

Leelanau Conservancy

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Leelanau Conservancy

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Leelanau Conservancy, (the "Conservancy") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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 present fairly, in all material respects, the financial position of the Leelanau Conservancy as of December 31, 2022 and 2021, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

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.

To the Board of Directors
Leelanau Conservancy

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.

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 and *Government 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 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 and *Government 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

Supplementary 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 the 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.

The schedule of expenditures of federal and awards on page 34 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is also not a required part of the basic 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 the 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2023 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 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 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 the Conservancy's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

April 24, 2023

Leelanau Conservancy

STATEMENTS OF FINANCIAL POSITION

December 31,

	2022	2021
ASSETS		
Operational assets		
Cash and cash equivalents	\$ 579,500	\$ 267,844
Investments (Note A, C and N)	114,867	157,878
Pledges receivable, net (Note D)	112,868	90,423
Prepaid expenses	23,671	24,038
Property and equipment, net (Note E)	653,185	563,955
Total operational assets	1,484,091	1,104,138
Land and easements acquired for conservation purposes		
Land (Note A)	18,026,455	16,801,455
Land improvements, net (Note A)	988,069	776,901
Conservation easements (Note A)	50,803,315	47,648,310
Allowance for development rights extinguished (Note A)	(50,803,119)	(47,648,119)
Total land and easements acquired for conservation purposes	19,014,720	17,578,547
Land and water conservation assets		
Investments (Note A, C and N)	6,589,614	6,916,890
Accounts receivable	44,353	43,761
Pledges receivable, net (Note D)	864,164	1,298,467
Option to purchase land and conservation easements	20,000	20,000
Property acquired for resale	685,000	910,000
Total land and water conservation assets	8,203,131	9,189,118
Endowment investments (Note A, C, G and N)	8,424,975	9,668,305
Total assets	\$ 37,126,917	\$ 37,540,108
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 113,225	\$ 128,895
Current portion of long-term debt (Note H)	324,000	324,000
Annuity obligations (Note A)	101,778	133,672
Debt (Note H)	1,272,273	1,583,770
Total liabilities	1,811,276	2,170,337
NET ASSETS		
Without donor restrictions		
Undesignated	5,070,249	6,615,642
Designated (Note J)	7,316,569	8,559,406
With donor restrictions (Note K)	22,928,823	20,194,723
Total net assets	35,315,641	35,369,771
Total liabilities and net assets	\$ 37,126,917	\$ 37,540,108

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

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Membership donations	\$ 1,511,123	\$ -	\$ 1,511,123
Contributions and pledges	737,625	1,756,695	2,494,320
Program revenue	28,798	-	28,798
Grants	-	1,057,500	1,057,500
Non-cash contributions (Note L)	100,563	2,454,000	2,554,563
Investment loss, net of fees of \$49,803	(1,970,385)	(332,476)	(2,302,861)
Other expense	(12,503)	-	(12,503)
Net assets released due to satisfaction of program restrictions	<u>2,201,619</u>	<u>(2,201,619)</u>	<u>-</u>
Total revenue and support	<u>2,596,840</u>	<u>2,734,100</u>	<u>5,330,940</u>
EXPENSES			
Program services - conservation	4,414,624	-	4,414,624
Management and general	524,110	-	524,110
Fundraising	<u>446,336</u>	<u>-</u>	<u>446,336</u>
Total expenses	<u>5,385,070</u>	<u>-</u>	<u>5,385,070</u>
CHANGE IN NET ASSETS	(2,788,230)	2,734,100	(54,130)
NET ASSETS, beginning of year	<u>15,175,048</u>	<u>20,194,723</u>	<u>35,369,771</u>
NET ASSETS, end of year	<u>\$ 12,386,818</u>	<u>\$ 22,928,823</u>	<u>\$ 35,315,641</u>

