Middle Rock Conservation Partners

Financial Report

Year Ended December 31, 2019

WIPFLI

Middle Rock Conservation Partners

Year Ended December 31, 2019

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WIPFLI

Independent Auditor's Report

Board of Directors
Middle Rock Conservation Partners
Franklin Grove, Illinois

We have audited the accompanying financial statements of Middle Rock Conservation Partners (a nonprofit organization), which comprise the related statement of financial position – modified cash basis as of December 31, 2019, and the related statement of activities – modified cash basis, statement of cash flows – modified cash basis and statement of functional expenses – modified cash basis for the year 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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 entity'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 entity'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 related statement of financial position – modified cash basis of Middle Rock Conservation Partners as of December 31, 2019, and the statement of activities – modified cash basis, statement of cash flows – modified cash basis and the statement of functional expenses – modified cash basis for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinion is not modified in respect to that matter.

Wipfli LLP

Dixon, Illinois
August 21, 2020

Middle Rock Conservation Partners

Statement of Financial Position - Modified Cash Basis

December 31, 2019

Assets		
Assets		
Current assets		
Cash	$	81,399
Cash - board designated		2,025
Total current assets		83,424
Property and equipment, net		865,716
Other assets - beneficial interest in assets held by Community Foundation of Northern Illinois		80,477
Total Assets	$	1,029,617
Liabilities and Net Assets		
Liabilities		
Accrued real estate taxes	$	322
Current portion of long-term debt		17,500
Total current liabilities		17,822
Long-term debt		157,500
Total Liabilities		175,322
Net Assets		
Without donor restrictions:		
Undesignated		775,662
Designated by the board		2,025
Total net assets without donor restrictions		777,687
With donor restrictions		76,608
Total Net Assets		854,295
Total Liabilities and Net Assets	$	1,029,617

See notes to financial statements.

Middle Rock Conservation Partners

Statement of Activities - Modified Cash Basis

Year ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Grant revenues	$ -	$ 563,800	$ 563,800
Contributions	23,848	190,608	214,456
Program income - CRP US Treasury	55,317		55,317
Interest and dividends	4		4
Net unrealized gain (loss) on investments	3,937		3,937
Net assets released from restrictions	677,800	(677,800)	-
Total revenue, gains and other support received	760,906	76,608	837,514
Expenses			
Program services - community services	22,779	-	22,779
Supporting services:			
Management and general	2,804	-	2,804
Total expenses	25,583	-	25,583
Increase (Decrease) in Net Assets	735,323	76,608	811,931
Net Assets, Beginning of Year	42,364	-	42,364
Net Assets, End of Year	$ 777,687	$ 76,608	$ 854,295

Middle Rock Conservation Partners

Statement of Cash Flows - Modified Cash Basis

Year ended December 31, 2019

Cash Flows from Operating Activities		
Change in net assets	$	811,931
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain) loss on investments		(3,937)
Depreciation		13,432
Contribution to beneficial interest in endowment		(76,490)
Increase (decrease) in operating liabilities - real estate taxes		322
Net cash flows from operating activities		745,258
Cash Flows from Investing Activities		
Purchase of property and equipment		(879,148)
Net cash used in investing activities		(879,148)
Cash Flows from Financing Activities		
Proceeds from issuance of debt		175,000
Net cash provided by investing activities		175,000
Increase (decrease) in cash and cash equivalents		41,110
Cash and Cash Equivalents		
Beginning		42,314
Ending	$	83,424

See notes to financial statements.

Middle Rock Conservation Partners

Statement of Functional Expenses - Modified Cash Basis

Year Ended December 31, 2019

	Program Services	Management and General	Total
Information technology	$ -	$ 744	$ 744
Professional fees	1,431	430	1,861
Outside contract services	489	-	489
Equipment rental and maintenance	200	-	200
Depreciation expense	13,432	-	13,432
Membership	-	100	100
Postage, mailing service	124	124	248
Printing and copying	133	133	266
Supplies	3,560	423	3,983
Licenses	20	-	20
Fuel	3,390	-	3,390
Insurance	-	850	850
Total expenses	$ 22,779	$ 2,804	$ 25,583

See notes to financial statements.

Note 1 Summary of Significant Accounting Policies

Middle Rock Conservation Partners is a not-for-profit organization exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. The Organization was formed to protect and steward habitat for endangered species. The Organization receives revenues primarily from grants and contributions. Significant accounting policies followed by the Organization are presented below.

