

Legacy Land Conservancy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018 and 2017



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DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, Retired
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Legacy Land Conservancy

We have audited the accompanying financial statements of *Legacy Land Conservancy* (the "Conservancy"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Conservancy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Legacy Land Conservancy as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on page 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Dennis, Gartland & Niergarth

December 12, 2018

Legacy Land Conservancy

STATEMENTS OF FINANCIAL POSITION

For the Years Ended June 30,

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents (Note B)	\$ 412,447	\$ 229,210
Investments (Note C)	44,795	44,439
Pledges receivable (Note D)	168,000	70,500
Grants receivable (Note E)	7,278	10,542
Foundation and corporate grants receivable (Note E)	40,400	259,068
Prepaid expenses	24,997	9,867
Deposits	4,114	4,114
Total current assets	702,031	627,740
Fixed Assets, net (Note G)	1,000	7,000
Land Under Protection		
Preserves - encumbered (Note H)	1,842,565	1,842,565
Preserves - unencumbered (Note H)	2,379,853	2,379,853
Land held for resale (Note H)	260,000	260,000
Conservation easements	80	79
Land options	3,500	500
Total land under protection	4,485,998	4,482,997
Other Assets		
Pledges receivable, net, non-current (Note D)	70,050	100,950
Restricted investments for endowments (Note C)	1,132,800	1,021,235
Board designated investments (Note C)	892,505	1,086,962
Total other assets	2,095,355	2,209,147
Total assets	\$ 7,284,384	\$ 7,326,884
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 5,477	\$ 3,277
Accrued expenses	45,756	52,734
Total liabilities	51,233	56,011
NET ASSETS		
Unrestricted		
Undesignated	214,129	108,601
Board designated (Note L)	922,905	1,218,353
Unencumbered land	2,379,853	2,379,853
Total unrestricted	3,516,887	3,706,807
Temporarily restricted (Note M)	740,819	700,188
Permanently restricted (Note N)	2,975,445	2,863,878
Total net assets	7,233,151	7,270,873
Total liabilities and net assets	\$ 7,284,384	\$ 7,326,884

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

Legacy Land Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions and pledges	\$ 28,473	\$ 228,615	\$ 24,000	\$ 281,088
Gifts of land or development rights	46,166	-	1	46,167
Special events, net of expenses of \$0	100	-	-	100
Public grants	204,581	-	-	204,581
Foundation and corporate grants	272,555	-	-	272,555
Investment gains and losses	40,610	1,117	106,568	148,295
Interest and dividends	16,370	-	14,998	31,368
Miscellaneous	5,838	2,600	-	8,438
Net assets released due to satisfaction of program restrictions	<u>225,701</u>	<u>(191,701)</u>	<u>(34,000)</u>	<u>-</u>
Total revenue and support	<u>840,394</u>	<u>40,631</u>	<u>111,567</u>	<u>992,592</u>
EXPENSES				
Program services	752,700	-	-	752,700
Management and general	155,138	-	-	155,138
Fundraising	<u>122,476</u>	<u>-</u>	<u>-</u>	<u>122,476</u>
Total expenses	<u>1,030,314</u>	<u>-</u>	<u>-</u>	<u>1,030,314</u>
CHANGE IN NET ASSETS	(189,920)	40,631	111,567	(37,722)
NET ASSETS , beginning of year	<u>3,706,807</u>	<u>700,188</u>	<u>2,863,878</u>	<u>7,270,873</u>
NET ASSETS , end of year	<u>\$ 3,516,887</u>	<u>\$ 740,819</u>	<u>\$ 2,975,445</u>	<u>\$ 7,233,151</u>

