Leelanau Conservancy

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2020 and 2019

Dennis, Gartland & Niergarth

C O N T E N T S

DENNIS, GARTLAND & NIERGARTH
Business Advisors Since 1973

Certified Public Accountants

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Leelanau Conservancy

Report on the Financial Statements

We have audited the accompanying financial statements of ***Leelanau Conservancy*** (the "Conservancy"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leelanau Conservancy as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information on page 27 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Information

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

To the Board of Directors
Leelanau Conservancy

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021, on our consideration of the Conservancy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Conservancy internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leelanau Conservancy's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

April 30, 2021

Leelanau Conservancy

STATEMENTS OF FINANCIAL POSITION

December 31,

	2020	2019
ASSETS		
Operational assets		
Cash and cash equivalents	$ 524,878	$ 1,406,683
Investments (Note C and L)	156,129	153,943
Pledges receivable, net (Note D)	16,901	30,878
Prepaid expenses	17,377	37,191
Property and equipment, net (Note E)	579,648	598,307
Total operational assets	1,294,933	2,227,002
Land and easements acquired for conservation purposes		
Land	16,464,455	13,889,555
Land improvements, net	285,572	284,895
Conservation easements (Note A)	45,846,301	43,106,295
Allowance for development rights extinguished (Note A)	(45,846,119)	(43,106,119)
Total land and easements acquired for conservation purposes	16,750,209	14,174,626
Land and water conservation assets		
Investments (Note C and L)	5,535,589	4,129,281
Accounts receivable	45,421	47,751
Pledges receivable, net (Note D)	1,385,069	2,243,588
Option to purchase land and conservation easements	19,000	79,100
Property acquired for resale	-	222,500
Total land and water conservation assets	6,985,079	6,722,220
Endowment investments (Note C, F and L)	8,756,427	7,574,746
Total assets	$ 33,786,648	$ 30,698,594
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 98,184	$ 84,330
Current portion of long-term debt (Note G)	224,000	486,712
Annuity obligations (Note A)	151,306	154,707
Debt (Note G)	1,070,631	162,845
Total liabilities	1,544,121	888,594
NET ASSETS		
Without Donor Restrictions		
Undesignated	5,665,138	7,117,992
Designated (Note I)	7,780,332	6,804,345
With Donor Restrictions (Note J)	18,797,057	15,887,663
Total net assets	32,242,527	29,810,000
Total liabilities and net assets	$ 33,786,648	$ 30,698,594

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

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2020

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

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

Leelanau Conservancy

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2019

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

Leelanau Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2020

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

Leelanau Conservancy

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

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

Leelanau Conservancy

STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,432,527	$ 4,251,909
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	84,371	78,858
Development rights extinguished	2,739,994	3,202,497
Net realized (gain) loss on investments	(262,132)	(46,516)
Net unrealized (gain) loss on investments	(1,080,392)	(1,522,119)
Endowment contributions	(174,818)	(306,640)
Noncash contributions of land	(390,200)	(422,300)
Noncash contributions of land held for resale	-	(202,500)
Noncash contributions of investments	(144,360)	(127,590)
Noncash contributions - conservation easements	(823,750)	(1,572,000)
Noncash change in timber obligation	11,786	11,845
Changes in operating assets and liabilities		
Account receivables	2,330	2,222
Prepaid expenses	19,814	(23,065)
Pledges receivable	872,496	(1,587,120)
Accounts payable and accrued liabilities	10,453	20,090
Net cash from operating activities	3,298,119	1,757,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(3,349,823)	(249,482)
Proceeds from sale of investments	2,246,532	1,369,657
Purchase of protected land	(2,184,700)	(570,000)
Sale (purchase) of land for resale	222,500	(222,500)
Exercise (acquisitions) of option to purchase land	60,100	(36,600)
Acquisition of conservation easements	(1,916,250)	(1,428,000)
Purchases of property, equipment, and land improvements	(66,389)	(416,387)
Net cash from investing activities	(4,988,030)	(1,553,312)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,120,000	-
Principal payments on long-term debt	(486,712)	(486,712)
Endowment contributions	174,818	306,640
Net cash from financing activities	808,106	(180,072)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(881,805)	24,187
Cash and cash equivalents, beginning of year	1,406,683	1,382,496
Cash and cash equivalents, end of year	$ 524,878	$ 1,406,683

Leelanau Conservancy

NOTES TO FINANCIAL STATEMENTS

NOTE A - MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Leelanau Conservancy (the "Conservancy") is a not-for-profit corporation, incorporated in the State of Michigan on December 1, 1986. The Conservancy's mission is to conserve the land, water and scenic character of Leelanau County. Membership donations and gifts of land development rights made up to 35% of total revenue and support for both 2020 and 2019.