Basis of Accounting

The Organization uses the modified cash basis of accounting for preparation of financial statements, modified for certain items as described below. Under the modified cash basis of accounting, revenues are recognized when they are received rather than when they are earned, and expenses are recognized when paid rather than when obligations are incurred. The Organization modifies this modified cash basis presentation as follows:

- Expenditures for capital items are capitalized and depreciated over estimated useful lives.
- Investments are carried at fair market value rather than cost in these financial statements.
- Liabilities for real estate taxes are recognized as accruals in these financial statements.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements 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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Investments

The Organization carries investments in marketable securities with readily determinable fair values based on quoted prices in active markets in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. As of December 31, 2019, the Organization's investments consist of mutual funds and investments held by a community foundation which are carried at fair value.

The Organization has an investment policy for its Endowment funds. This policy states the types of investments the Organization approves for deposit.

Note 1 Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment consists of land, a forestry mower, trailer and UTV. The cost of these items is depreciated over estimated useful lives ranging from zero to seven years and is computed using the straight-line method.

Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets of the Organization 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.

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 net by the passage of time, long-lived assets placed in service, or other events specified by the donor. Other explicit 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.

Revenue Recognition

The Organization has two main revenue streams: contributions and grants. Contributions are recognized when the donor or grantor makes a promise to give to the Organizations that is, in substance, unconditional. Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and nature of any donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. If a restriction is met in the same period that the contribution is received, the contribution is reported as net assets without donor restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Note 1 Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The second revenue stream is grants, which are recognized when the grant funds are received from the granting organizations. The Organization applies for grants to support the mission of the Organization.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis on the Statement of Activities – Modified Cash Basis. Accordingly, certain costs have been allocated between program services and supporting services based on an analysis of costs for the related activities.

Statement of Cash Flows

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to cash with a maturity of three months or less.

Tax Exempt Status

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and as such is not liable for income taxes.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Note 1 Summary of Significant Accounting Policies (Continued)

Change in Accounting Policies

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for nonpublic entities for annual periods beginning after December 15, 2018. Middle Rock Conservation Partners adopted this guidance as of January 1, 2019 as required by the standard. Middle Rock Conservation Partners applied Topic 606 on a retrospective basis and elected the practical expedient in paragraph FASB ASC 606-10-65-1(f)(1), under which an entity need not restate contracts that begin and are completed within the same annual reporting period. There was no change to reported assets, liabilities, equity, revenues, expenses or net income for the period presented in the accompanying financial statements as a result of adopting this standard.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230). The updates in the ASU are expected to change the classification of certain cash receipts and payments within the statements of cash flows. This ASU is effective for nonpublic entities for annual periods beginning after December 15, 2018. The Organization adopted this guidance as of January 1, 2019, as required by the standard.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a transaction is conditional. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019, for transactions in which the entity serves as the resource recipient. The Organization adopted this guidance as of January 1, 2019, as required by the standard.

Note 1 **Summary of Significant Accounting Policies (Continued)**

Pending Accounting Pronouncements

In 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting on leasing transactions. ASU No. 2016-02 will require lessees to recognize right of use assets and lease obligations for operating and finance leases under terms greater than 12 months. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. ASU No. 2016-02 must be applied modified retrospectively. Management is evaluating what impact this new standard will have on its financial statements.

Note 2 **Liquidity and Availability**

The Organization strives to maintain liquid financial assets sufficient to cover 45 days of general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of December 31, 2019:

Cash and cash equivalents	$ 83,424
Endowment investments	80,477
Subtotals financial resources	163,901
Less – board designated cash and donor restricted endowment	82,502
Total financial resources available for general expenditure within 12 months	$ 81,399

The Organization meets general expenditures over the year by collecting sufficient revenues from grants and donations.

Note 3 **Concentration of Credit Risk**

The Organization maintains depository relationships with area financial institutions that are insured by the FDIC. Depository accounts at these institutions are insured by the FDIC up to $250,000. The Organization did not exceed FDIC-insured limits.

Note 4 **Fair Value of Financial Instruments**

Current accounting standards establish a framework for measuring fair value. That framework 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 fair value hierarchy, as described under current accounting standards, are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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; or 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 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.

Money market, bond and equity mutual funds: Valued at the net asset value (NAV) of shares held by the Plan at year end.

Beneficial Interest in Perpetual Trust: Valued at the beneficial interest in assets held at the Community Foundation of Northern Illinois (Foundation) at the fair value of the Organization's share of the investment pool as of the measurement date. The Foundation's investments are composed approximately of 35% domestic equities, 23% foreign stocks, 17% bonds and 25% alternative investments including real estate, defensive equity and private equity funds.

Note 4 **Fair Value of Financial Instruments**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis (level 2) with the fair value hierarchy at December 31, 2019:

	2019
Beneficial Interest in Perpetual Trust - CFNIL	$80,477

Note 5 **Major Funding Source**

The Organization receives the majority of its revenues from donor contributions and grants. If these funding sources were to be reduced, they would significantly impact the operations of the Organization.