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

Legacy Land Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions and pledges	\$ 120,497	\$ 1,033,034	\$ 17,000	\$ 1,170,531
Gifts of land or development rights	317,601	-	-	317,601
Special events, net of expenses of \$12,728	19,962	-	-	19,962
Public grants	71,485	110,000	-	181,485
Foundation and corporate grants	320,466	2,506	-	322,972
Investment gains and losses	49,738	1,820	139,896	191,454
Interest and dividends	17,836	-	13,937	31,773
Miscellaneous	2,126	300	-	2,426
Endowment net assets restricted	(69,918)	-	69,918	-
Net assets released due to satisfaction of program restrictions	<u>1,522,400</u>	<u>(1,490,885)</u>	<u>(31,515)</u>	<u>-</u>
Total revenue and support	<u>2,372,193</u>	<u>(343,225)</u>	<u>209,236</u>	<u>2,238,204</u>
EXPENSES				
Program services	2,153,648	-	-	2,153,648
Management and general	158,687	-	-	158,687
Fundraising	<u>125,254</u>	<u>-</u>	<u>-</u>	<u>125,254</u>
Total expenses	<u>2,437,589</u>	<u>-</u>	<u>-</u>	<u>2,437,589</u>
CHANGE IN NET ASSETS	(65,396)	(343,225)	209,236	(199,385)
NET ASSETS , beginning of year	<u>3,772,203</u>	<u>1,043,413</u>	<u>2,654,642</u>	<u>7,470,258</u>
NET ASSETS , end of year	<u>\$ 3,706,807</u>	<u>\$ 700,188</u>	<u>\$ 2,863,878</u>	<u>\$ 7,270,873</u>

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

Legacy Land Conservancy

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Conservation easement valuation expense	\$ 46,166	\$ -	\$ -	\$ 46,166
Purchase of land development rights	138,527	-	-	138,527
Land project expense	29,100	-	-	29,100
Total land expenses	213,793	-	-	213,793
Salaries	306,781	88,316	69,723	464,820
Payroll taxes and benefits	83,303	23,981	18,932	126,216
Consulting and contracted services	30,186	8,690	6,861	45,737
Travel	3,717	1,066	842	5,625
Audit expense	8,184	2,356	1,860	12,400
Bank charges	1,564	450	355	2,369
Fees and dues	8,260	2,378	1,877	12,515
Copying and printing	14,779	4,255	3,359	22,393
Insurance	7,844	2,259	1,783	11,886
Depreciation	3,960	1,140	900	6,000
Supplies and materials	15,147	4,361	3,443	22,951
Postage and mailing	3,220	927	732	4,879
Rent and occupancy	31,995	9,211	7,272	48,478
Software and IT	8,673	2,497	1,971	13,141
Miscellaneous	3,725	1,072	846	5,643
Telephone	2,973	856	676	4,505
Media	4,596	1,323	1,044	6,963
Total expenses	\$ 752,700	\$ 155,138	\$ 122,476	\$ 1,030,314

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

Legacy Land Conservancy

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Conservation easement valuation expense	\$ 317,598	\$ -	\$ -	\$ 317,598
Purchase of land development rights	202,469	-	-	202,469
Land project expense	32,284	-	-	32,284
Huron Waterloo Pathways Initiative	1,048,728	-	-	1,048,728
Total land expenses	1,601,079	-	-	1,601,079
Salaries	317,817	91,493	72,231	481,541
Payroll taxes and benefits	84,299	24,268	19,159	127,726
Consulting and contracted services	35,955	10,351	8,172	54,478
Maintenance and repair	3,319	-	-	3,319
Travel	7,356	2,118	1,672	11,146
Audit expense	7,920	2,280	1,800	12,000
Bank charges	1,040	814	642	2,496
Fees and dues	6,893	1,984	1,566	10,443
Copying and printing	12,478	3,592	2,836	18,906
Insurance	8,446	2,431	1,920	12,797
Depreciation	3,960	1,140	900	6,000
Supplies and materials	14,784	4,256	3,360	22,400
Postage and mailing	6,012	1,730	1,366	9,108
Rent and occupancy	18,814	5,416	4,276	28,506
Software and IT	8,376	2,412	1,904	12,692
Miscellaneous	4,871	1,402	1,107	7,380
Telephone	1,177	394	286	1,857
Media	9,052	2,606	2,057	13,715
Total expenses	\$ 2,153,648	\$ 158,687	\$ 125,254	\$ 2,437,589