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

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Membership donations	\$ 1,399,191	\$ -	\$ 1,399,191
Contributions and pledges	1,514,546	258,267	1,772,813
Program revenue	26,182	-	26,182
Grants	-	782,500	782,500
Non-cash contributions (Note L)	303,332	1,218,000	1,521,332
Investment income, net of fees of \$49,471	829,698	571,284	1,400,982
Other 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>
EXPENSES			
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>
CHANGE IN NET ASSETS	1,729,578	1,397,666	3,127,244
NET ASSETS , beginning of year	<u>13,445,470</u>	<u>18,797,057</u>	<u>32,242,527</u>
NET ASSETS , end of year	<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 FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	<u>Program Services - Conservation</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 638,011	\$ 222,926	\$ 256,524	\$ 1,117,461
Employee benefits	135,587	47,376	54,515	237,478
Payroll taxes	47,906	16,738	19,262	83,906
Professional fees	68,190	48,720	3,621	120,531
Interest expense	49,310	-	-	49,310
Supplies	12,282	15,005	-	27,287
Telephone	-	1,504	-	1,504
Postage and shipping	-	5,075	9,172	14,247
Occupancy	-	10,005	-	10,005
Equipment rental and repair	3,084	806	-	3,890
Repairs and maintenance	20,740	-	-	20,740
Printing and publications	14,369	-	9,494	23,863
Travel	637	8,443	1,972	11,052
Professional development	-	29,332	5,922	35,254
Depreciation	120,466	24,816	-	145,282
Communication	-	11,183	42,039	53,222
Meals and entertainment	-	2,781	1,761	4,542
Utilities	4,546	-	-	4,546
Dues and subscriptions	-	17,462	7,925	25,387
Insurance	-	37,609	-	37,609
Bank charges	-	14,966	-	14,966
Property taxes	82	-	-	82
Miscellaneous	875	9,363	150	10,388
Capital campaign	-	-	33,979	33,979
Contracted services and grant expenses	6,608	-	-	6,608
Land protection costs	71,249	-	-	71,249
Conservation easement valuation expense	3,154,992	-	-	3,154,992
Natural areas and conservation easement management	<u>65,690</u>	<u>-</u>	<u>-</u>	<u>65,690</u>
	<u>\$ 4,414,624</u>	<u>\$ 524,110</u>	<u>\$ 446,336</u>	<u>\$ 5,385,070</u>

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 expense	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	50,702	-	-	50,702
	\$ 2,897,413	\$ 494,706	\$ 371,498	\$ 3,763,617

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

Leelanau Conservancy

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (54,130)	\$ 3,127,244
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	145,282	115,216
Development rights extinguished	3,154,995	1,801,993
Net realized loss (gain) on investments	225,469	(826,824)
Net unrealized loss (gain) on investments	2,340,867	(365,946)
Endowment contributions	(509,312)	(445,230)
Noncash contributions of land	(850,000)	(37,000)
Noncash contributions of land held for resale	-	(225,000)
Noncash contributions of investments	(100,563)	(303,332)
Noncash contributions - conservation easements	(1,604,000)	(956,002)
Noncash change in timber obligation	12,503	12,139
Changes in operating assets and liabilities		
Accounts receivable	(592)	1,660
Prepaid expenses	367	(6,661)
Pledges receivable	411,858	13,080
Accounts payable and accrued liabilities	(47,564)	13,077
Net cash from operating activities	<u>3,125,180</u>	<u>1,918,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,494,725)	(2,297,991)
Proceeds from sale of investments	1,642,569	1,499,165
Purchases of protected land	(375,000)	(35,000)
Sale of land for resale	225,000	-
Acquisition of option to purchase land	-	(1,000)
Acquisition of conservation easements	(1,551,000)	(846,000)
Purchases of property, equipment, and land improvements	(445,680)	(590,852)
Net cash from investing activities	<u>(2,998,836)</u>	<u>(2,271,678)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(324,000)	(349,000)
Endowment contributions	509,312	445,230
Net cash from financing activities	<u>185,312</u>	<u>96,230</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	311,656	(257,034)
Cash and cash equivalents, beginning of year	<u>267,844</u>	<u>524,878</u>
Cash and cash equivalents, end of year	<u>\$ 579,500</u>	<u>\$ 267,844</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 74% and 38% of total revenue and support for the years ended December 31, 2022 and 2021, 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 Conservancy's 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 gains (losses) 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.

