

**THE CONSERVATION FUND,
A NONPROFIT CORPORATION**

COMBINED FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

THE CONSERVATION FUND, A NONPROFIT CORPORATION

We have audited the accompanying combined statements of financial position of The Conservation Fund, A Nonprofit Corporation as of December 31, 2008 and 2007, and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Conservation Fund, A Nonprofit Corporation as of December 31, 2008 and 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2009, on our consideration of The Conservation Fund, A Nonprofit Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Bethesda, Maryland
April 15, 2009

THE CONSERVATION FUND, A NONPROFIT CORPORATION

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 82,976,369	\$ 88,606,130
Short-term investments	6,695,168	7,393,382
Grants and accounts receivable	1,416,483	3,091,995
Promises to give	2,532,762	1,819,100
Notes receivable	4,801,998	3,087,098
Other	196,281	332,736
TOTAL CURRENT ASSETS	<u>98,619,061</u>	<u>104,330,441</u>
PROPERTY AND EQUIPMENT		
Buildings, furniture and equipment	2,340,665	2,318,296
Accumulated depreciation	959,436	810,180
NET PROPERTY AND EQUIPMENT	<u>1,381,229</u>	<u>1,508,116</u>
OTHER ASSETS		
Notes receivable	10,723,499	6,779,712
Promises to give	1,025,567	1,319,270
Grants receivable	2,650,315	3,011,815
Demonstration projects:		
Land and easements held for general purposes	345,445,155	314,234,068
Long-term investments - restricted	37,850,000	37,850,000
Investment in partnerships and other ventures	6,450,000	9,506,860
TOTAL OTHER ASSETS	<u>404,144,536</u>	<u>372,701,725</u>
TOTAL ASSETS	<u>\$ 504,144,826</u>	<u>\$ 478,540,282</u>

See Notes to Financial Statements

THE CONSERVATION FUND, A NONPROFIT CORPORATION

COMBINED STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Line of credit	\$ 15,000,000	\$ -
Accounts payable	693,992	1,171,127
Accrued expenses	3,068,374	3,045,241
Notes payable	11,100,885	34,453,033
TOTAL CURRENT LIABILITIES	<u>29,863,251</u>	<u>38,669,401</u>
OTHER LIABILITIES		
Amounts due other nonprofit organizations and government agencies	18,162,186	18,062,186
Amounts held for others	855,602	5,359,753
Notes payable:		
GPW Timberlands, LLC	37,850,000	37,850,000
Other demonstration projects	33,207,910	38,688,063
TOTAL OTHER LIABILITIES	<u>90,075,698</u>	<u>99,960,002</u>
TOTAL LIABILITIES	<u>119,938,949</u>	<u>138,629,403</u>
NET ASSETS		
Unrestricted	229,460,567	217,025,260
Temporarily restricted	90,003,292	60,840,501
Permanently restricted	64,742,018	62,045,118
TOTAL NET ASSETS	<u>384,205,877</u>	<u>339,910,879</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 504,144,826</u>	<u>\$ 478,540,282</u>

See Notes to Financial Statements

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2008

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS				
Contributions and grants	\$ 36,414,387	\$ 64,681,179	\$ 2,696,900	\$ 103,792,466
Contract income	9,249,621	-	-	9,249,621
Investment and other program income	4,603,457	-	-	4,603,457
Net assets released from restrictions	35,518,388	(35,518,388)	-	-
TOTAL SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS	85,785,853	29,162,791	2,696,900	117,645,544
SALES OF DEMONSTRATION PROJECTS TO OTHERS	84,150,532	-	-	84,150,532
TOTAL SUPPORT AND REVENUE	169,936,385	29,162,791	2,696,900	201,796,076
EXPENSES				
Program:				
Book value of demonstration projects sold to others	109,025,065	-	-	109,025,065
Other program expenses	44,006,140	-	-	44,006,140
Total program	153,031,205	-	-	153,031,205
Management and general	2,866,771	-	-	2,866,771
Fundraising	1,603,102	-	-	1,603,102
TOTAL EXPENSES	157,501,078	-	-	157,501,078
CHANGE IN NET ASSETS	12,435,307	29,162,791	2,696,900	44,294,998
NET ASSETS, BEGINNING OF YEAR	217,025,260	60,840,501	62,045,118	339,910,879
NET ASSETS, END OF YEAR	\$ 229,460,567	\$ 90,003,292	\$ 64,742,018	\$ 384,205,877