Note 6 **Beneficial Interest in Assets Held**

In October 2018, the Organization transferred $50 from its checking account to the Community Foundation of Northern Illinois (CFNIL) to establish an endowment fund. Donors and the Organization continue to transfer funds into this endowment fund and it is perpetual in nature. Under the terms of the trust agreement, the Organization receives an annual distribution equal to the value of the fund multiplied by the current approved payout rate of the Foundation. The Organization granted variance power to CFNIL, which allows CFNIL to modify any condition or donor restriction on its distributions for an specified charitable purpose or to any specified organization if, in the sole judgement of the CFNIL's Board of Directors, such donor restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The fund is held and invested by the CFNIL for the Organization's benefit and is reported at fair value in the statement of financial position, with distributions and changes in fair value recognized in the statement of activities. At December 31, 2019, the endowment fund has a value of $80,477, which is reported in the statement of financial position as beneficial interest in assets held by others with distributions and changes in fair value recognized in the statement of activities.

Note 7 Property and Equipment

At December 31, 2019, cost and related accumulated depreciation consisted of the following:

	Cost	Accumulated Depreciation	Net
Land	$570,000	$ -	$570,000
Equipment	309,148	13,432	295,716
Totals	$879,148	$ 13,432	$865,716

Note 8 Board Designated Cash

The Organization has a checking account that is board designated. The funds are expected to be used for monitoring the income and expense of the forestry mower. If the board determines other expenses are necessary and beneficial, the funds will be approved for other uses. The expenses are approved at the board meetings. At December 31, 2019, the balance in the board designated account was $2,025.

Note 9 Endowment Funds

The Organization's management has interpreted the Illinois Prudent Management of Institutional Funds Act (IL UPMIFA) as requiring the preservation of the fair value 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, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulations is added to the fund. The remaining portion of the donor-restricted endowment fund is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by IL UPMIFA.

Note 9 Endowment Funds

In accordance with IL UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

- The duration and preservation of the fund
- The purposes of the organization and 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 organization
- The investment policies of the organization

The primary long-term financial objective for the Organization's endowments is to preserve the real purchasing power of endowment assets and income after accounting for endowment spending and costs of portfolio management. Performance of the overall endowment against this objective is measured over rolling periods of one, three, and five years.

The endowment funds are managed to optimize the long run total rate of return on invested assets, assuming a prudent level of risk. The goal for this rate of return is one that provides funding for the Organization's existing spending policy. Over the short term, the return for each element of the endowment portfolio should match or exceed each of the returns for the broader capital markets in which assets are invested.

The endowment assets are governed by a spending policy that seeks to distribute a specific payout rate of the endowment base to support the Organization's programs. Spending in a given year will reduce the unit value of each endowment element by the payout percentage. In the case of short-term declines in the market value of the endowment pool of funds, the overall spending rate may be calculated below the designated payout percentage in order to maintain the original unit value of certain elements of the true endowment. Growth of the unit values over time should allow for spending of principal, without drawing from the original corpus of a particular gift.

Note 9 Endowment Funds

The endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ -	$ 80,477	$80,477

Changes in endowment net assets as of December 31, 2019 is as follows:

	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$ -	$ 47	$ 47
Contributions	-	76,615	76,615
Unrealized gain on investment	-	3,937	3,937
Amount appropriated for expenditure	-	(122)	(122)
	$ -	$ 80,477	$80,477

Note 10 Long-term Debt

During the year, the Organization entered into a loan agreement with A Charles and Lillemor Lawrence Foundation. The mortgage requires annual principal payments totaling $17,500 with final payment due December 31, 2029. The Interest rate for the loan is 0.00%. The loan balance was $175,000 at December 31, 2019.

Annual principal payments under the note payable as of the balance sheet date are as follows:

Year Ending December 31,	Amount
2020	$ 17,500
2021	17,500
2022	17,500
2023	17,500
2024	17,500
2025 and after	87,500
Total	$ 175,000

Note 11 Related Party Transactions

One of the Officers of the Organization also serves as a Director of the A Charles and Lillemor Lawrence Foundation. A Charles and Lillemor Lawrence Foundation provided financing to the Organization. Officers in the Organization do not participate in financial decisions of the Organization. Only Organization Directors approve or disapprove of financial decisions of the Organization and participate in any votes relating to the Organization's relationship with A Charles and Lillemor Lawrence Foundation. The long-term debt balance owed to A Charles and Lillemor Lawrence Foundation at December 31, 2019 was $175,000.

Note 12 Subsequent events

On April 13, 2020, the Organization entered into an agreement of donation and acceptance of 25.58 acres of land located in Whiteside County. The appraised value of the land is $158,600. The Organization closed on the property on May 27, 2020.