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

Basis of Accounting

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

Financial Statement Presentation

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

> **Net Assets Without Donor Restrictions –** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a timber obligation and board-designated endowment**.**
>
> **Net Assets With Donor Restrictions** – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Land under protection is carried in net assets with donor restrictions.

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

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

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

Investments

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

Property and Equipment

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

Land

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

Land Improvements

Land improvements, such as boardwalks and observation decks at nature preserves, are recorded at cost if purchased, or at fair value on the date received if donated. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over an estimated useful life of 15 years. Land improvements are presented net of accumulated depreciation of $139,623 and $113,472 at December 31, 2020 and 2019, respectively. Depreciation expense on land improvements was $26,151 and $20,395 for the years ended December 31, 2020 and 2019, respectively.

Conservation Easements and Allowance for Development Rights Extinguished

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

Annuity Obligation

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

Membership Donations

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

Revenue Recognition for Program Revenue

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

Grants and Contributions

Grants, contributions and bequests received are recorded as increases in net assets. Grant revenue is recognized in the accounting period when the related expense or asset purchase is incurred, when the condition is met. Amounts received or receivables in excess of expenses or asset purchase are reflected as grant funds received in advance. All donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Pledges

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

Contributed Services

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

Program Service Expenses

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

Income Taxes

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

The Conservancy files information returns in the U.S. Federal jurisdiction and these returns are generally no longer subject to examination by tax authorities for years before 2017. The Conservancy has not had any business income unrelated to its exempt purpose and, therefore, has not filed income tax returns in any jurisdiction.

NOTE B - LIQUIDITY AND AVAILABILITY

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

	2020	2019
Cash and cash equivalents	$ 524,878	$ 1,406,683
Investments	156,129	153,943
Pledges receivable, net	16,901	30,878
Totals	$ 697,908	$ 1,591,504

NOTE C - INVESTMENTS

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

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

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

Financial statement presentation	2020	2019
Investments - operational assets	$ 156,129	$ 153,943
Investments - land and water conservation	5,535,589	4,129,281
Endowment investments	8,756,427	7,574,746
	$ 14,448,145	$ 11,857,970

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

	2020	2019
Interest and dividends	$ 237,819	$ 310,178
Realized gains (losses)	262,132	46,516
Unrealized gains (losses)	1,080,392	1,522,119
Investment fees	(35,174)	(38,227)
Net investment income (loss)	$ 1,545,169	$ 1,840,586

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, 2020 and 2019.

NOTE D - PLEDGES RECEIVABLE

As of December 31, 2020, the Conservancy has received pledges for the various projects totaling approximately $3,021,000, of which approximately $1,492,000 has been collected. New pledges during the year ended December 31, 2020 totaled $488,500.

During 2020, the Conservancy received substantially all scheduled payments on a timely basis.

Pledges receivable at December 31, 2020 are expected to be collected as follows:

Years	Amount
2021	$ 783,217
2022	387,367
2023	297,200
2024	60,600
2025	1,000
Total	1,529,384
Discounts to net present value	(127,414)
Pledges receivable, net	$ 1,401,970

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	2020	2019
Pledges receivable, net - operational assets	$ 16,901	$ 30,878
Pledges receivable, net - land and water conservation assets	1,385,069	2,243,588
	$ 1,401,970	$ 2,274,466

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment comprised the following at December 31:

	2020	2019
Land	$ 22,000	$ 22,000
Buildings and improvements	871,168	842,991
Equipment	113,029	111,048
Furniture and fixtures	72,807	72,807
Vehicles and boat	81,990	72,587
Total property and equipment, at cost	1,160,994	1,121,433
Less accumulated depreciation	(581,346)	(523,126)
Total property and equipment, net of accumulated depreciation	$ 579,648	$ 598,307

Total depreciation expense on property and equipment was $58,220 and $58,463 for the years ended December 31, 2020 and 2019, respectively.

