified opinion on the financial statements of the Leelanau Conservancy.
2. There was one material weakness in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the Conservancy's financial statements.
4. The auditor's report does not disclose any significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The Conservancy's major program was the Agricultural Conservation Easement Program (CFDA No. 10.931).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.
9. Leelanau Conservancy did not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding 2019-001 Segregation of Duties

Criteria: Adequate segregation of duties for the Conservancy is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The Conservancy has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

Cause: The small size of the office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the Conservancy lacks proper segregation of duties and is exposed to the risk of material misstatement of its financial statements.

Management's Response: The Conservancy has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Section 3 - Findings and Questioned Costs in Accordance with the Uniform Guidance.

No findings or questioned costs.