See Notes to Financial Statements

THE CONSERVATION FUND, A NONPROFIT CORPORATION
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2007

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS				
Contributions and grants	\$ 42,155,593	\$ 39,098,721	\$ 3,431,160	\$ 84,685,474
Contract income	9,158,459	-	-	9,158,459
Investment and other program income	5,816,662	-	-	5,816,662
Net assets released from restrictions	41,107,530	(41,107,530)	-	-
TOTAL SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS	98,238,244	(2,008,809)	3,431,160	99,660,595
SALES OF DEMONSTRATION PROJECTS TO OTHERS	96,042,785	-	-	96,042,785
TOTAL SUPPORT AND REVENUE	194,281,029	(2,008,809)	3,431,160	195,703,380
EXPENSES				
Program:				
Book value of demonstration projects sold to others	143,294,356	-	-	143,294,356
Other program expenses	41,038,805	-	-	41,038,805
Total program	184,333,161	-	-	184,333,161
Management and general	2,847,934	-	-	2,847,934
Fundraising	1,456,741	-	-	1,456,741
TOTAL EXPENSES	188,637,836	-	-	188,637,836
CHANGE IN NET ASSETS	5,643,193	(2,008,809)	3,431,160	7,065,544
NET ASSETS, BEGINNING OF YEAR	211,382,067	62,849,310	58,613,958	332,845,335
NET ASSETS, END OF YEAR	\$ 217,025,260	\$ 60,840,501	\$ 62,045,118	\$ 339,910,879

See Notes to Financial Statements

THE CONSERVATION FUND, A NONPROFIT CORPORATION

COMBINED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 44,294,998	\$ 7,065,544
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	149,256	150,549
Allowance for losses on notes receivable	1,907,785	19,000
Disposition of demonstration projects, net of proceeds received	24,874,533	47,251,571
Contributions of demonstration projects held for conservation	(8,843,699)	(11,486,775)
Loss (gain) from investment in partnerships	3,041,860	(367,500)
Decrease (increase) in operating assets		
Promises to give and grants and accounts receivable	1,617,053	(2,621,163)
Other assets	136,455	139,525
Increase (decrease) in operating liabilities		
Accounts payable, accrued expenses and other current liabilities	(454,002)	710,497
Additional cash provided by (used in) demonstration projects:		
Proceeds from disposition of demonstration projects held for conservation	84,150,532	96,042,785
Acquisition of demonstration projects held for conservation	<u>(131,392,453)</u>	<u>(147,506,863)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>19,482,318</u>	<u>(10,602,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposition of short-term investments	698,214	7,121,211
Net change in notes receivable	(7,551,472)	(1,258,540)
Investment in furniture and equipment	(22,369)	(151,211)
Distributions from partnership investments	-	367,500
Net (decrease) increase in amounts due other nonprofit organizations and government agencies and amounts held for others	<u>(4,404,151)</u>	<u>951,470</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(11,279,778)</u>	<u>7,030,430</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit	15,000,000	-
Proceeds from long-term debt	5,600,000	33,235,805
Repayment of long-term debt	<u>(34,432,301)</u>	<u>(2,306,578)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>(13,832,301)</u>	<u>30,929,227</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (5,629,761)	 27,356,827
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>88,606,130</u>	 <u>61,249,303</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 82,976,369</u>	 <u>\$ 88,606,130</u>

See Notes to Financial Statements

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization and combined financial statements – These combined financial statements present the combined assets, liabilities, net assets and activities of The Conservation Fund, Sustainable Conservation, Inc. and Natural Capital Investment Fund, Inc. (hereafter collectively referred to as the “Fund”). The Conservation Fund (TCF) is a nonprofit corporation exempt from income taxes under Section 501(c)(3) and is a publicly-supported organization under Section 509(a)(1) of the Internal Revenue Code. TCF’s mission is to create partnerships with the private sector, other nonprofit organizations, and public agencies to protect America’s outdoor heritage. Sustainable Conservation, Inc. (SCI) and Natural Capital Investment Fund, Inc. (NCIF) are nonprofit corporations exempt from income taxes under Section 501(c)(3) and are supporting organizations to The Conservation Fund under Section 509(a)(3) of the Internal Revenue Code. NCIF is a certified community development financial institution that provides financing for natural resource-based businesses. All material intercompany transactions have been eliminated in combination.

Basis of presentation – These combined financial statements have been prepared on the accrual basis of accounting.

Statements of Financial Accounting Standards Nos. 116 and 117 – The Fund is following the accounting and presentation requirements of Statements of Financial Accounting Standards (SFAS) Nos. 116 and 117 issued by the Financial Accounting Standards Board (FASB). These statements require that the Fund report contributions as support in the period received or when an unconditional promise to give has been made. Contributed services using specialized skills that would have been required to be purchased if not provided by donation are also recognized in the period the services are rendered. Fund balances are reported as net assets in the statements of financial position and classified as permanently restricted, temporarily restricted or unrestricted.