NOTE F - ENDOWMENT INVESTMENTS

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

	2020	2019
Investments		
Cash and cash equivalents	$ 177,056	$ 53,488
Mutual funds - fixed income funds	2,350,563	2,135,816
Mutual funds - growth funds	6,228,808	5,385,442
Total investments	8,756,427	7,574,746
Due from Agency investments	8,056	98,932
Total Endowment investments	$ 8,764,483	$ 7,673,678

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

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

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

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

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

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

	2019		
	Board Designated	Donor Restricted	
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 5,227,894	$ 1,010,693	$ 6,238,587
Investment return			
Investment income	173,097	-	173,097
Net depreciation (realized and unrealized)	1,202,531	-	1,202,531
Total investment return	1,375,628	-	1,375,628
Contributions/designations	218,000	88,640	306,640
Fees and other	(17,177)	-	(17,177)
Appropriation and expenditure of endowment assets	(230,000)	-	(230,000)
	$ 6,574,345	$ 1,099,333	$ 7,673,678

NOTE G - DEBT

During February of 2016, the Conservancy purchased property in Glen Arbor (Palmer Woods) for $3,041,949 on a five year land contract, which has been satisfied on September 1, 2020. The Conservancy has a liability to provide approximately $700,000 to the sellers through 2026 in lieu of future timber sales. This liability will be offset by revenue from timber sales, if any, plus Board designated funds of $230,000 for the future liability. In 2020, the Conservancy also purchased an addition to the Glen Arbor (Palmer Woods) land for $1,200,000 on a five year land contract, due August 2025.

Debt consists of the following obligations at December 31:

	2020	2019
Land contract payable to a corporation in the amount of $3,041,949 with interest imputed at 3.00%; payable in 5 yearly installments of $486,712; matured on September 2020 and secured by real property.	$ -	$ 486,712
Land contract payable to individuals in the amount of $1,120,000 with interest imputed at 3.00%; payable in 5 annual installments of $224,000; maturing in August 2025 and secured by real property.	1,120,000	-
Timber obligation - Payment in lieu of timber sales to a corporation in the original amount of approximately $700,000 less Board designated funds of $230,000, with interest imputed at 3%; due in 2026.	174,631	162,845
Total debt	1,294,631	649,557
Less current portion	(224,000)	(486,712)
Long term portion	$ 1,070,631	$ 162,845

Interest expense related to the above debt obligations amounted to $21,032 and $24,362 at December 31, 2020 and 2019, respectively.

Scheduled principal maturities of debt for the years succeeding December 31, 2020 are summarized as follows:

Years Ending December 31,	Principal
2021	$ 224,000
2022	224,000
2023	224,000
2024	224,000
2025	224,000
Thereafter	174,631
Total	$ 1,294,631

NOTE H - PAYROLL PROTECTION PROGRAM

The Conservancy received a $202,050 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 November 2020. The Organization recognized $202,050 as grant revenue for the year ended December 31, 2020.

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

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

	2020	2019
Board designated for endowment	$ 7,550,332	$ 6,574,345
Board designated for timber obligation	230,000	230,000
Total net assets without donor restrictions - designated net assets	$ 7,780,332	$ 6,804,345

NOTE J - NET ASSETS WITH DONOR RESTRICTIONS

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

	2020	2019
Operating pledges receivable	$ 16,901	$ 30,878
Stewardship	632,791	165,094
Contributions for the preservation of land	1,588,575	1,189,337
Protected land, net of related debt	2,978,200	4,796,658
Conservation easements, net of extinguishes development rights	182	176
Preserved land	12,366,257	8,606,187
Endowment Fund corpus	1,214,151	1,099,333
Total net assets with donor restrictions	$18,797,057	$15,887,663

NOTE K - RETIREMENT PLAN

The Conservancy maintains a 403(b)(7) defined contribution plan (the "Plan") that covers all eligible employees. Under the Plan, participants may make contributions in amounts up to limits established by the Internal Revenue Code. The Plan provides for discretionary employer contributions. Employees with one to three years of service receive a contribution from the Conservancy of 1.67% of compensation and a matching contribution of up to 1.33% of compensation; employees with four or five years of service receive a contribution from the Conservancy of 3.34% of compensation and a matching contribution of up to 2.66% of compensation; employees with six or more years of service receive a contribution from the Conservancy of 4% of compensation and a matching contribution of up to 5% of compensation. Employer contributions to the Plan totaled $65,596 and $56,128 for 2020 and 2019, respectively.

