

**Leelanau Conservancy**

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

December 31, 2021 and 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Leelanau Conservancy

### *Opinion*

We have audited the accompanying financial statements of Leelanau Conservancy, (the "Conservancy") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leelanau Conservancy as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Conservancy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservancy's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors  
Leelanau Conservancy

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Conservancy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

To the Board of Directors  
Leelanau Conservancy

***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 27 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.

*Dennis, Gartland & Niergarth*

Certified Public Accountants  
Traverse City, Michigan

April 25, 2022

# Leelanau Conservancy

## STATEMENTS OF FINANCIAL POSITION

December 31,

	2021	2020
<b>ASSETS</b>		
<b>Operational assets</b>		
Cash and cash equivalents	\$ 267,844	\$ 524,878
Investments (Note A, C and L)	157,878	156,129
Pledges receivable, net (Note D)	90,423	16,901
Prepaid expenses	24,038	17,377
Property and equipment, net (Note E)	563,955	579,648
Total operational assets	1,104,138	1,294,933
<b>Land and easements acquired for conservation purposes</b>		
Land (Note A)	16,801,455	16,464,455
Land improvements, net (Note A)	776,901	285,572
Conservation easements (Note A)	47,648,310	45,846,301
Allowance for development rights extinguished (Note A)	(47,648,119)	(45,846,119)
Total land and easements acquired for conservation purposes	17,578,547	16,750,209
<b>Land and water conservation assets</b>		
Investments (Note A, C and L)	6,916,890	5,535,589
Accounts receivable	43,761	45,421
Pledges receivable, net (Note D)	1,298,467	1,385,069
Option to purchase land and conservation easements	20,000	19,000
Property acquired for resale	910,000	-
Total land and water conservation assets	9,189,118	6,985,079
<b>Endowment investments</b> (Note A, C, F and L)	9,668,305	8,756,427
Total assets	\$ 37,540,108	\$ 33,786,648
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 128,895	\$ 98,184
Current portion of long-term debt (Note G)	324,000	224,000
Annuity obligations (Note A)	133,672	151,306
Debt (Note G)	1,583,770	1,070,631
Total liabilities	2,170,337	1,544,121
<b>NET ASSETS</b>		
Without donor restrictions		
Undesignated	6,615,642	5,665,138
Designated (Note I)	8,559,406	7,780,332
With donor restrictions (Note J)	20,194,723	18,797,057
Total net assets	35,369,771	32,242,527
Total liabilities and net assets	\$ 37,540,108	\$ 33,786,648

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

# Leelanau Conservancy

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>			
Membership donations	\$ 1,399,191	\$ -	\$ 1,399,191
Contributions and pledges	1,817,878	258,267	2,076,145
Gifts of land or development rights	-	1,218,000	1,218,000
Program revenue	26,182	-	26,182
Grants (Note H)	-	782,500	782,500
Investment income, net of fees of \$49,471	829,698	571,284	1,400,982
Other revenue (expense)	(12,139)	-	(12,139)
Net assets released due to satisfaction of program restrictions	<u>1,432,385</u>	<u>(1,432,385)</u>	<u>-</u>
Total revenue and support	<u>5,493,195</u>	<u>1,397,666</u>	<u>6,890,861</u>
<b>EXPENSES</b>			
Program services - conservation	2,897,413	-	2,897,413
Management and general	494,706	-	494,706
Fundraising	<u>371,498</u>	<u>-</u>	<u>371,498</u>
Total expenses	<u>3,763,617</u>	<u>-</u>	<u>3,763,617</u>
<b>CHANGE IN NET ASSETS</b>	1,729,578	1,397,666	3,127,244
<b>NET ASSETS, beginning of year</b>	<u>13,445,470</u>	<u>18,797,057</u>	<u>32,242,527</u>
<b>NET ASSETS, end of year</b>	<u>\$ 15,175,048</u>	<u>\$ 20,194,723</u>	<u>\$ 35,369,771</u>