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 contributions and pledges.

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 and 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.

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.

NOTES TO FINANCIAL STATEMENTS- Continued

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 2019. 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 24, 2023, the date the financial statements were available to be issued.

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 statement of financial position date, are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 579,500	\$ 267,844
Investments	114,867	157,878
Pledges receivable, net	<u>112,868</u>	<u>90,423</u>
Totals	<u>\$ 807,235</u>	<u>\$ 516,145</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE C - INVESTMENTS

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

	<u>2022</u>		
	<u>Cost</u>	<u>Fair Market</u>	<u>Cumulative Appreciation (Depreciation)</u>
Cash equivalents	\$ 1,650,716	\$ 1,660,865	\$ 10,149
Common stocks	-	650	650
Mutual funds - growth funds	5,466,248	7,062,999	1,596,751
Mutual funds - fixed income funds	4,508,340	4,003,778	(504,562)
U.S. Government bonds	2,058,518	2,033,567	(24,951)
Corporate bonds	<u>375,372</u>	<u>367,597</u>	<u>(7,775)</u>
Total investments	<u>\$ 14,059,194</u>	<u>\$ 15,129,456</u>	<u>\$ 1,070,262</u>

	<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>

Financial statement presentation	<u>2022</u>	<u>2021</u>
Investments - operational assets	\$ 114,867	\$ 157,878
Investments - land and water conservation	6,589,614	6,916,890
Endowment investments	<u>8,424,975</u>	<u>9,668,305</u>
	<u>\$ 15,129,456</u>	<u>\$ 16,743,073</u>

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 313,278	\$ 257,683
Realized (losses) gains	(225,469)	826,824
Unrealized (losses) gains	(2,340,867)	365,946
Investment fees	<u>(49,803)</u>	<u>(49,471)</u>
Net investment income (loss)	<u>\$ (2,302,861)</u>	<u>\$ 1,400,982</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, 2022 and 2021.

NOTE D - PLEDGES RECEIVABLE

As of December 31, 2022, the Conservancy has received pledges for the various projects totaling approximately \$1,850,000, of which approximately \$795,000 has been collected. New pledges during the year ended December 31, 2022 totaled \$334,000.

During 2022, the Conservancy received substantially all scheduled payments on a timely basis.

Pledges receivable at December 31, 2022 are expected to be collected as follows:

<u>Years</u>	<u>Amount</u>
2023	\$ 618,219
2024	242,600
2025	119,333
2026	<u>75,000</u>
Total	1,055,152
Discounts to net present value	<u>(78,120)</u>
Pledges receivable, net	<u><u>\$ 977,032</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>2022</u>	<u>2021</u>
Pledges receivable, net - operational assets	\$ 112,868	\$ 90,423
Pledges receivable, net - land and water conservation assets	<u>864,164</u>	<u>1,298,467</u>
	<u><u>\$ 977,032</u></u>	<u><u>\$ 1,388,890</u></u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 22,000	\$ 22,000
Buildings and improvements	973,222	901,816
Equipment	75,816	83,473
Furniture and fixtures	70,301	72,807
Vehicles and boat	<u>111,237</u>	<u>84,966</u>
 Total property and equipment, at cost	 1,252,576	 1,165,062
 Less accumulated depreciation	 <u>(599,391)</u>	 <u>(601,107)</u>
 Total property and equipment, net of accumulated depreciation	 <u>\$ 653,185</u>	 <u>\$ 563,955</u>

Total depreciation expense on property and equipment was \$66,650 and \$55,903 for the years ended December 31, 2022 and 2021, respectively.

