HEARTLANDS CONSERVANCY

FINANCIAL STATEMENTS
2016 and 2015

HEARTLANDS CONSERVANCY

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
HeartLands Conservancy
Mascoutah, Illinois

We have audited the accompanying financial statements of HeartLands Conservancy (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 financial position of HeartLands Conservancy as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Scheffel Boyle

SCHEFFEL BOYLE
Belleville, Illinois

March 16, 2017

FINANCIAL STATEMENTS

HEARTLANDS CONSERVANCY

STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS

	2016	2015
Current assets		
Cash and cash equivalents	$ 469,087	$ 423,242
Cash and cash equivalents - restricted	249,683	-
Accounts receivable	102,413	62,563
Prepaid expenses	61	161
Total current assets	821,244	485,966
Noncurrent assets		
Investments - restricted	259,377	221,734
Certificates of deposit - restricted	1,474,242	660,151
Land	2,702,898	2,022,487
Office Furniture & Fixtures, net of depreciation	809	2,209
Total noncurrent assets	4,437,326	2,906,581
Total assets	$ 5,258,570	$ 3,392,547

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities		
Accounts payable and accrued expense	$ 15,916	$ 10,591
Accrued payroll liabilities	134	8,148
Accrued compensated absences	5,599	10,965
Deferred revenue	846,661	736,415
Escrow payments	1,114,000	-
Total current liabilities	1,982,310	766,119
Noncurrent liabilities	-	-
Total liabilities	1,982,310	766,119
Net assets		
Unrestricted		
Invested in land	2,702,898	2,022,487
Unrestricted	(75,144)	(29,844)
Temporarily restricted	648,506	633,785
Permanently restricted	-	-
Total net assets	3,276,260	2,626,428
Total liabilities and net assets	$ 5,258,570	$ 3,392,547

See accompanying notes to financial statements.

HEARTLANDS CONSERVANCY

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support								
Grant revenues	$ 941,872	$ -	$ -	$ 941,872	$ 779,569	$ -	$ -	$ 779,569
Contributions	68,871	106,460	-	175,331	244,463	11,000	-	255,463
In-kind contributions	3,705	-	-	3,705	260,282	-	-	260,282
Dues and registration fees	12,315	-	-	12,315	5,354	-	-	5,354
Interest	2,161	7,353	-	9,514	4,920	1,119	-	6,039
Unrealized gain on investments	-	40,409	-	40,409				
Farm rental income	-	6,750	-	6,750	-	6,750	-	6,750
Administration - grants	34,188	-	-	34,188	66,955	-	-	66,955
Net assets released from restrictions:								
Satisfaction of program restrictions	146,251	(146,251)	-	-	12,846	(12,846)	-	-
Total revenues and other support	1,209,363	14,721	-	1,224,084	1,374,389	6,023	-	1,380,412
Expenses								
Program	292,675	-	-	292,675	1,055,262	-	-	1,055,262
Management and general	204,522	-	-	204,522	192,418	-	-	192,418
Fundraising	77,055	-	-	77,055	101,578	-	-	101,578
Total expenses	574,252	-	-	574,252	1,349,258	-	-	1,349,258
Change in net assets	635,111	14,721	-	649,832	25,131	6,023	-	31,154
Net assets, beginning of year	1,992,643	633,785	-	2,626,428	1,967,512	627,762	-	2,595,274
Net asset, end of year	$ 2,627,754	$ 648,506	$ -	$ 3,276,260	$ 1,992,643	$ 633,785	$ -	$ 2,626,428

See accompanying notes to financial statements.