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

Legacy Land Conservancy

STATEMENT OF CASH FLOWS

For the Years Ended June 30,

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (37,722)	\$ (199,385)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	6,000	6,000
Development rights extinguished	184,693	520,067
Net realized gain on investments	(43,459)	20,482
Net unrealized (gain) loss on investments	(133,650)	170,972
Noncash contributions - conservation easements	(46,167)	(317,601)
Changes in operating assets and liabilities which provided (used) cash		
Prepaid expenses	(15,130)	194,333
Pledges receivable	(66,600)	(2,986)
Grants receivable	221,933	(71,869)
Accounts payable and accrued expenses	<u>(5,135)</u>	<u>(28,457)</u>
Net cash from operating activities	<u>64,763</u>	<u>291,556</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchases) sale of investments	260,000	(206,881)
Purchase of preserves	-	(69,915)
Exercise (acquisitions) of option to purchase land	(3,000)	30,000
Acquisition of conservation easements	<u>(138,526)</u>	<u>(202,469)</u>
Net cash from investing activities	<u>118,474</u>	<u>(449,265)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	183,237	(157,709)
Cash and cash equivalents, beginning of year	<u>229,210</u>	<u>386,919</u>
Cash and cash equivalents, end of year	<u>\$ 412,447</u>	<u>\$ 229,210</u>

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

Legacy Land Conservancy

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Legacy Land Conservancy (the "Conservancy") is a not-for-profit corporation, founded in 1971, operating in Washtenaw, Jackson, and surrounding counties in southeastern Michigan. The Conservancy's mission is to protect natural areas, working farmlands and open spaces in the area. The Conservancy accomplishes its mission through three primary activities of acquiring protective interests in conservation land through purchase and donation; advocating for the protection of open spaces; and caring for the land it owns and monitoring land under conservation agreements. The major funding for the Conservancy is derived from donations, grants and fundraising events.

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

The Conservancy reports information regarding its financial position and activities according to three classes of net assets depending on the existence or absence of donor-imposed restrictions:

Unrestricted: These net assets are available for general obligations of the Conservancy.

Temporarily Restricted: These net assets are restricted by donors, grantors or other outside parties to be used for some specific purpose or for use in a future period. Amounts received are reported as revenue and temporarily restricted net assets upon receipt and are transferred to unrestricted net assets when the purpose restriction or time restriction has been met, or to permanently restricted if used to permanently increase land under protection.

Permanently Restricted: These net assets represent amounts subject to restrictions of gift and trust instruments requiring that the principal be invested in perpetuity and the income only be used for particular purposes and for land under permanent protection. These net assets include encumbered preserves, donor restricted conservation easements on land valued at \$1 per easement, and donor contributions to endowment funds maintained by the Agency. Financed acquisitions of land under protection are not considered as part of permanently restricted net assets until all liens are removed.

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.

NOTES TO FINANCIAL STATEMENTS- Continued

Cash and Cash Equivalents

The Conservancy considers all cash and other highly liquid investments not held in trust with maturity dates of less than 3 months to be cash equivalents, for the purposes of the statement of financial position classification and statement of cash flows. The carrying value of cash and cash equivalents approximates fair value as a result of the short maturities of those financial instruments.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices as of the date of the statement of financial position. Contributed securities are recorded at fair value at the date of receipt and generally sold shortly thereafter. Changes in fair value of investments are recorded in the accompanying Statements of Activities as investment gains and losses. Realized gains and losses are determined based on specific cost identification.

Fixed Assets

Fixed assets are recorded at cost if purchased, or if donated, at fair value at the time of receipt. Major improvements and renewals are capitalized, if over \$5,000, 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 3 to 5 years.

Preserves

The property of the Conservancy consists of parcels of land in southeastern Michigan received at various times from various donors. The Conservancy owns all residual rights associated with these properties. Such property is recorded as revenue and other assets at the time the property is received. The basis of the donation is the fair value of the property as of the date donated as determined by the most recent appraisal prepared by an independent qualified appraiser.

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. 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.