Net assets – The Fund records amounts in accordance with their nature and purpose. The assets, liabilities and net assets of the Fund are classified as follows:

Unrestricted net assets represent the portion of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets represent operating resources limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Fund pursuant to the stipulations. Temporarily restricted net assets as of December 31, 2008 were \$90,003,292 (\$60,840,501 as of December 31, 2007).

Permanently restricted net assets represent resources limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund. The Fund records contributions to its revolving funds with permanent donor-imposed stipulations as permanently restricted net assets. These net assets are used to finance demonstration projects or provide financing for natural resource-based businesses. Permanently restricted net assets as of December 31, 2008 were \$64,742,018 (\$62,045,118 as of December 31, 2007).

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Fair value of financial instruments – Statement of Financial Accounting Standards No. 107, “Disclosure about Fair Value of Financial Instruments,” requires disclosure of an estimate of fair value of certain financial instruments. The Fund’s significant financial instruments are cash, short-term investments, promises to give, grants and accounts receivable, and notes payable. For these financial instruments, carrying values approximate fair value.

Cash and cash equivalents – For the purpose of the statements of cash flows, the Fund considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments – The Fund has short-term investments in debt instruments (see Note 2). Under the guidelines of SFAS No. 124, “Accounting for Certain Investments Held by Not-for-Profit Organizations,” these investments are reported at their fair values. In accordance with SFAS No. 157, “Fair Value Measurements,” fair value is based on quoted prices in active markets (Level 1 measurements, in the terminology of the pronouncement) in the statements of financial position. Unrealized gains and losses are included in the change in net assets. The Fund also has investments in partnerships accounted for under the equity method (see Note 4). If circumstances occur which management believes impairs the carrying value of the investments, then the investments are reduced to their net realizable value.

Grants receivable, promises to give and notes receivable – Grants receivable, promises to give due in less than one year, and notes receivable are reported at their outstanding balance, less an allowance for losses. Promises to give and grants receivable due beyond one year are discounted to their net present value of future cash flows. An allowance of \$282,878 (\$176,965 in 2007) has been recorded for certain loans made by NCIF. All other promises to give, grants receivable and notes receivable are considered by management to be fully collectible.

Building and equipment – Building and equipment are recorded at cost. The Fund capitalizes all major acquisitions and expenses all other purchases. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Building and equipment consist primarily of a research laboratory facility placed in service in 1999 which is being depreciated over thirty years.

Depreciation expense for the year ended December 31, 2008 was \$149,256 (\$150,549 in 2007).

Demonstration projects – Demonstration projects consist principally of real estate and investments in partnerships and other ventures. Demonstration projects are real estate projects that have economic and/or ecological value. The Fund assists in the development and revitalization of these properties consistent with ecological principles. Costs incurred in carrying parcels of real estate such as taxes, travel and acquisition costs are recorded as demonstration project expenses. Real estate is acquired by gift or purchase and is recorded at its appraised value when acquired. Parcels determined to have no ecological value may be sold to support land conservation efforts. To ensure the Fund’s commitment to conservation, real estate with ecological value is held or transferred, including by sale, to appropriate management entities. When land is transferred, the proceeds are included as part of total support and revenue and are shown as “Proceeds from Sale of Demonstration Projects;” the book value of the land and transaction costs incurred with the transfer are shown as program service expenses.

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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 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 results could differ from those estimates.

Revenue recognition for earned income – Revenue from federal awards is recognized at the time expenses allowable under the award are incurred. Revenue from contracts is recognized when the service is completed. Amounts received but not yet earned are reported as deferred revenue.

(2) Short-term and long-term investments

Short-term investments consist of U.S. Treasury notes, government agency debt instruments, and corporate bonds totaling \$6,695,168 (\$7,393,382 at December 31, 2007). Long-term investments consist of a time deposit securing a note payable (see Note 5). Total investment income in 2008 from cash, cash equivalents, short-term investments and notes receivable totaled \$3,578,859 (\$4,829,493 in 2007).

(3) Notes receivable

The Fund has advanced funds in the form of notes receivable to various organizations in carrying out project or land transactions. At December 31, 2008, the Fund had 58 notes receivable outstanding, in the amount of \$15,525,497 (44 notes in the amount of \$9,866,810 at December 31, 2007). The notes have various interest rates and maturity dates, with the latest note maturing in 2022.