NOTE F - LAND IMPROVEMENTS

Land improvements on land acquired for conservation purposes were as follows at December 31:

	<u>2022</u>	<u>2021</u>
Land improvements	\$ 1,265,637	\$ 975,836
Less accumulated depreciation	<u>(277,568)</u>	<u>(198,935)</u>
 Total land improvements, net of accumulated depreciation	 <u>\$ 988,069</u>	 <u>\$ 776,901</u>

Total depreciation expense on land improvements was \$78,632 and \$59,313 for the years ended December 31, 2022 and 2021, respectively.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE G - ENDOWMENT INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Investments		
Cash and cash equivalents	\$ 39,634	\$ 60,630
Mutual funds - growth funds	2,508,550	6,739,019
Mutual funds - fixed income funds	<u>5,876,791</u>	<u>2,868,656</u>
Total investments	8,424,975	9,668,305
Due from Agency investments	<u>243,275</u>	<u>446,536</u>
Total Endowment investments	<u>\$ 8,668,250</u>	<u>\$10,114,841</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 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.

NOTES TO FINANCIAL STATEMENTS- Continued

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

	<u>2022</u>		<u>Total</u>
	<u>Board Designated Net Assets Without Donor Restrictions</u>	<u>Donor Restricted Net Assets With Donor Restrictions</u>	
Endowment net assets, beginning of year	\$ 8,329,406	\$ 1,785,435	\$10,114,841
Investment return			
Investment income	142,856	36,786	179,642
Net depreciation (realized and unrealized)	<u>(1,447,924)</u>	<u>(364,374)</u>	<u>(1,812,298)</u>
Total investment return	<u>(1,305,068)</u>	<u>(327,588)</u>	<u>(1,632,656)</u>
Contributions/designations	323,138	186,174	509,312
Fees and other	(18,959)	(4,888)	(23,847)
Appropriation and expenditure of endowment assets	<u>(241,948)</u>	<u>(57,452)</u>	<u>(299,400)</u>
	<u>\$ 7,086,569</u>	<u>\$ 1,581,681</u>	<u>\$ 8,668,250</u>
	<u>2021</u>		
	<u>Board Designated Net Assets Without Donor Restrictions</u>	<u>Donor Restricted Net Assets With Donor Restrictions</u>	<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 depreciation (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

NOTE H - 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, maturing in August 2025. In 2021, the Conservancy purchased 16 acres in Glen Arbor Township for \$950,000 on a three year land contract, maturing in December 2024.

Debt consists of the following obligations at December 31:

	<u>2022</u>	<u>2021</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.	\$ 725,000	\$ 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.	672,000	896,000
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>199,273</u>	<u>186,770</u>
Total debt	1,596,273	1,907,770
Less current portion	<u>(324,000)</u>	<u>(324,000)</u>
Long term portion	<u>\$ 1,272,273</u>	<u>\$ 1,583,770</u>

Interest expense related to the above debt obligations amounted to \$49,310 and \$31,964 at December 31, 2022 and 2021, respectively.

NOTES TO FINANCIAL STATEMENTS- Continued

Scheduled principal maturities of debt for the years succeeding December 31, 2022 are summarized as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>
2023	\$ 324,000
2024	849,000
2025	224,000
2026	<u>199,273</u>
Total	<u>\$ 1,596,273</u>

NOTE I - PAYCHECK PROTECTION PROGRAM AND FORGIVENESS

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 as grant revenue for the year ended December 31, 2021 for the PPP loan forgiven.

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

Net assets without donor restrictions - designated net assets, consisted of the following amounts at December 31:

	<u>2022</u>	<u>2021</u>
Board designated for endowment	\$ 7,086,569	\$ 8,329,406
Board designated for timber obligation	<u>230,000</u>	<u>230,000</u>
Total net assets without donor restrictions - designated net assets	<u>\$ 7,316,569</u>	<u>\$ 8,559,406</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE K - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Operating pledges receivable	\$ 112,868	\$ 90,423
Stewardship	650,346	510,779
Contributions for the preservation of land	2,557,275	1,776,238
Protected land, net of related debt	3,064,000	3,202,200
Conservation easements, net of extinguished development rights	196	191
Preserved land	14,962,457	12,829,457
Endowment Fund corpus	<u>1,581,681</u>	<u>1,785,435</u>
Total net assets with donor restrictions	<u>\$22,928,823</u>	<u>\$20,194,723</u>

NOTE L - NON-CASH CONTRIBUTIONS

For the years ended December 31, contributed non-cash assets consist of donated investments, conservation easements and land. The amounts recognized within the statement of activities include:

	<u>2022</u>	<u>2021</u>
Investments	\$ 100,563	\$ 303,332
Conservation easements	1,604,000	956,000
Land for preserves	850,000	37,000
Land for resale	<u>-</u>	<u>225,000</u>
	<u>\$ 2,554,563</u>	<u>\$ 1,521,332</u>

NOTE M - 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 \$74,575 and \$74,724 for 2022 and 2021, respectively.