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

# Leelanau Conservancy

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>			
Membership donations	\$ 1,171,078	\$ -	\$ 1,171,078
Contributions and pledges	622,860	868,547	1,491,407
Gifts of land or development rights	-	1,213,950	1,213,950
Program revenue	3,537	-	3,537
Grants (Note H)	-	1,479,550	1,479,550
Investment income, net of fees of \$35,174	1,545,169	-	1,545,169
Other revenue (expense)	(4,088)	-	(4,088)
Net assets released due to satisfaction of program restrictions	652,653	(652,653)	-
Total revenue and support	3,991,209	2,909,394	6,900,603
<b>EXPENSES</b>			
Program services - conservation	3,636,480	-	3,636,480
Management and general	476,846	-	476,846
Fundraising	354,750	-	354,750
Total expenses	4,468,076	-	4,468,076
<b>CHANGE IN NET ASSETS</b>	(476,867)	2,909,394	2,432,527
<b>NET ASSETS, beginning of year</b>	13,922,337	15,887,663	29,810,000
<b>NET ASSETS, end of year</b>	\$ 13,445,470	\$ 18,797,057	\$ 32,242,527

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



# Leelanau Conservancy

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2021

	Program Services - Conservation	Management and General	Fundraising	Total
Salaries	\$ 546,062	\$ 209,497	\$ 231,478	\$ 987,037
Employee benefits	118,258	45,370	50,130	213,758
Payroll taxes	40,836	15,667	17,311	73,814
Professional fees	70,325	58,583	3,363	132,271
Interest	31,964	-	-	31,964
Supplies	10,216	11,258	-	21,474
Telephone	-	4,215	-	4,215
Postage and shipping	-	4,488	11,043	15,531
Occupancy	-	8,729	-	8,729
Equipment rental and repair	2,296	2,198	-	4,494
Repairs and maintenance	16,229	-	-	16,229
Printing and publications	18,252	-	7,570	25,822
Travel	388	2,747	2,299	5,434
Professional development	-	23,720	6,277	29,997
Depreciation	91,062	24,154	-	115,216
Communication	-	12,340	33,739	46,079
Meals and entertainment	-	650	1,470	2,120
Utilities	3,549	-	-	3,549
Dues and subscriptions	-	18,703	6,818	25,521
Insurance	-	34,988	-	34,988
Bank charges	-	12,653	-	12,653
Miscellaneous	323	4,746	-	5,069
Contracted services and grant expenses	12,184	-	-	12,184
Land protection costs	82,776	-	-	82,776
Conservation easement valuation expense	1,801,991	-	-	1,801,991
Natural areas and conservation easement management	<u>50,702</u>	<u>-</u>	<u>-</u>	<u>50,702</u>
	<u>\$ 2,897,413</u>	<u>\$ 494,706</u>	<u>\$ 371,498</u>	<u>\$ 3,763,617</u>

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

# Leelanau Conservancy

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

	<u>Program Services - Conservation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 481,974	\$ 209,361	\$ 233,672	\$ 925,007
Employee benefits	105,265	45,726	51,035	202,026
Payroll taxes	34,500	14,986	16,726	66,212
Professional fees	44,022	38,524	3,362	85,908
Interest	11,231	9,801	-	21,032
Supplies	5,904	9,597	-	15,501
Telephone	-	4,245	-	4,245
Postage and shipping	-	4,164	9,731	13,895
Occupancy	-	10,262	-	10,262
Equipment rental and repair	1,923	1,497	-	3,420
Repairs and maintenance	8,666	-	-	8,666
Printing and publications	16,795	-	9,505	26,300
Travel	60	2,601	2,744	5,405
Professional development	-	4,390	414	4,804
Depreciation	47,580	36,791	-	84,371
Communication	-	8,184	18,153	26,337
Meals and entertainment	-	252	595	847
Utilities	3,141	-	-	3,141
Dues and subscriptions	-	29,759	8,712	38,471
Insurance	-	33,741	-	33,741
Bank charges	-	9,494	-	9,494
Property taxes	15,376	-	-	15,376
Miscellaneous	262	3,471	101	3,834
Contracted services and grant expenses	6,417	-	-	6,417
Land protection costs	58,895	-	-	58,895
Conservation easement valuation expense	2,739,994	-	-	2,739,994
Natural areas and conservation easement management	37,781	-	-	37,781
Loss on sale of property	<u>16,694</u>	<u>-</u>	<u>-</u>	<u>16,694</u>
	<u>\$ 3,636,480</u>	<u>\$ 476,846</u>	<u>\$ 354,750</u>	<u>\$ 4,468,076</u>