NOTES TO FINANCIAL STATEMENTS- Continued

Contributions and Foundation and Corporate Grants

Contributions, bequests and foundation and corporate grants received are recorded as increases in net assets. All donor-restricted contributions and foundation and corporate grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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.

Compensated Absences

Vested and accumulated vacation leave is reported as an expense and a liability when the obligation becomes determinable. No liability is accrued for nonvesting rights to receive sick pay benefits.

Subsequent Events

Management has evaluated events and transaction for potential recognition or disclosure through December 12, 2018, the date that the financial statements were available to be issued.

Functional Expenses

The Conservancy accumulates and records operating expenses according to the nature of the expense that was incurred. These functional expenses are allocated and reported on the statement of activities as Program Services, Management and General Expenses, and Fundraising. The allocation to these functional categories is based on management's records of time allocated by staff.

Income Taxes

No provision for Federal and State income taxes has been made since 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 2014. 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.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE B - CASH AND CASH EQUIVALENTS

As of June 30, 2018, \$250,000 of the Conservancy's bank balance of \$436,532 was insured. Cash and cash equivalents are summarized as follows for the year ended June 30:

	<u>2018</u>	<u>2017</u>
Petty cash	\$ 519	\$ 518
Demand (checking) accounts	<u>411,928</u>	<u>228,692</u>
Total	<u>\$ 412,447</u>	<u>\$ 229,210</u>

NOTE C - INVESTMENTS

The investments of the Conservancy consist of the following at June 30:

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Cumulative Appreciation (Depreciation)</u>
Certificate of deposit Ann Arbor Community Foundation	\$ 30,000	\$ 30,575	\$ 575
Agency Investment	14,220	14,220	-
Mutual funds - bond index funds	249,610	242,247	(7,363)
Mutual funds - fixed income funds	268,579	260,756	(7,823)
Mutual funds - equity index funds	<u>1,207,208</u>	<u>1,522,302</u>	<u>315,094</u>
Total investments	<u>\$ 1,769,617</u>	<u>\$ 2,070,100</u>	<u>\$ 300,483</u>
Financial Statement Presentation			
Current investments		\$ 44,795	
Restricted investments for endowment		1,132,800	
Board designated endowment		<u>892,505</u>	
		<u>\$ 2,070,100</u>	

NOTES TO FINANCIAL STATEMENTS- Continued

	2017		Cumulative Appreciation (Depreciation)
	Cost	Fair Market	
Certificate of deposit	\$ 30,000	\$ 30,000	\$ -
Ann Arbor Community Foundation			
Agency Investment	14,439	14,439	-
Mutual funds - bond index funds	369,743	367,152	(2,591)
Mutual funds - fixed income funds	390,450	386,840	(3,610)
Mutual funds - equity index funds	<u>1,153,727</u>	<u>1,354,205</u>	<u>200,478</u>
 Total investments	 <u>\$ 1,958,359</u>	 <u>\$ 2,152,636</u>	 <u>\$ 194,277</u>
 Financial Statement Presentation			
Current investments		\$ 44,439	
Restricted investments for endowment		1,021,235	
Board designated endowment		<u>1,086,962</u>	
		<u>\$ 2,152,636</u>	

Concentration of Credit Risk - Investments

The brokerage account has insurance of \$500,000 provided by the Securities Investor Protection Corporation. The balance of investments were uninsured at June 30, 2018 and 2017.

NOTE D - PLEDGES RECEIVABLE

As of June 30, 2018, the Conservancy has received general Legacy pledges for various projects. The gross pledges receivable totaled \$264,500 and \$190,500 as of June 30, 2018 and 2017, respectfully. The Conservancy established an allowance for uncollectible amounts of 10% of the pledges receivable balance each of the last two fiscal years.

During 2018, the Conservancy received substantially all scheduled payments on a timely basis.