NOTE N - 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, 2022.

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:

2022				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 650	\$ -	\$ -	\$ 650
Mutual funds - growth funds	7,062,999	-	-	7,062,999
Mutual funds - fixed income funds	4,003,778	-	-	4,003,778
U.S. Government bonds	2,033,567	-	-	2,033,567
Corporate bonds	<u>367,597</u>	<u>-</u>	<u>-</u>	<u>367,597</u>
	<u>\$13,468,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,468,591</u>
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>

NOTE O - SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing and Financing Activities

During 2022, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$100,563 in non-cash contributions revenue.

During 2022, the Conservancy received four donated conservation easements. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized \$1,604,000 in non-cash contribution revenues.

During 2022, the Conservancy received donated land for preserves. The Conservancy recorded the donations at the fair market value at the date of the donations, and recognized \$850,000 in non-cash contributions revenue.

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 \$956,000 in non-cash contribution revenues.

NOTES TO FINANCIAL STATEMENTS- Continued

During 2021, the Conservancy received donated land for a 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.

Other Cash Flow Information

Cash paid for interest amounted to \$51,630 and \$33,600 for the years ended December 31, 2022 and 2021, respectively.

NOTE P - 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 Q - 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 I as COVID relief.

NOTE R - 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.

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, 2022</u>	Cumulative Acres Acquired Through <u>December 31, 2022</u>
Land acquired for conservation purposes	109	3,559
Conservation easements	492	11,664
Transfer and assist projects	<u>-</u>	<u>1,411</u>
Total acres	<u><u>601</u></u>	<u><u>16,634</u></u>

FEDERAL PROGRAMS



DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

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**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***

To the 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") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, 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 24, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Directors
Leelanau Conservancy

Report on 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely 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

Certified Public Accountants
Traverse City, Michigan

April 24, 2023



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Business Advisors Since 1973

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**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

Opinion on Each Major Federal Program

We have audited *Leelanau Conservancy's* (the "Conservancy") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

Basis for Opinion on Each Major Federal Program

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 Requirement for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Conservancy and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Conservancy's compliance with the compliance requirements referred to above.

To the Board of Directors
Leelanau Conservancy

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirement referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statues, regulations, rules, and provisions of contracts or grant agreements applicable to the Conservancy's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Conservancy's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk on not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Conservancy's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain profession skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Conservancy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Conservancy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Conservancy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

To the Board of Directors
Leelanau Conservancy

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these imitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Certified Public Accountants
Traverse City, Michigan

April 24, 2023

Leelanau Conservancy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2022

<u>Federal Grantor / Pass-Through Grantor / Program</u>	<u>Pass Through Number</u>	<u>Assistance Listing Number</u>	<u>Federal Expenditures</u>
United States Department of Agriculture, Natural Resources Conservation Service			
Agricultural Conservation Easement Program	555D2120PA008	10.931	<u>\$ 1,057,500</u>
Total United States Department of Agriculture			<u>1,057,500</u>
Total Federal financial assistance			<u>\$ 1,057,500</u>

Leelanau Conservancy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2022

- Note 1** The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Conservancy, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the basic financial statements.
- 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** 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, 2022

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified opinion on the financial statements of Leelanau Conservancy.
2. There were no material weakness in internal control reported as a result of the audit of the financial statements.
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 federal programs.
5. The auditor's report on compliance for the major federal 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 (Assistance Listing # 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

No findings or questioned costs.

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

No findings or questioned costs.

PRIOR YEAR

There was no schedule of findings and questioned costs for the year ended December 31, 2021.