HEARTLANDS CONSERVANCY

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2016 and 2015

	2016				2015			
		Supporting Services				Supporting Services		
	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising	Total
Salaries	$ 135,179	$ 109,271	$ 66,874	$ 311,324	$ 175,218	$ 102,666	$ 89,373	$ 367,257
Advertising		250	33	283	585	372	-	957
Contractual services	35,221	14,231	-	49,452	20,052	1,184	133	21,369
Depreciation	-	1,400	-	1,400	-	4,757	-	4,757
Donation	-	-	-	-	-	-	-	-
Dues and subscriptions	5	758	-	763	600	4,311	-	4,911
Equipment	189	8,062	-	8,251	-	7,637	-	7,637
Fundraising - cons. of open space	4,151	686	824	5,661	5,162	-	71	5,233
Insurance	1,417	7,130	553	9,100	1,621	6,341	545	8,507
Miscellaneous	-	1,466	-	1,466	-	1,708	-	1,708
Occupancy	-	28,800	-	28,800	-	28,800	-	28,800
Office supplies and expense	499	4,257	759	5,515	387	4,848	294	5,529
Payroll taxes	9,436	10,819	4,696	24,951	12,229	10,535	6,167	28,931
Postage and printing	5,526	3,897	1,084	10,507	4,182	2,275	2,042	8,499
Professional fees	17,614	8,117	-	25,731	7,082	9,122	-	16,204
Project expenses	66,992	-	-	66,992	557,231	-	-	557,231
Repairs and maintenance	1,445	1,159	1,163	3,767	-	1,165	1,163	2,328
Telephone\internet	20	3,767	-	3,787	-	3,498	-	3,498
Training\meetings	7,322	51	716	8,089	5,432	2,374	756	8,562
Travel	3,954	401	353	4,708	5,199	825	1,034	7,058
In-kind goods and services	3,705	-	-	3,705	260,282	-	-	260,282
Total functional expenses	$ 292,675	$ 204,522	$ 77,055	$ 574,252	$ 1,055,262	$ 192,418	$ 101,578	$ 1,349,258

See accompanying notes to financial statements.

HEARTLANDS CONSERVANCY

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ 649,832	$ 31,154
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	1,400	4,757
Donation of land	-	(172,500)
(Increase) decrease in assets:		
Accounts receivable	(39,850)	65,428
Prepaid expenses	100	(24)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,325	(627)
Accrued payroll liabilities	(8,014)	33
Accrued compensated absences	(5,366)	1,475
Deferred revenue	110,246	(165,655)
Escrow payments	1,114,000	-
Net change in cash and operating activities	1,827,673	(235,959)
Cash flows from investing activities:		
Certificate of deposit redeemed	-	94,879
Purchase of certificates of deposits	(814,091)	-
Purchase of land	(680,411)	-
Net change in cash from investing activities	(1,494,502)	94,879
Cash flows from financing activities	-	-
Change in cash and cash equivalents	333,171	(141,080)
Cash and cash equivalents, beginning of year	644,976	786,056
Cash and cash equivalents, end of year	$ 978,147	$ 644,976

See accompanying notes to financial statements.

1. Summary of significant accounting policies

Organization

HeartLands Conservancy (the Organization) is a nonprofit nonpartisan organization whose primary purpose is to work regionally to protect open space and to plan and implement sustainable practices that foster healthy natural systems. Efforts undertaken by the Organization are accomplished through the implementation of projects associated with the following two program areas: "land conservation" and "building greener communities".

The Organization provides local leadership and the framework required to develop and carry out a plan of action for the conservation, development and wise use of the resources of the area. The goals of the Organization are accomplished through implementing projects under the two program areas.

Classification of net assets

In order to ensure observation of limitations and restrictions on the use of resources available to the Organization, its net assets are reported in one of three classes: unrestricted, temporarily restricted, or permanently restricted and are maintained in accordance with the principles of fund accounting.

- Unrestricted net assets include those resources which may be used for any purpose. Donor-restricted contribution revenues whose restrictions are met in the same period are reported as unrestricted.

- Temporarily restricted net assets may be used only after the passage of a donor or grantor-stipulated period of time or for a donor or grantor-specified purpose.

- Permanently restricted net assets must be maintained intact as stipulated by the donor; however, most of the income derived from these net assets generally may be expended according to donor-specified terms.

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

1. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents include checking and money market accounts.

For purposes of the statement of cash flows, all highly liquid debt instruments purchased with a maturity of less than three months are considered to be cash equivalents.

Concentration of credit risk

The Organization places its cash and cash equivalents with high credit quality institutions and requires collateralization of all amounts which exceed the FDIC insurance limitation of $250,000 per financial institution. There may be certain times of the year which dictate the need to exceed the FDIC insurance coverage on a short-term basis. As of December 31, 2016 and 2015, $0 of the Organization's bank balance was exposed to custodial credit risk as uninsured and uncollateralized. Concentrations of credit risk with respect to accounts receivable are limited due to the nature of the Organization's services.