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

# Leelanau Conservancy

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,127,244	\$ 2,432,527
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	115,216	84,371
Development rights extinguished	1,801,993	2,739,994
Net realized (gain) loss on investments	(826,824)	(262,132)
Net unrealized (gain) loss on investments	(365,946)	(1,080,392)
Endowment contributions	(445,230)	(174,818)
Noncash contributions of land	(37,000)	(390,200)
Noncash contributions of land held for resale	(225,000)	-
Noncash contributions of investments	(303,332)	(144,360)
Noncash contributions - conservation easements	(956,002)	(823,750)
Noncash change in timber obligation	12,139	11,786
Changes in operating assets and liabilities		
Accounts receivable	1,660	2,330
Prepaid expenses	(6,661)	19,814
Pledges receivable	13,080	872,496
Accounts payable and accrued liabilities	13,077	10,453
Net cash from operating activities	1,918,414	3,298,119
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(2,297,991)	(3,349,823)
Proceeds from sale of investments	1,499,165	2,246,532
Purchases of protected land	(35,000)	(2,184,700)
Sale (purchase) of land for resale	-	222,500
Exercise (acquisitions) of option to purchase land	(1,000)	60,100
Acquisition of conservation easements	(846,000)	(1,916,250)
Purchases of property, equipment, and land improvements	(590,852)	(66,389)
Net cash from investing activities	(2,271,678)	(4,988,030)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	-	1,120,000
Principal payments on long-term debt	(349,000)	(486,712)
Endowment contributions	445,230	174,818
Net cash from financing activities	96,230	808,106
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(257,034)	(881,805)
Cash and cash equivalents, beginning of year	524,878	1,406,683
Cash and cash equivalents, end of year	\$ 267,844	\$ 524,878

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*

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 38% and 35% of total revenue and support for the years ended December 31, 2021 and 2020, 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. Conservation and Endowment investments include certain cash equivalents which have been classified as investments because they are part of a larger investment portfolio.

***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 statement 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 \$3,000 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, observation decks and bike trails 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 \$198,936 and \$139,623 at December 31, 2021 and 2020, respectively. Depreciation expense on land improvements was \$59,313 and \$26,151 for the years ended December 31, 2021 and 2020, 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 Obligations***

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 statement 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.

***Grants and Contributions***

Grants, contributions and bequests received are recorded as increases in net assets. Grant revenue is recognized in the accounting period when the related expense or asset purchase is incurred, when the condition is met. Amounts received or receivables in excess of expenses or asset purchase are reflected as grant funds received in advance. 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.

## NOTES TO FINANCIAL STATEMENTS- Continued

### *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 2018. The Conservancy has not had any business income unrelated to its exempt purpose and, therefore, has not filed income tax returns in any jurisdiction.

## **NOTE B - 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 267,844	\$ 524,878
Investments	157,878	156,129
Pledges receivable, net	<u>90,423</u>	<u>16,901</u>
Totals	<u>\$ 516,145</u>	<u>\$ 697,908</u>

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE C - INVESTMENTS**

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

	<u>2021</u>		
	<u>Cost</u>	<u>Fair Market</u>	<u>Cumulative Appreciation (Depreciation)</u>
Cash equivalents	\$ 352,700	\$ 352,700	\$ -
Mutual funds - growth funds	5,096,767	8,507,774	3,411,007
Mutual funds - fixed income funds	<u>7,882,478</u>	<u>7,882,599</u>	<u>121</u>
Total investments	<u>\$ 13,331,945</u>	<u>\$ 16,743,073</u>	<u>\$ 3,411,128</u>