(4) Investment in partnerships

The Fund has investments in two real estate partnerships accounted for under the equity method. The Fund records its share of partnership income, which is generated either through land, timber sales or mitigation credits. All distributions from the partnerships reduce the balance in the investment account and are used to support land conservation efforts. During the year ended December 31, 2008, the Fund recognized a loss of \$2,500,000 in order to reduce the amount of one of its partnership investments to its net realizable value.

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(5) Demonstration projects, notes payable and lines of credit

	<u>Current Portion</u>	<u>Long-Term Debt</u>	<u>Total 2008</u>	<u>Total 2007</u>
(A) Operating Capital Loans	\$ 7,000,000	\$ 500,000	\$ 7,500,000	\$ 7,425,000
(B) GPW Timberlands, LLC	-	37,850,000	37,850,000	37,850,000
(C) Loans, Demonstration Projects	4,068,323	31,934,959	36,003,282	65,426,593
(D) Intermediary Re-Lending Program	<u>32,562</u>	<u>772,951</u>	<u>805,513</u>	<u>289,503</u>
Total	<u>\$ 11,100,885</u>	<u>\$ 71,057,910</u>	<u>\$ 82,158,795</u>	<u>\$ 110,991,096</u>

- (A) The Fund has four notes payable to foundations totaling \$7,500,000. The notes are unsecured and maturity dates range from 2009 to 2022 with interest rates ranging from 2.0% to 4.5%.
- (B) The note payable to GPW Timberlands, LLC totals \$37,850,000. The note is secured by a time deposit of \$37,850,000 held at SunTrust Bank and by a standby letter of credit issued by SunTrust Bank. Interest due on the note is equal to the interest earned on the time deposit, which is currently 2.7% per annum. Current payments on the note are for interest-only, with the principal due in full on March 21, 2013. The standby letter of credit was renewed in 2009.
- (C) The Fund has five other notes payable associated with demonstration projects. The principal due on these notes totals \$36,003,282 and the notes are secured by a deed of trust or land and easements held by the Fund. Interest is charged at 1.00% to 7.25% per annum. Maturity dates range from 2009 to 2026.
- (D) NCIF has three loans under an Intermediary Re-Lending Program totaling \$805,513 whereby the funds are used to make loans to qualified businesses. The loans bear interest at 1% to 2% per annum and are repayable over a ten to thirty year period.

Future maturities are as follows:

Years Ending December 31,

2009	\$ 11,100,885
2010	1,200,276
2011	11,125,097
2012	1,150,567
2013	39,026,617
Later years	<u>18,555,353</u>
	<u>\$ 82,158,795</u>

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(5) Demonstration projects, notes payable and lines of credit (continued)

The Fund has lines of credit with SunTrust Bank and Chevy Chase Bank allowing it to borrow a total of up to \$30,000,000. The Fund had outstanding borrowings of \$15,000,000 from SunTrust at December 31, 2008 (none at December 31, 2007). The SunTrust line of credit is unsecured, accrues interest at 2.75%, and is due in May 2009.

The fair value of notes payable approximates the carrying value based upon terms and rates the Fund could obtain for obligations of a similar nature.

(6) Amounts due other nonprofit organizations and government agencies

Amounts due other nonprofit organizations and government agencies are a result of agreements or commitments the Fund has with various organizations with respect to certain real estate parcels it holds. The Fund has entered into cooperative agreements to carry out demonstration projects with other organizations. Once the projects are completed, the Fund will transfer the land parcels. In other cases, the Fund has a commitment to transfer a portion of net sales proceeds from land it owns to other organizations. These arrangements and commitments affect four parcels held by the Fund, and at December 31, 2008, the fair value of the Fund's obligation totaled \$18,162,186 (\$18,062,186 at December 31, 2007).

(7) Commitments

The Fund leases offices under various operating leases. The combined base monthly rent is approximately \$60,000 with provisions for annual additional rent due to increases in operating expenses and lease terms.

The following schedule summarizes the future minimum lease commitment:

<u>Years Ending December 31,</u>	
2009	\$ 860,985
2010	812,612
2011	728,307
2012	706,570
2013	617,485
Later years	<u>2,131,874</u>
	<u>\$ 5,857,833</u>

Total rent expense for 2008 was \$927,163 (\$927,684 in 2007).

(8) Retirement plan

The Fund has a tax deferred 403(b) annuity pension plan covering substantially all of its employees. Employer contributions are discretionary and based upon the eligible employee's annual compensation. The contributions to the Fund's pension plan for the year ended December 31, 2008 totaled \$777,832 (\$705,908 for the year ended December 31, 2007).