Financial instruments

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of temporary cash investments. The Organization places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. As of December 31, 2016 and 2015, the Organization had no significant concentrations of credit risk.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Property and equipment

Property and equipment are stated at cost. The Organization capitalizes assets with an initial cost of at least $1,000. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred and major renewals and upgrades are capitalized.

Accounts Receivable

Accounts receivable at year-end consist of uncollected grant revenues. The Organization follows the practice of writing off uncollectible accounts as they are incurred. There is no allowance for uncollectible accounts reflected in the balance sheet. Management is of the opinion that no allowance is necessary.

1. Summary of significant accounting policies (continued)

Deferred revenues

Income from grants and program service fees is deferred and recognized over the periods to which the grants and fees relate. As of December 31, 2016 and 2015, deferred revenue is $846,661 and $736,415, respectively.

Revenue recognition

Amounts received under government grants, contracts and project specific donations are recorded as revenue in the financial statements as services are provided. Amounts are recorded as revenue in unrestricted net assets as costs are incurred and the Organization provides a service for these funds.

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the nature of the existence and/or nature of any donor restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As permitted by generally accepted accounting principles, contributions that are restricted by the donor are generally reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Compensated Absences

Employees earn vacation time throughout the year. They have the ability to roll over up to 240 hours of accrued vacation time from one year to the next. The accrual for compensated absences is reported on the Statements of Financial Position.

Income taxes

No provision has been made for income taxes in the financial statements. The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). This code section enables the Organization to accept donations, which qualify as charitable contributions to the donor.

Conservation Easements

The Organization is considered a "qualified organization" under section 170(h)(3) of the Internal Revenue Code and may therefore accept donated conservation easements. Conservation easements, which represent a perpetual restriction on the use of land without transfer of ownership of the underlying property, are not reflected as assets of the Organization.

2. Cash, cash equivalents, and certificates of deposits

Cash and cash equivalents at December 31 consists of:

	2016	2015
Unrestricted:		
Regions Bank - checking	$ 150,483	$ 21,277
Regions Bank - money market	164,320	85,647
Regions Bank - money market	154,084	-
Citizen's Community Bank - money market	-	150,231
First Federal Saving Bank - money market	-	165,887
Petty cash	200	200
Total unrestricted cash and cash equivalents	$ 469,087	$ 423,242
Restricted Investments:		
Charles Schwab, stewardship fund for owned property	$ 111,532	$ 96,078
Charles Schwab, stewardship fund for easements	147,845	125,656
	$ 259,377	$ 221,734
Restricted cash		
Regions Bank - money market	$ 240,000	$ -
Charles Schwab - cash	9,683	-
	$ 249,683	$ -
Restricted certificates of deposit		
Regions - Flat Creek Conservation Stewardship	$ 20,242	$ 20,151
Regions - Flat Creek Mitigation Area Escrow	460,000	510,000
Regions - Sangamon Mitigation Area Escrow	115,000	130,000
Citizen's Community Bank - Dakota Access Escrow	879,000	-
	$ 1,474,242	$ 660,151

In 2014, the Organization received $1,345,000 from Enbridge Pipelines to act as an agent for Enbridge and disburse funds as needed for creating and preserving property. $600,242 of the restricted cash and certificates of deposit represents the remaining balance of these funds to be used in future years and are included as deferred revenue until these funds are used for their intended purpose.

In 2016, the Organization received $1,039,000 from Dakota Access, LLC and $602,000 from Energy Transfer Crude Oil Company, LLC to act as agent for the two companies and disburse funds as needed for preserving conservation property. $1,114,000 of the restricted cash and certificates of deposit represent the funds to be used in the future years and are included as escrow payments until these funds are used for their intended purpose.

3 Fair value measurements

Determination of fair value - HeartLand Conservancy uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

3 Fair value measurements (continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair value hierarchy - In accordance with this guidance, HeartLands Conservancy groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury Securities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. The category generally includes certain U.S. Government and agency mortgage-backed debt securities and corporate debt securities that are not activelv traded.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity investments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. All assets have been valued using a market approach.

	As of December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Inputs (Level	Significant Unobservabl Inputs (Level	Total Fair Value
Corporate	$ 74,865	$ -	$ -	$ 74,865
Municipal	-	-	-	-
Mutual Funds	184,512	-	-	184,512
	$ 259,377	$ -	$ -	$ 259,377

4. Capital assets

Capital assets consist of the following at December 31:

	2016	2015
Land	$ 2,702,898	$ 2,022,487
Computer equipment	72,521	72,521
Furniture and fixtures	9,517	9,517
	2,784,936	2,104,525
Less: accumulated depreciation	(81,229)	(79,829)
	$ 2,703,707	$ 2,024,696

Total depreciation expense charged to operations for the years ended December 31, 2016 and 2015 was $1,400 and $4,757, respectively. See note 9 for a description of land acquisitions.