NOTES TO FINANCIAL STATEMENTS- Continued

Pledges receivable at June 30, 2018 are expected to be collected as follows:

<u>Years</u>	<u>General Pledges</u>
2019	\$ 168,000
2020	93,500
2021	2,000
2022	<u>1,000</u>
Total	264,500
Allowance for uncollectible amounts	<u>(26,450)</u>
Pledges receivable, net	<u>\$ 238,050</u>
Current pledges receivable	\$ 168,000
Non-current pledges receivable	<u>70,050</u>
	<u>\$ 238,050</u>

NOTE E - GRANTS RECEIVABLE

The Conservancy records grants as revenue during the period that the funds were earned, that is, when all eligibility requirements have been met. The grants receivable as of June 30, 2018 and 2017 were \$7,278 and \$10,542, respectively. The grants receivable represent grant dollars earned but not received as of the financial position date. Foundation and corporate grants receivable as of June 30, 2018 and 2017 were \$40,400 and \$259,068, respectively, and represent foundation and corporate grants awarded but not received as of the financial statement date. No allowance for uncollectible accounts has been provided as management believes all grants are collectible.

NOTE F - BENEFICIAL INTEREST IN PERPETUAL TRUST

The Conservancy is the beneficiary of a perpetual trust held and administered by a Community Foundation. The endowment permits the Foundation to substitute another beneficiary in place of the Conservancy in the event the Conservancy ceases to exist, or for other various reasons in accordance with the Foundation's bylaws. The Conservancy has withdrawn the spendable balance during the fiscal year. As a result, no amount of the remaining balance is spendable, or recorded on the financial statements, at the end of the fiscal year June 30, 2018. The balance of the Trust is \$57,118 and \$55,577 as of June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE G - FIXED ASSETS

Fixed assets comprised the following at June 30:

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Vehicles	\$ 18,000	\$ 18,000
Less accumulated depreciation	<u>(17,000)</u>	<u>(11,000)</u>
Total fixed assets	<u>\$ 1,000</u>	<u>\$ 7,000</u>

Total depreciation expense was \$6,000 and \$6,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE H - LAND

Preserves

Preserves of the Legacy Land Conservancy consist of parcels of land in southeastern Michigan received at various times from various donors. Such properties are recorded at fair values as of the date donated, as determined by an independent appraisal. The balance of these accounts is comprised of the following as of June 30:

<u>Description</u>	<u>Acres</u>	<u>2018</u>	<u>2017</u>
Encumbered:			
Creekshead Preserve (fee simple)	27	\$ 115,000	\$ 115,000
Beckwith Conservancy (fee simple)	31	61,000	61,000
Sharon Hills Preserve (fee simple)	68	308,150	308,150
Woodland Preserve (fee simple)	14	235,000	235,000
Coudron Preserve (life estate/fee simple)	44	576,000	576,000
Reichert Preserve (fee simple)	92	477,500	477,500
Lapham Family Reichert Addition (fee simple)	17	51,915	51,915
Heotaky Beckwith Addition (fee simple)	<u>2</u>	<u>18,000</u>	<u>18,000</u>
Total encumbered	<u>295</u>	<u>\$ 1,842,565</u>	<u>\$ 1,842,565</u>
Unencumbered:			
Johnson Preserve (fee simple)	<u>49</u>	<u>\$ 2,379,853</u>	<u>\$ 2,379,853</u>

Encumbered preserves have restrictions recorded on the land through the original gift agreement, a deed restriction or a conservation easement and are included as permanently restricted net assets, whereas unencumbered preserves do not have restrictions on the land and are recorded as unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS- Continued

Land Held for Resale

Land held for resale includes projects where the final disposition of the property is not completed. The land may be intended for sale with a conservation easement (or without in the case of portions of acquisitions not requiring protection), to become the property of a State or local government or be financed land acquisitions that, when paid in full, become a part of our nature preserves.

Land held for resale consists of:

	<u>Beginning of Year</u>	<u>Purchase/ Donation</u>	<u>Transfers/ Sales</u>	<u>End of Year</u>
Rinehart Property	<u>\$ 260,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,000</u>

The Rinehart Property consists of 20 acres subject to a life estate.

NOTE I - DEVELOPMENT RIGHTS

Development rights typically are donated through the gift of a conservation easement. The donation of a perpetual conservation easement which preserves the conservation values of a property deemed to be in the public benefit, such as agricultural land, scenic views, wetlands, forests and unique wildlife habitats, is recognized in the Federal Tax Code and may result in substantial income and estate tax benefits to the donor/landowner.