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(9) Financial instruments

Financial instruments which potentially subject the Fund to concentrations of credit risk consist of cash, cash equivalents, short-term investments and time deposits. Cash equivalents consist of amounts in institutional money market funds and total approximately \$76,000,000 at December 31, 2008 (approximately \$83,000,000 at December 31, 2007). The Fund maintains its cash in various operating bank accounts. The interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The non-interest-bearing accounts are fully insured by the FDIC for the entire account balance through December 31, 2009. Cash at December 31, 2008 and 2007 exceeded federally insured limits by \$1,866,639 and \$2,452,249, respectively. All cash, cash equivalents and time deposits are held with high credit quality financial institutions. Management believes there is no significant concentration of credit risk.

(10) Fundraising and management and general summary

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Fundraising expense as a percentage of total support (3 year average)	<u>1.4%</u>	<u>1.3%</u>
Management and general expense as a percentage of total support (3 year average)	<u>2.6%</u>	<u>2.8%</u>

The ratio of expenses to amounts raised is computed using actual expenses and support and revenue exclusive of sales of demonstration projects to others.

(11) Promises to give

Unconditional promises to give are as follows:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 2,532,762	\$ 1,819,100
Receivable in one to five years	1,078,725	1,405,881
Less 3% discount	<u>(53,158)</u>	<u>(86,611)</u>
	<u>\$ 3,558,329</u>	<u>\$ 3,138,370</u>

In addition to the unconditional promises, the Fund also has conditional promises to give totaling \$9,869,200 (\$14,627,396 in 2007), which are conditioned on the Fund raising matching funds for projects and for its revolving funds.

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(12) Temporarily and permanently restricted net assets

	December 31,	
	2008	2007
Temporarily restricted net assets are available for the following purposes and periods:		
Amounts restricted to various operating programs	\$ 20,630,941	\$ 20,882,544
Amounts restricted for various real estate acquisitions or projects	69,372,351	39,957,957
Total temporarily restricted net assets	\$ 90,003,292	\$ 60,840,501
Permanently restricted net assets consist of the following:		
Loan capital net assets dedicated to providing temporary financing of qualifying businesses with any loans required to be repaid	\$ 3,235,071	\$ 2,210,071
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any loans required to be repaid	61,506,947	59,835,047
Total permanently restricted net assets	\$ 64,742,018	\$ 62,045,118

(13) Functional allocation of expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The following program services, exclusive of the book value of the demonstration projects sold to others, are included in the accompanying combined financial statements:

	December 31,	
	2008	2007
Other program services:		
Core operations	\$ 3,675,190	\$ 3,544,985
Operating programs	24,758,634	18,674,539
Demonstration projects	15,572,316	18,819,281
Total other program services	\$ 44,006,140	\$ 41,038,805

THE CONSERVATION FUND, A NONPROFIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

(14) Cash flow disclosures

The following is a summary of supplemental cash flow information:

	<u>Years Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Cash paid:		
Interest	<u>\$ 1,441,529</u>	<u>\$ 896,136</u>

SUPPLEMENTAL AND ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors

THE CONSERVATION FUND, A NONPROFIT CORPORATION

Our report on our audits of the basic combined financial statements of The Conservation Fund, A Nonprofit Corporation for the years ended December 31, 2008 and 2007 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining schedules of financial position, combining schedules of activities and changes in net assets, and combined schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The accompanying schedule of expenditures of federal awards is supplementary information and is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Mayer Hoffman McCann PC