	<u>2020</u>		
	<u>Cost</u>	<u>Fair Market</u>	<u>Cumulative Appreciation (Depreciation)</u>
Cash equivalents	\$ 249,561	\$ 249,561	\$ -
Mutual funds - growth funds	5,029,897	7,858,446	2,828,549
Mutual funds - fixed income funds	<u>6,123,504</u>	<u>6,340,138</u>	<u>216,634</u>
Total investments	<u>\$ 11,402,962</u>	<u>\$ 14,448,145</u>	<u>\$ 3,045,183</u>

Financial statement presentation	<u>2021</u>	<u>2020</u>
Investments - operational assets	\$ 157,878	\$ 156,129
Investments - land and water conservation	6,916,890	5,535,589
Endowment investments	<u>9,668,305</u>	<u>8,756,427</u>
	<u>\$ 16,743,073</u>	<u>\$ 14,448,145</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 257,683	\$ 237,819
Realized gains (losses)	826,824	262,132
Unrealized gains (losses)	365,946	1,080,392
Investment fees	<u>(49,471)</u>	<u>(35,174)</u>
Net investment income (loss)	<u>\$ 1,400,982</u>	<u>\$ 1,545,169</u>



NOTES TO FINANCIAL STATEMENTS- Continued

***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, 2021 and 2020.

**NOTE D - PLEDGES RECEIVABLE**

As of December 31, 2021, the Conservancy has received pledges for the various projects totaling approximately \$2,700,000, of which approximately \$1,208,000 has been collected. New pledges during the year ended December 31, 2021 totaled \$1,194,500.

During 2021, the Conservancy received substantially all scheduled payments on a timely basis.

Pledges receivable at December 31, 2021 are expected to be collected as follows:

<u>Years</u>	<u>Amount</u>
2022	\$ 660,183
2023	555,950
2024	148,600
2025	81,000
2026	<u>70,000</u>
Total	1,515,733
Discounts to net present value	<u>(126,843)</u>
Pledges receivable, net	<u><u>\$ 1,388,890</u></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>2021</u>	<u>2020</u>
Pledges receivable, net - operational assets	\$ 90,423	\$ 16,901
Pledges receivable, net - land and water conservation assets	<u>1,298,467</u>	<u>1,385,069</u>
	<u><u>\$ 1,388,890</u></u>	<u><u>\$ 1,401,970</u></u>

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE E - PROPERTY AND EQUIPMENT**

Property and equipment comprised the following at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 22,000	\$ 22,000
Buildings and improvements	901,816	871,168
Equipment	83,473	113,029
Furniture and fixtures	72,807	72,807
Vehicles and boat	<u>84,966</u>	<u>81,990</u>
 Total property and equipment, at cost	 1,165,062	 1,160,994
 Less accumulated depreciation	 <u>(601,107)</u>	 <u>(581,346)</u>
 Total property and equipment, net of accumulated depreciation	 <u>\$ 563,955</u>	 <u>\$ 579,648</u>

Total depreciation expense on property and equipment was \$55,903 and \$58,220 for the years ended December 31, 2021 and 2020, respectively.

**NOTE F - ENDOWMENT INVESTMENTS**

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

	<u>2021</u>	<u>2020</u>
Investments		
Cash and cash equivalents	\$ 60,630	\$ 177,056
Mutual funds - fixed income funds	2,868,656	2,350,563
Mutual funds - growth funds	<u>6,739,019</u>	<u>6,228,808</u>
 Total investments	 9,668,305	 8,756,427
 Due from Agency investments	 <u>446,536</u>	 <u>8,056</u>
 Total Endowment investments	 <u>\$10,114,841</u>	 <u>\$ 8,764,483</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.

NOTES TO FINANCIAL STATEMENTS- Continued

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 to fund the Conservancy's operations 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.