In situations where charitable tax benefits do not provide sufficient incentives, development rights are purchased rather than donated. This is often the case with farmland preservation programs. The amount paid to and/or donated by the landowner is determined by a "before and after" appraisal of the fair market value of the subject land. Other costs, such as appraisals, surveys, title work and personnel expenditures for securing the easement, are expensed.

When the Conservancy receives a conservation easement, it takes on the permanent responsibility and legal right to enforce the terms of the easement. The Conservancy monitors easements by inspecting the land regularly (yearly in most cases) and maintaining communications with the landowner about future plans in order to avoid conflict with the easement. If a future owner or someone else violates the easement, for example by erecting a building that the easement does not allow, the Conservancy will take action to have the violation corrected, including going to court if necessary. These permanent responsibilities are a long-term cost to the Conservancy.

NOTES TO FINANCIAL STATEMENTS- Continued

From its inception, the Conservancy has secured (by purchase and donation) 80 easements:

<u>Secured During the year ended June 30, 2018</u>		<u>Total Secured Through June 30, 2018</u>	
<u>Number of Easements</u>	<u>Acres Protected</u>	<u>Number of Easements</u>	<u>Acres Protected</u>
1	42	80	3,412

The total value of development rights acquired during the year is estimated to be \$184,694 of which \$184,693 has been extinguished and reported as an expense.

NOTE J - EMPLOYEE BENEFIT PLAN

The Conservancy maintains a Savings Incentive Match Plan ("SIMPLE") IRA retirement plan. All full-time employees are eligible to participate. To the extent an employee participates by deferring a portion of their compensation into the plan, the Conservancy will match the employee's contribution, up to a maximum of three percent of the employee's compensation. During the years ended June 30, 2018 and 2017, the retirement expense incurred by the Conservancy was \$12,237 and \$12,318, respectively.

NOTE K - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board ("FASB") 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.

NOTES TO FINANCIAL STATEMENTS- Continued

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 June 30, 2018.

Certificate of deposit: Valued at face value which approximates fair value.

Ann Arbor Community Foundation Agency Investment: Valued at fair value by the Community Foundation for the Conservancy's portion of the Community Foundation's pooled investment.

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

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 June 30:

<u>Assets at Fair Value as of June 30, 2018</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificate of deposit	\$ 30,575	\$ -	\$ -	\$ 30,575
Ann Arbor Community Foundation				
Agency Investment	-	-	14,220	14,220
Mutual funds - bond index funds	242,247	-	-	242,247
Mutual funds - fixed income funds	260,756	-	-	260,756
Mutual funds - equity index funds	1,522,302	-	-	1,522,302
Corporate bonds	<u>892,505</u>	<u>-</u>	<u>-</u>	<u>892,505</u>
	<u>\$ 2,948,385</u>	<u>\$ -</u>	<u>\$ 14,220</u>	<u>\$2,962,605</u>

The changes in Level 3 investments are as follows:

Balance at July 1, 2017	\$ 14,439
Deposit and earnings, net of grants paid out	(167)
Administrative expenses	<u>(52)</u>
Balance at June 30, 2018	<u>\$ 14,220</u>

NOTES TO FINANCIAL STATEMENTS- Continued

Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ 30,000	\$ -	\$ -	\$ 30,000
Ann Arbor Community Foundation				
Agency Investment	-	-	14,439	14,439
Mutual funds - bond index funds	367,152	-	-	367,152
Mutual funds - fixed income funds	386,840	-	-	386,840
Mutual funds - equity index funds	1,354,205	-	-	1,354,205
Corporate bonds	\$ 892,505	\$ -	\$ -	\$ 892,505
	<u>\$ 3,030,702</u>	<u>\$ -</u>	<u>\$ 14,439</u>	<u>\$3,045,141</u>

NOTE L - UNRESTRICTED - BOARD DESIGNATED NET ASSETS

The Board has designated \$922,905 and \$1,218,353 for the Emerald Arc Campaign for capacity building at June 30, 2018 and 2017, respectively.