Bethesda, Maryland
April 15, 2009

THE CONSERVATION FUND, A NONPROFIT CORPORATION
ADDITIONAL INFORMATION – COMBINING SCHEDULES OF FINANCIAL POSITION

Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	<u>The Conservation Fund</u>	<u>Sustainable Conservation, Inc.</u>	<u>Natural Capital Investment Fund, Inc.</u>	<u>Eliminations</u>	<u>Total 2008</u>	<u>Total 2007</u>
<u>ASSETS</u>						
CURRENT ASSETS						
Cash and cash equivalents	\$ 77,750,988	\$ 2,969,590	\$ 2,255,791	\$ -	\$ 82,976,369	\$ 88,606,130
Short-term investments	6,695,168	-	-	-	6,695,168	7,393,382
Grants and accounts receivable	3,274,849	6,200	52,901	(1,917,467)	1,416,483	3,091,995
Promises to give	1,642,762	-	890,000	-	2,532,762	1,819,100
Notes receivable	4,569,119	-	232,879	-	4,801,998	3,087,098
Other	196,281	-	-	-	196,281	332,736
TOTAL CURRENT ASSETS	<u>94,129,167</u>	<u>2,975,790</u>	<u>3,431,571</u>	<u>(1,917,467)</u>	<u>98,619,061</u>	<u>104,330,441</u>
PROPERTY AND EQUIPMENT						
Buildings, furniture and equipment	2,340,665	-	-	-	2,340,665	2,318,296
Accumulated depreciation	959,436	-	-	-	959,436	810,180
NET PROPERTY AND EQUIPMENT	<u>1,381,229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,381,229</u>	<u>1,508,116</u>
OTHER ASSETS						
Notes receivable	8,821,433	-	1,902,066	-	10,723,499	6,779,712
Promises to give	1,025,567	-	-	-	1,025,567	1,319,270
Grants receivable	2,650,315	-	-	-	2,650,315	3,011,815
Demonstration projects:						
Land and easements held for general purposes	336,970,771	8,474,384	-	-	345,445,155	314,234,068
Long-term investments - restricted	-	37,850,000	-	-	37,850,000	37,850,000
Investment in partnerships and other ventures	6,200,000	-	250,000	-	6,450,000	9,506,860
TOTAL OTHER ASSETS	<u>355,668,086</u>	<u>46,324,384</u>	<u>2,152,066</u>	<u>-</u>	<u>404,144,536</u>	<u>372,701,725</u>
TOTAL ASSETS	<u>\$ 451,178,482</u>	<u>\$ 49,300,174</u>	<u>\$ 5,583,637</u>	<u>\$ (1,917,467)</u>	<u>\$ 504,144,826</u>	<u>\$ 478,540,282</u>

See Independent Auditors' Report on Supplementary Information

THE CONSERVATION FUND, A NONPROFIT CORPORATION
ADDITIONAL INFORMATION – COMBINING SCHEDULES OF FINANCIAL POSITION

Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	<u>The Conservation Fund</u>	<u>Sustainable Conservation, Inc.</u>	<u>Natural Capital Investment Fund, Inc.</u>	<u>Eliminations</u>	<u>Total 2008</u>	<u>Total 2007</u>
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES						
Line of credit	\$ 15,000,000	\$ -	\$ -	\$ -	\$ 15,000,000	\$ -
Accounts payable	690,066	3,926	318,828	(318,828)	693,992	1,171,127
Accrued expenses	3,067,839	535	-	-	3,068,374	3,045,241
Notes payable	11,068,323	-	32,562	-	11,100,885	34,453,033
TOTAL CURRENT LIABILITIES	<u>29,826,228</u>	<u>4,461</u>	<u>351,390</u>	<u>(318,828)</u>	<u>29,863,251</u>	<u>38,669,401</u>
OTHER LIABILITIES						
Amounts due other nonprofit organizations and government agencies	18,162,186	1,598,639	-	(1,598,639)	18,162,186	18,062,186
Amounts held for others	844,802	10,800	-	-	855,602	5,359,753
Notes payable:						
GPW Timberlands, LLC	-	37,850,000	-	-	37,850,000	37,850,000
Other demonstration projects	31,934,959	-	1,272,951	-	33,207,910	38,688,063
TOTAL OTHER LIABILITIES	<u>50,941,947</u>	<u>39,459,439</u>	<u>1,272,951</u>	<u>(1,598,639)</u>	<u>90,075,698</u>	<u>99,960,002</u>
TOTAL LIABILITIES	<u>80,768,175</u>	<u>39,463,900</u>	<u>1,624,341</u>	<u>(1,917,467)</u>	<u>119,938,949</u>	<u>138,629,403</u>
NET ASSETS						
Unrestricted	219,130,273	9,836,274	494,020	-	229,460,567	217,025,260
Temporarily restricted	89,773,087	-	230,205	-	90,003,292	60,840,501
Permanently restricted	61,506,947	-	3,235,071	-	64,742,018	62,045,118
TOTAL NET ASSETS	<u>370,410,307</u>	<u>9,836,274</u>	<u>3,959,296</u>	<u>-</u>	<u>384,205,877</u>	<u>339,910,879</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 451,178,482</u>	<u>\$ 49,300,174</u>	<u>\$ 5,583,637</u>	<u>\$ (1,917,467)</u>	<u>\$ 504,144,826</u>	<u>\$ 478,540,282</u>