5. Contingencies

The Organization has various time restrictions to implement and complete certain grants and utilize certain contributions. No adjustments have been made to the accompanying financial statements for any possible refunds or overpayments.

6. Lease commitments

On January 2, 2013 the Organization entered into a lease agreement for rental of office space for the period beginning July 31, 2014 and ending July 31, 2017. The lease is payable in monthly installments of $2,400. Rent paid for the years ended December 31, 2016 and 2015 was $28,800. This lease may be terminated by the Organization at any time giving at least sixty days notice in writing. Future minimum lease payments are due as follows:

2017	$ 16,800

The Organization entered into a lease agreement for a printer/copier on July 8, 2015 and is for a 39 month term. Monthly payments for this lease are $657 per month. Rental expenses for this lease for the year ended December 31, 2016 and 2015 was $7,884 and $5,926, respectively. Future minimum lease payments under this lease at December 31, 2016 are as follows:

2017	7,884
2018	3,942

7. Retirement plan

The Organization has established a Simple IRA retirement plan for employees. The Organization contributes 3 percent of eligible participants' total compensation. Contributions charged to expenses for the years ended December 31, 2016 and 2015 were $1,972 and $5,760, respectively.

8. Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes:

	December 31,	
	2016	2015
Stewardship - Fee Simple Properties:		
Strackeljahn Property	$ 109,433	$ 90,193
Mill Creek Property	31,488	25,950

8. Temporarily restricted net assets (continued)

	December 31, 2016	December 31, 2015
Stewardship - Conservation/Agricultural Easements:		
Farmland Protection Program	57,230	57,230
Conservation Easements	251,228	125,656
Stewardship - Long-term Management:		
Flat Creek Mitigation Area	20,242	20,151
Land Acquisition/ Conservation:		
ConocoPhillips Settlement Fund	178,885	314,605
	$ 650,522	$ 635,800

Temporarily restricted net assets are amounts restricted by contract to be spent on the conservation of land in the Southern Illinois region.

9. Land Purchases and Donations

On July 27, 2016, HeartLands Conservancy purchased the Webb property, 149 acres, located in Alexander County for $618,838. This purchase was funded by the Illinois Clean Energy grant and a donation from the Grand Victoria Foundation. This property is located in the Shawnee National Forest and the Organization intends to sell this property to the federal government in the future.

On December 8, 2016, Heartlands Conservancy purchased Egret Lake Trust, 20 acres, located in Jackson County for $52,733. The Organization also plans to sell this property to the federal government as it is also located in the Shawnee National Forest.

HeartLands Conservancy has paid $8,800 towards the purchase of 56.2 acres known as the Eric G. Brooks property and this purchase will be completed in 2017 for an anticipated total cost of $116,260.

10. Easements Held

The Organization holds the following 27 conservation easements as of December 31, 2016:

Easement	Acreage
Sally Brown property	79.00
Zeke Brown property	99.00
Willoughby Farm	30.00
Willaredt, Phase I	40.00
Carl & Penelope DauBach property	15.00
William & Christine Boardman property	50.00
William & LaVonne Mohr property	42.00
Warner Partnership	66.50
Willaredt, Phase II	14.00
Miriam Huelsmann property	10.00
Ray and Mitze Nitzsche property	123.00
Arlington Wetland-CARD	7.50
Arlington Wetland-Madison County	76.00

10. Easements Held (continued)

High Valley	13.30
Carol LeFevre	159.00
Boardmann II	50.00
Nitzsche B	37.00
Flat Creek	30.00
Rockhouse LLC	718.00
Weilbacher - South	211.58
Weilbacher - North	104.40
Berger property	36.00
Mid Kasky I	12.83
Mid Kasky II	11.97
Mid Kasky III	4.20
Elm River - Wayne Co	37.00
Gateway Commerce Center East	14.22
	2,091.50

11. Subsequent Events

Management has evaluated subsequent events through March 16, 2017, the date which the financial statements were made available for issue. No subsequent events have been identified.