NOTE M - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consists of the following amounts at June 30:

	2018	2017
Pledges receivable	\$ 238,050	\$ 171,450
Foundation and corporate operating grants	155,757	308,018
Stewardship Funds	111,346	108,291
Land acquisition funds	221,446	97,991
Other temporarily restricted	14,220	14,438
Total temporarily restricted net assets	<u>\$ 740,819</u>	<u>\$ 700,188</u>

NOTE N - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consists of the following amounts at June 30:

	2018	2017
Conservation easements, net of extinguished development rights	\$ 80	\$ 79
Preserved land	1,842,565	1,842,565
Endowment Funds and pledges	1,132,800	1,021,234
Total permanently restricted net assets	<u>\$ 2,975,445</u>	<u>\$ 2,863,878</u>

NOTE O - ENDOWMENT FUNDS

FASB ASC Topic 958-205 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). FASB Topic 958-205 also improves disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Interpretation of Relevant Law

The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets at the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Conservancy; and
- The investment policies of the Conservancy.

Investment Approach

The ultimate responsibility for the management of the funds rests with its Board of Trustees. To assist it in carrying out this responsibility, the Trustees have established an endowment committee. All endowment assets not held in cash shall be invested in funds selected by the endowment committee within the asset classes and in accordance with allocation targets and ranges as follows:

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
Equities	90%	75-95%
Fixed Income	10%	5-15%
Cash	0%	0-5%

NOTES TO FINANCIAL STATEMENTS- Continued

Spending Policy

Endowment Fund: Distributions may be taken annually to fund land and easement stewardship.

Forever Fund: Distributions may be taken annually to fund land and easement stewardship and other expenses related to ensuring the integrity of conservation easements and lands owned by the Conservancy.

Standard Distribution: Standard distributions shall be made annually, and limited to 4% of the rolling average of the value of the funds over the past 20 quarters.

Extraordinary Distributions: Generally, principal will remain in the fund and will not be liquidated, except as described above. However, from time-to-time extraordinary expenses associated with the legal costs of defending or enforcing an easement, or legal costs required to maintain the Conservancy's continued use and operation of its fee preserves, may be incurred. At such times, by a 2/3 vote of the Board of Trustees, the principal of that portion associated with the Forever Fund may be taken as a distribution. Such distributions must be accompanied by a plan to replenish the funds.

Standard distributions shall not be made if the combined value of the Endowment and Forever Funds is less than \$300,000.

Changes in Endowment net assets are as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	<u>Permanently Restricted</u>	<u>Permanently Restricted</u>
Net assets, beginning of year	\$ 1,021,234	\$ 881,916
Investment return:		
Investment income	14,998	27,539
Net appreciation (depreciation)	106,568	126,294
Contributions and other income	24,000	17,000
Distributions/expenses	<u>(34,000)</u>	<u>(31,515)</u>
	<u>\$ 1,132,800</u>	<u>\$ 1,021,234</u>

NOTE P - HURON WATERLOO PATHWAYS INITIATIVE

The Conservancy provided fiduciary assistance to Huron Waterloo Pathways Initiative (HWPI) from April 2015 to June of 2017. The project started as a local pathway project and grew into a multi-million dollar regional pathway initiative. The Conservancy transferred accumulated cash of \$70 and \$246,383, and pledges receivable of \$0 and \$448,415 to the Michigan Fitness Foundation for the years ended June 30, 2018 and 2017, respectively. Net Revenue and Expenses for HWPI activities for the four fiscal years ending 2015, 2016, 2017, and 2018 are listed below. The Conservancy's change in net assets would be \$13,001 for the year ended June 30, 2017 if HWPI revenue and expenses were not included. The Conservancy received and transferred out to Michigan Fitness Foundation \$70 in the year ended June 30, 2018.