NOTE L - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Accounting Standards Codification 820.10, *Fair Value Measurements*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020.

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.

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

	2020			
	Level 1	Level 2	Level 3	Total
Mutual funds - growth funds	$ 7,858,446	$ -	$ -	$ 7,858,446
Mutual funds - fixed income funds	6,340,138	-	-	6,340,138
	$14,198,584	$ -	$ -	$ 14,198,584

2019				
	Level 1	Level 2	Level 3	Total
Mutual funds - growth funds	$ 6,823,658	$ -	$ -	$ 6,823,658
Mutual funds - fixed income funds	4,320,096	-	-	4,320,096
U.S. Government securities	90,509	-	-	90,509
Corporate bonds	281,959	-	-	281,959
	$ 11,516,222	$ -	$ -	$ 11,516,222

NOTE M - SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing and Financing Activities

During 2020, the Conservancy received donated investments. The Conservancy recorded the donations at the fair market value as of the date of donation and recognized $144,360 in non-cash contributions revenue.

During 2020, 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 $823,750 in non-cash contribution revenues.

During 2020, 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 $390,200 in non-cash contributions revenue.

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

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

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

During 2019, the Conservancy received donated land for a preserve and donated land for resale. The Conservancy recorded the donations at the fair market value at the date of the donations, and recognized $390,200 and $202,300, respectively, in non-cash contributions revenue.

Other Cash Flows Information

Cash paid for interest amounted to $14,641 and $29,203 for the years ended December 31, 2020 and 2019, respectively.

NOTE N - COMMITMENTS AND CONTINGENCIES

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

NOTE O - RISKS AND UNCERTAINTIES

COVID-19

The Conservancy believes it understands the risk associated with COVID-19. The Conservancy has implemented risk mitigation tactics as to the risk of the impact of COVID-19 related to all aspects of the Conservancy's business transactions with customers and vendors and human interaction within and outside of the Conservancy. The effect of potential interruption to business operations is unknown at this time. The Conservancy received PPP loans as detailed in Notes H and Note P as COVID relief.

NOTE P - SUBSEQUENT EVENTS

The Conservancy has evaluated subsequent events and transactions for potential recognition and disclosure through April 30, 2021, the date the financial statements were available to be issued.

Second PPP Loan

On February 4, 2021, the Conservancy received a second loan under the Paycheck Protection Program ("PPP") administered by a Small Business Administration ("SBA") approved partner in the amount of $217,500. All payments are deferred until the deferral end date, which has yet to be determined. Upon the deferral end date, the loan will be forgiven if qualifications have been met, or monthly installments of principal and interest at 1% will be made until the loan maturity date of February 2026.

SUPPLEMENTAL INFORMATION

Leelanau Conservancy

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

	Acres Acquired During the Year Ended December 31, 2020	Cumulative Acres Acquired Through December 31, 2020
Land acquired for conservation purposes	403	3,457
Conservation easements	530	10,454
Transfer and assist projects	-	1,347
Total acres	933	15,258

FEDERAL PROGRAMS

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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*

Board of Directors
Leelanau Conservancy

We have audited, in accordance with the auditing standards generally accepted in the United Sates of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of ***Leelanau Conservancy*** (the "Conservancy"), which comprise the statement of financial position as of December 31, 2020, 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 30, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompany Schedule of Findings and Questioned Costs as Finding 2020-001 that we consider to be a material weakness.