See Independent Auditors' Report on Supplementary Information

THE CONSERVATION FUND, A NONPROFIT CORPORATION

ADDITIONAL INFORMATION – COMBINING SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	<u>The Conservation Fund</u>	<u>Sustainable Conservation, Inc.</u>	<u>Natural Capital Investment Fund, Inc.</u>	<u>Eliminations</u>	<u>Total 2008</u>	<u>Total 2007</u>
SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS						
Contributions and grants	\$ 102,346,700	\$ 1,535,051	\$ 1,445,766	\$ (1,535,051)	\$ 103,792,466	\$ 84,685,474
Contract income	8,080,421	1,169,200	-	-	9,249,621	9,158,459
Investment and other program income	4,590,117	148,408	183,760	(318,828)	4,603,457	5,816,662
TOTAL SUPPORT AND REVENUE BEFORE SALES OF DEMONSTRATION PROJECTS TO OTHERS	115,017,238	2,852,659	1,629,526	(1,853,879)	117,645,544	99,660,595
SALES OF DEMONSTRATION PROJECTS TO OTHERS	83,750,532	400,000	-	-	84,150,532	96,042,785
TOTAL SUPPORT AND REVENUE	198,767,770	3,252,659	1,629,526	(1,853,879)	201,796,076	195,703,380
EXPENSES						
Program:						
Book value of demonstration projects sold to others	108,625,065	400,000	-	-	109,025,065	143,294,356
Other program expenses	44,550,214	541,823	561,776	(1,647,673)	44,006,140	41,038,805
Total program	153,175,279	941,823	561,776	(1,647,673)	153,031,205	184,333,161
Management and general	2,930,636	-	61,740	(125,605)	2,866,771	2,847,934
Fundraising	1,616,986	-	66,717	(80,601)	1,603,102	1,456,741
TOTAL EXPENSES	157,722,901	941,823	690,233	(1,853,879)	157,501,078	188,637,836
CHANGE IN NET ASSETS	41,044,869	2,310,836	939,293	-	44,294,998	7,065,544
NET ASSETS, BEGINNING OF YEAR	329,365,438	7,525,438	3,020,003	-	339,910,879	332,845,335
NET ASSETS, END OF YEAR	\$ 370,410,307	\$ 9,836,274	\$ 3,959,296	\$ -	\$ 384,205,877	\$ 339,910,879

See Independent Auditors' Report on Supplementary Information

THE CONSERVATION FUND, A NONPROFIT CORPORATION

ADDITIONAL INFORMATION – COMBINED SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2008
(With Comparative Totals for the Year Ended December 31, 2007)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2008</u>	<u>Total 2007</u>
Salaries	\$ 8,174,808	\$ 1,417,789	\$ 791,132	\$ 10,383,729	\$ 9,439,076
Payroll taxes	523,096	83,511	45,739	652,346	599,041
Employee benefits	1,295,966	333,758	199,828	1,829,552	1,438,741
Acquisition and program costs	2,643,535	35,802	49,168	2,728,505	3,474,105
External transfers	10,798,903	-	-	10,798,903	15,613,043
Contractual services	6,236,215	319,466	119,068	6,674,749	4,957,422
Graphics and photography	58,519	2,471	731	61,721	60,263
Conservation research	209,474	4,220	3,766	217,460	68,173
Contributions and grants	6,091,993	208,689	94,451	6,395,133	2,025,799
Publications	39,647	4,994	2,665	47,306	72,993
Public relations and public education	24,924	1,640	658	27,222	69,268
Real estate and personal property taxes	699,201	6,984	9,102	715,287	1,002,665
Rent	705,787	140,570	80,806	927,163	927,684
Professional fees	455,077	47,600	25,826	528,503	780,457
Supplies and equipment	599,352	59,598	31,005	689,955	527,456
Bank and finance charges	179,563	8,560	2,042	190,165	169,089
Travel and subsistence	852,005	71,933	36,902	960,840	1,103,939
Postage and shipping	71,577	9,892	5,616	87,085	102,142
Telephone and utilities	313,910	24,440	11,128	349,478	344,924
Repairs and maintenance	109,511	9,124	4,054	122,689	485,957
Printing	15,368	5,040	3,318	23,726	297,317
Interest	1,443,349	16,410	28,975	1,488,734	1,114,259
Insurance	170,893	15,096	12,075	198,064	257,920
Seminars and conferences	131,430	16,606	8,653	156,689	141,976
Construction	27,304	1,332	297	28,933	19,659
Depreciation	140,853	6,872	1,531	149,256	150,549
Bad debt expense	1,868,360	12,264	33,389	1,914,013	19,000
Miscellaneous	125,520	2,110	1,177	128,807	80,563
SUBTOTAL	<u>44,006,140</u>	<u>2,866,771</u>	<u>1,603,102</u>	<u>48,476,013</u>	<u>45,343,480</u>
Book value of demonstration projects sold to others	109,025,065	-	-	109,025,065	143,294,356
TOTAL EXPENSES	<u>\$ 153,031,205</u>	<u>\$ 2,866,771</u>	<u>\$ 1,603,102</u>	<u>\$ 157,501,078</u>	<u>\$ 188,637,836</u>