NOTES TO FINANCIAL STATEMENTS- Continued

Huron Water Pathways Initiative
Total Activity years ended June 30:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Revenue					
Contributions and pledges	\$ 3,560	\$ 290,365	\$ 833,952	\$ 70	\$ 1,127,947
Merchandise	-	400	710	-	1,110
Interest and Other	-	18	1,581	-	1,599
Total HWPI revenue	<u>3,560</u>	<u>290,783</u>	<u>836,243</u>	<u>70</u>	<u>1,130,656</u>
Expenses					
HWPI Project Expenses	555	73,081	352,143	-	425,779
Fees and Bank charges	25	397	1,787	-	2,209
Charge off and transfer pledges receivable	-	-	448,415	-	448,415
Charge off and transfer cash	-	-	246,383	70	246,453
Total HWPI expenses	<u>580</u>	<u>73,478</u>	<u>1,048,728</u>	<u>70</u>	<u>1,122,856</u>
Net	<u>\$ 2,980</u>	<u>\$ 217,305</u>	<u>\$ (212,485)</u>	<u>\$ -</u>	7,800
*Fees retained for fiduciary management 2015- 2018					<u>(7,800)</u>
					<u>\$ -</u>

NOTE Q - OFFICE LEASE

The Conservancy signed an operating lease for office space for July 18, 2017 through September 30, 2020. The lease requires the Conservancy to pay utilities and janitorial services. The landlord is obligated for insurance covering the building.

Rent was \$42,979 on the office space for the year ended June 30, 2018. Future minimum rentals under the new lease are as follows:

<u>Years Ending June 30,</u>	<u>Annual Minimum Lease Payment</u>
2019	\$ 48,236
2020	49,201
2021	<u>12,341</u>
	<u>\$ 109,778</u>

NOTE R - SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing and Financing Activities

During the year ended June 30, 2018, the Conservancy acquired development rights on one parcel of land below fair market value as determined by a State certified appraiser. The Conservancy recorded the development rights at the fair market value as of the date acquired and recognized \$46,167 in non-cash contribution revenue.

During the year ended June 30, 2017, the Conservancy acquired development rights on three parcels of land below fair market value as determined by a State certified appraiser. The Conservancy recorded the development rights at the fair market value as of the date acquired and recognized \$317,601 in non-cash contribution revenue.

SUPPLEMENTAL INFORMATION

Legacy Land Conservancy

SCHEDULE OF UNRESTRICTED, TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

For the Year Ended June 30, 2018

	Unrestricted Undesignated	Unrestricted Designated	Temporarily Restricted	Permanently Restricted
Unrestricted operating funds	\$ (45,871)	\$ -	\$ -	\$ -
Chelsea Wellness Foundation	-	-	2,479	-
Herrick Foundation Grant - Farm Next	-	-	153,278	-
Ann Arbor Community Foundation	-	-	14,220	-
Stewardship Funds:				
Creekshead Preserve	-	-	4,946	-
Johnson Preserve	-	-	1,343	-
Reichert Preserve	-	-	72,802	-
Sullivan Easement	-	-	10,000	-
Sharon Hills Preserve	-	-	100	-
Beckwith Preserve	-	-	4,673	-
Lackey Stewardship Fund	-	-	17,482	-
Acquisition Funds:				
Emerald Arc Campaign	-	922,905	-	-
Emerald Arc Campaign - Pledges receivable	-	-	238,050	-
Freshwaters Fund	-	-	15,240	-
Farmland Protection Fund	-	-	58,561	-
Camp O'Hills Fund	-	-	37,060	-
Public Rec/Waterloo Fund	-	-	16,995	-
CARLS Match Fund	-	-	80,800	-
Regional Funds:				
Dexter	-	-	2,175	-
Pittsfield	-	-	1,446	-
Northfield	-	-	2,000	-
Webster	-	-	7,169	-
Endowment Funds:				
Forever Fund	-	-	-	971,480
Endowment Fund	-	-	-	74,679
Reichert Preserve Endowment	-	-	-	86,641
Land:				
Land in fee simple	-	-	-	1,842,565
Unencumbered land	2,379,853	-	-	-
Land held for resale	260,000	-	-	-
Conservation Easements	-	-	-	80
Totals	\$ 2,593,982	\$ 922,905	\$ 740,819	\$ 2,975,445