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To the Board of Directors
Leelanau Conservancy

Compliance and Other Matters

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

Conservancy's Response to Findings

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

Purpose of this Report

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

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

April 30, 2021

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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

We have audited ***Leelanau Conservancy*'s** (the "Conservancy") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Conservancy's major Federal program for the year ended December 31, 2020. The Conservancy's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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To the Board of Directors
Leelanau Conservancy

Opinion of Each Major Federal Program

In our opinion, the Conservancy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

Certified Public Accountants
Traverse City, Michigan

April 30, 2021

Leelanau Conservancy

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2020

Federal Grantor / Pass-Through Grantor / Program	Pass Through Number	Federal CFDA Number	Federal Expenditures
United States Department of Agriculture, Natural Resources Conservation Service			
Agricultural Conservation Easement Program	68-5D21-18-015	10.931	$ 1,277,500
Total United States Department of Agriculture			1,277,500
Total Federal financial assistance			$ 1,277,500

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

Leelanau Conservancy

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2020

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 A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with the consolidated financial statements is as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	$ 1,277,500
PPP loan forgiven	202,050
Grants per financial statements	$ 1,479,550

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

Leelanau Conservancy

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2020

PRIOR YEAR

Findings in Accordance with Governmental Auditing Standards

Finding 2019-001 is identical to finding 2020-001 and there is no change in status.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

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

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding 2020-001 Segregation of Duties

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

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

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

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

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

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

No findings or questioned costs.

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AUDIT-RELATED COMMUNICATIONS

To the Board of Directors
Leelanau Conservancy

We have audited the financial statements of Leelanau Conservancy (the "Conservancy") for the year ended December 31, 2020, and have issued our report thereon dated April 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 26, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Conservancy's compliance with the provisions of applicable laws, regulations, contracts, agreements and grants. However, the objective of our audit was not to provide an opinion on overall compliance and we do not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Internal Controls

In planning and performing our audit of the financial statements of the Conservancy as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, 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.

We have issued our 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* thereon dated April 30, 2021.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency in the Conservancy's internal control to be a *material weakness*:

Segregation of Duties

The size of the accounting staff precludes adequate segregation of duties for optimal internal control. Ideally, the internal control system of the Conservancy should segregate the accounting responsibilities from employees who have access to physical assets and from authorization and approval of transactions and account reconciliations. Although there is no indication of any significant errors or misappropriation of assets, we recommend the Board continue its financial oversight involvement due to the inherent lack of segregation of duties.

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by the Conservancy are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the Conservancy during the year for which there is a lack of authoritative guidance or consensus, except for the acquisition and extinguishment of conservation easements. See Note A to the financial statements for the accounting policy followed. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Valuation of donated land and easements
- Valuation of protected land and conservation easements purchased at a discount
- Valuation of pledge receivables and related revenues
- Valuation of annuity obligation

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note A regarding conservation easements and Note J regarding restrictions on net assets.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not note any misstatements during our audit.

No Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Conservancy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Conservancy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

FASB Accounting Standards Update for Leases

The Financial Accounting Standards Board (FASB) issued a new leasing standard in February 2016 which will require all leases be recorded on the Statement of Financial Position as a right-of-use asset and lease liability. This could have an effect on the calculation of any debt covenants required by bank financing. The Conservancy currently has no leases, but should be aware of this standard in the event it becomes a party to a lease agreement. The standard will be effective for the year ended December 31, 2022.

New Auditor Reporting Standards

In May 2019, the AICPA Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 134, *Auditing Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The standard will significantly alter the content and layout of the auditor's report. SAS No. 134 will place the auditor's opinion at the front of the report to highlight the auditor's opinion and the responsibilities of both entity management and auditors. Additionally, the standard addresses the auditor's responsibility to communicate key audit matters (KAMs) in the auditor's report, when the auditor is engaged to do so. However, the communication of KAMs is not mandated. The standard is effective for the year ended December 31, 2021.

Accounting Update for Credit Losses

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses*, was issued in June 2016. The update provides financial statement users with more information in the financial statements about expected credit losses on financial instruments and other commitments to extend credit. The amendments replace current GAAP with requiring credit losses be estimated and recorded based on both past and probable future reasonable and supportable information. The update affects the measurement, recording and disclosure of loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables and other financial instruments that have a contractual right to receive cash. The update is effective for the year ended December 31, 2023, with early adoption permitted.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the land acquired supplemental information which accompany the financial statements. Such information 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.

This information is intended solely for the use of the Board of Directors and management of Leelanau Conservancy, and is not intended to be, and should not be, used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

April 30, 2021

Leelanau Conservancy

Leelanau Conservancy
December 31, 2020
Corrective Action Plan

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding 2020-001 Segregation of Duties

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

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

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

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

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

Personal Responsible: Kathleen Birney, CFO

Date Completed: Ongoing evaluation.