See Independent Auditors' Report on Supplementary Information

THE CONSERVATION FUND, A NONPROFIT CORPORATION
SUPPLEMENTAL INFORMATION – SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

Year Ended December 31, 2008

Federal Grantor/Pass-Through Grantor/Program Title	Grant Agreement Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
U.S. Department of Agriculture		
Agricultural Research Service:		
Technologies, Procedures, and Economics of Cold-Water Fish Production and Effluent Treatment in Intensive Recycling Systems (USDA VIII)	58-6408-9-343N/ 59-1930-5-510	\$ 1,755,165
Forest Service GI Linking Lands	06-CS-11132544-103	60,733
MD Center for Agro Ecology/Univ of MD Prime/EIC	20083445619067/Z522603	242
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>1,816,140</u>
DEPARTMENT OF THE INTERIOR		
FISH AND WILDLIFE SERVICE		
Saddle Creek, Orange County Central Coast	E-14-HL-6/ E-17-HL-2	6,120,741
ESA Section 6/Indiana DFW Prime/NiSource	(ES HCP) E9-HP-1	309,922
Hwy 301	501817J216	70,714
R5 Y001, WV	501816D007	59,636
Balancing Nature & Commerce	973108M031	19,254
Kenai, WV	701818M372	14,650
FY2008 GI Training, WV	97320-8-9134	12,305
Garcia River Forest Conservation, CA	2005-0029-000	5,000
USFWS NFH Design	50181-9-J010	1,641
Madison Cave Isopod Guidelines	514128M059	21
North American Wetlands Conservation Fund:		
Izembek NWR Complex Phase II & III	98210-3-G645 / VA-N221	1,118,428
Chenier Plain Coastal Wetlands Conservation IV	VA-N331A	470,838
Lower Neches River Cypress I	VA-N411C	48,000
Middleton Place Woodlands	VA-N501	1,000,000
Connecticut River: Northern Valley Conservation Project	98210-3-G469	578,000
NATIONAL PARK SERVICE		
RCTA/Alaska Case Study Video	J181805C030	28,862
Lewis & Clark NHP, WA	H6490060603	21
U.S. GEOLOGICAL SURVEY:		
USGS MCI 07	08ERSAD122	9,232
TOTAL DEPARTMENT OF THE INTERIOR		<u>9,867,265</u>
ENVIRONMENTAL PROTECTION AGENCY		
Meeting Regional Goals through Local Benefits	2007-0082-007	101,265
Mitigation Banking (US Army Corp of Engineers)	IPAC97310-6-B903/W74RDV71009163	74,394
TOTAL ENVIRONMENTAL PROTECTION AGENCY		<u>175,659</u>
APPALACHIAN REGIONAL COMMISSION		
Creating Asset Based Economies in Western NC	NC-15464-302-2006	16,285
Appalachian Gateway Communities Cultural Heritage Initiative	CO-15421-R2-302-06	94,038
TOTAL APPALACHIAN REGIONAL COMMISSION		<u>110,323</u>
DEPARTMENT OF COMMERCE		
NOAA GIS Pilot	FC133C07SE3443	17,004
WVU OSP DNR	Subcontract NO. 07-432-CFFI	9,771
TOTAL DEPARTMENT OF COMMERCE		<u>26,775</u>
NATIONAL SCIENCE FOUNDATION		
Cornell Univ/Computational Sustainability	.0832782 from NSF, 55633-8790 (Cornell/TCF)	2,640
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 11,998,802</u>

See Independent Auditors' Report on Supplementary Information

THE CONSERVATION FUND, A NONPROFIT CORPORATION
SUPPLEMENTAL INFORMATION – NOTE TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

Year Ended December 31, 2008

(1) Basis of presentation

The accompanying combined schedule of expenditures of federal awards includes the federal grant activity of The Conservation Fund, A Nonprofit Corporation and is presented on the accrual basis of accounting. The schedule of federal awards includes expenditures to acquire parcels of land. Those amounts are shown as “Land and easements held for general purposes” on the combined statement of financial position when acquired, and is not expensed on the financial statements until the land has been transferred. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

The accompanying combined schedule of expenditures of federal awards does not include the federal grant activity of the Natural Capital Investment Fund, Inc. NCIF’s federal expenditures were less than \$500,000 and consequently were not subject to the requirements of OMB Circular A-133.