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

	<u>2021</u>		
	<u>Board Designated</u>	<u>Donor Restricted</u>	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	<u>Total</u>
Endowment net assets, beginning of year	\$ 7,550,332	\$ 1,214,151	\$ 8,764,483
Investment return			
Investment income	141,061	22,820	163,881
Net appreciation (realized and unrealized)	<u>888,692</u>	<u>142,257</u>	<u>1,030,949</u>
Total investment return	<u>1,029,753</u>	<u>165,077</u>	<u>1,194,830</u>
Contributions/designations	-	445,230	445,230
Fees and other	(20,377)	(3,325)	(23,702)
Appropriation and expenditure of endowment assets	<u>(230,302)</u>	<u>(35,698)</u>	<u>(266,000)</u>
	<u>\$ 8,329,406</u>	<u>\$ 1,785,435</u>	<u>\$10,114,841</u>

NOTES TO FINANCIAL STATEMENTS- Continued

	<u>2020</u>		
	<u>Board</u>	<u>Donor</u>	
	<u>Designated</u>	<u>Restricted</u>	
	Net Assets	Net Assets	
	Without	With Donor	
	Donor	Restrictions	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 6,574,345</u>	<u>\$ 1,099,333</u>	<u>\$ 7,673,678</u>
Investment return			
Investment income	144,790	-	144,790
Net depreciation (realized and unrealized)	<u>1,046,129</u>	<u>-</u>	<u>1,046,129</u>
Total investment return	<u>1,190,919</u>	<u>-</u>	<u>1,190,919</u>
Contributions/designations	60,000	114,818	174,818
Fees and other	(18,932)	-	(18,932)
Appropriation and expenditure of endowment assets	<u>(256,000)</u>	<u>-</u>	<u>(256,000)</u>
	<u>\$ 7,550,332</u>	<u>\$ 1,214,151</u>	<u>\$ 8,764,483</u>

**NOTE G - DEBT**

In 2016, the Conservancy purchased property in Glen Arbor Township (Palmer Woods). The Conservancy has a liability to provide approximately \$700,000 to the seller 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. In 2020, the Conservancy also purchased an addition to the Glen Arbor Township (Palmer Woods) land for \$1,200,000 on a five year land contract, due August 2025. In 2021, the Conservancy purchased 16 acres in Glen Arbor Township for \$950,000 on a three year land contract, due December 2024.

NOTES TO FINANCIAL STATEMENTS- Continued

Debt consists of the following obligations at December 31:

	<u>2021</u>	<u>2020</u>
Land contract payable to individuals in the amount of \$950,000 with interest of 3.00%; \$125,000 paid upon execution; two annual installments of \$100,000 and a final balloon payment of \$625,000; maturing in December 2024 and secured by real property.	\$ 825,000	\$ -
Land contract payable to individuals in the amount of \$1,120,000 with interest imputed at 3.00%; payable in five annual installments of \$224,000; maturing in August 2025 and secured by real property.	896,000	1,120,000
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>186,770</u>	<u>174,631</u>
Total debt	1,907,770	1,294,631
Less current portion	<u>(324,000)</u>	<u>(224,000)</u>
Long term portion	<u>\$ 1,583,770</u>	<u>\$ 1,070,631</u>

Interest expense related to the above debt obligations amounted to \$31,964 and \$21,032 at December 31, 2021 and 2020, respectively.

Scheduled principal maturities of debt for the years succeeding December 31, 2021 are summarized as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>
2022	\$ 324,000
2023	324,000
2024	849,000
2025	224,000
2026	<u>186,770</u>
Total	<u>\$ 1,907,770</u>

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE H - PAYCHECK PROTECTION PROGRAM**

In 2021, the Conservancy received a second \$217,500 loan under the Paycheck Protection Program ("PPP") administered by a Small Business Administration ("SBA") approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Conservancy used the loan proceeds for eligible expenses and the PPP loan was fully forgiven by the SBA in October 2021. The Conservancy recognized \$217,500 and \$202,050 as grant revenue for the years ended December 31, 2021 and 2020, respectively, for PPP loans forgiven.

**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>2021</u>	<u>2020</u>
Board designated for endowment	\$ 8,329,406	\$ 7,550,332
Board designated for timber obligation	<u>230,000</u>	<u>230,000</u>
Total net assets without donor restrictions - designated net assets	<u>\$ 8,559,406</u>	<u>\$ 7,780,332</u>

**NOTE J - NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2021</u>	<u>2020</u>
Operating pledges receivable	\$ 90,423	\$ 16,901
Stewardship	510,779	632,791
Contributions for the preservation of land	1,776,238	1,588,575
Protected land, net of related debt	3,202,200	2,978,200
Conservation easements, net of extinguished development rights	191	182
Preserved land	12,829,457	12,366,257
Endowment Fund corpus	<u>1,785,435</u>	<u>1,214,151</u>
Total net assets with donor restrictions	<u>\$20,194,723</u>	<u>\$18,797,057</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 \$74,724 and \$65,596 for 2021 and 2020, 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, 2021.

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

NOTES TO FINANCIAL STATEMENTS- Continued

*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.

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

	2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - growth funds	\$ 8,507,774	\$ -	\$ -	\$ 8,507,774
Mutual funds - fixed income funds	<u>7,882,599</u>	<u>-</u>	<u>-</u>	<u>7,882,599</u>
	<u>\$16,390,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,390,373</u>
	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - growth funds	\$ 7,858,446	\$ -	\$ -	\$ 7,858,446
Mutual funds - fixed income funds	<u>6,340,138</u>	<u>-</u>	<u>-</u>	<u>6,340,138</u>
	<u>\$ 14,198,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,198,584</u>

**NOTE M - SUPPLEMENTAL CASH FLOWS INFORMATION**

*Non-Cash Investing and Financing Activities*

During 2021, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$303,332 in non-cash contributions revenue.

During 2021, the Conservancy received six donated conservation easements. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$956,002 in non-cash contribution revenues.

During 2021, the Conservancy received donated land for preserves and donated land for resale. The Conservancy recorded the donations at the fair market value at the date of the donations, and recognized \$37,000 and \$225,000, respectively, in non-cash contributions revenue.

During 2021, the Conservancy purchased \$265,000 of land for protection and \$685,000 of land for resale through a land contract of \$950,000. The Conservancy applied an option of \$7,500 to the land contract.



## NOTES TO FINANCIAL STATEMENTS- Continued

During 2020, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$114,360 in non-cash contributions revenue.

During 2020, the Conservancy received six donated conservation easements. The Conservancy recorded the donation at the fair market value as of the date of donation and recognized \$823,750 in non-cash contribution revenues.

During 2020, the Conservancy received donated land for a preserve. The Conservancy recorded the donations at the fair market value at the date of the donations, and recognized \$37,000 in non-cash contributions revenue.

### *Other Cash Flow Information*

Cash paid for interest amounted to \$33,600 and \$14,641 for the years ended December 31, 2021 and 2020, 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.

## **NOTE O - RISKS AND UNCERTAINTIES**

### *COVID-19*

The Conservancy believes it understands the risk associated with COVID-19. The Conservancy has implemented 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 to business operations is unknown at this time. The Conservancy received PPP loans as detailed in Note H as COVID relief.

## **NOTE P - RELATED PARTIES**

In the year ended December 31, 2021, the Conservancy received a conservation easement on 58.10 acres of land donated by a member of the Board of Directors. The conservation easement value of \$420,000 is included in gifts of land or development rights on the statement of activities.

**NOTE Q - SUBSEQUENT EVENTS**

The Conservancy has evaluated subsequent events and transactions for potential recognition and disclosure through April 25, 2022, the date the financial statements were available to be issued.

**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, 2021</u>	Cumulative Acres Acquired Through <u>December 31, 2021</u>
Land acquired for conservation purposes	(7)	3,450
Conservation easements	718	11,172
Transfer and assist projects	<u>64</u>	<u>1,411</u>
Total acres	<u><u>775</u></u>	<u><u>16,033</u></u>