

**THE CONSERVATION FUND,  
A NONPROFIT CORPORATION**

COMBINED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULES

*As of and for the Year Ended December 31, 2017*

*And Report of Independent Auditor*

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**TABLE OF CONTENTS**

---

**REPORT OF INDEPENDENT AUDITOR..... 1-2**

**COMBINED FINANCIAL STATEMENTS**

Combined Statement of Financial Position ..... 3  
Combined Statement of Activities and Changes in Net Assets ..... 4  
Combined Statement of Cash Flows ..... 5  
Notes to the Combined Financial Statements ..... 6-19

**SUPPLEMENTARY SCHEDULES**

Combining Schedule of Financial Position ..... 20-21  
Combining Schedule of Activities and Changes in Net Assets ..... 22  
Combined Schedule of Functional Expenses ..... 23  
Combined Schedule of Activities and Changes in Net Assets by Activity ..... 24

## Report of Independent Auditor

To the Board of Directors  
The Conservation Fund, a Nonprofit Corporation  
Arlington, Virginia

We have audited the accompanying combined financial statements of The Conservation Fund, a Nonprofit Corporation (the "Fund"), which comprise the combined statement of financial position as of December 31, 2017, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Conservation Fund, a Nonprofit Corporation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As disclosed in Note 15 to the combined financial statements, the Fund restated its net assets as of January 1, 2017, to implement a change in accounting principle under which conservation easements are reported at zero on the combined statement of financial position. Our opinion is not modified with respect to this matter.

### **Correction of Errors**

As disclosed in Note 16 to the combined financial statements, the Fund restated its net assets as of January 1, 2017, and certain balances and transactions as of and for the year ended December 31, 2017, to correct the effects of errors. Our opinion is not modified with respect to this matter.

### **Report on Supplementary Schedules**

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information and combined schedule of functional expenses for the year ended December 31, 2017 which follow, and the combined schedules of activities and changes in net assets by activity, are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of the Fund's management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other accounting records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2018, except for Notes 1, 5, 6, 11, 13 and 16, as to which the date is July 15, 2019, on our consideration of the Fund'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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tysons Corner, Virginia

June 7, 2018, except for Notes 1, 5, 6, 11, 13 and 16, as to which the date is July 15, 2019

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINED STATEMENT OF FINANCIAL POSITION (IN THOUSANDS)**

DECEMBER 31, 2017 (Restated)

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 117,195
Short-term investments	61,771
Receivables	3,273
Notes receivables, net of allowance for doubtful accounts	28,086
Promises to give	620
Other assets	166
Total Current Assets	211,111
Property and Equipment:	
Buildings, furniture, and equipment	4,095
Accumulated depreciation	(2,110)
Net Property and Equipment	1,985
Other Assets:	
Cash-restricted	1,681
Notes receivable, net of allowance for doubtful accounts	70,843
Promises to give	608
Long-term investments	389
Demonstration projects:	
Land held for general purposes	505,722
Other receivables	8,255
Total Other Assets	587,498
<b>Total Assets</b>	<b>\$ 800,594</b>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Line of credit	\$ 150
Accounts payable	584
Accrued expenses	6,597
Deferred revenue	9,229
Amounts held for others	8
Notes payable	8,034
Total Current Liabilities	24,602
Other Liabilities:	
Amounts due other nonprofit organizations and government agencies	50,863
Deferred revenue	122,836
Deferred rent	508
Amounts held for others	676
Notes payable:	
Demonstration projects	106,393
Total Other Liabilities	281,276
<b>Total Liabilities</b>	<b>305,878</b>
Net Assets:	
Unrestricted	240,740
Temporarily restricted	146,514
Permanently restricted	107,462
<b>Total Net Assets</b>	<b>494,716</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 800,594</b>

The accompanying notes to the combined financial statements are an integral part of this statement.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (IN THOUSANDS)**

YEAR ENDED DECEMBER 31, 2017 (Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue Before Sales of Demonstration Projects to Others:				
Contributions and grants	\$ 62,998	\$ 58,831	\$ 4,536	\$ 126,365
Contract income	11,551	-	-	11,551
Investment and other program income	7,967	74	-	8,041
Net assets released from restrictions	91,467	(91,467)	-	-
Total Support and Revenue Before Sales of Demonstration Projects to Others	173,983	(32,562)	4,536	145,957
Sales of demonstration projects to others	90,453	-	-	90,453
Total Support and Revenue	264,436	(32,562)	4,536	236,410
Expenses:				
Program:				
Demonstration projects transferred to others	158,165	-	-	158,165
Other program expenses	116,341	-	-	116,341
Total Program	274,506	-	-	274,506
Management and general expenses	2,088	-	-	2,088
Fundraising	1,768	-	-	1,768
Total Expenses	278,362	-	-	278,362
Change in net assets	(13,926)	(32,562)	4,536	(41,952)
Net assets, beginning of year, as previously reported	301,644	187,638	102,926	592,208
Cumulative effect of change in accounting principle	-	(39,076)	-	(39,076)
Correction of error	(46,978)	30,514	-	(16,464)
Net assets, beginning of year, as restated	254,666	179,076	102,926	536,668
Net assets, end of year	\$ 240,740	\$ 146,514	\$ 107,462	\$ 494,716

The accompanying notes to the combined financial statements are an integral part of this statement.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINED STATEMENT OF CASH FLOWS (IN THOUSANDS)**

YEAR ENDED DECEMBER 31, 2017 (Restated)

**Cash flows from operating activities:**

Change in net assets	\$ (41,952)
Cumulative effect of change in accounting principle	(39,076)
Adjustments to reconcile change in net assets to net cash flows provided by used in operating assets:	
Contributions restricted to revolving funds	(4,536)
Depreciation	168
Allowance for losses on notes receivable and bad debt write-offs	(790)
Contributions from implied interest discount, net	(3,325)
Disposition of demonstration projects, net of proceeds received	75,162
Contributions of demonstration projects, held for conservation	(17,647)
Net realized and unrealized (gains) losses on investments	(269)
Decrease (increase) in operating activities:	
Promises to give and receivables	(6,744)
Other assets	(40)
Increase in operating liabilities:	
Accounts payable, accrued expenses and deferred revenue	41,060
Additional cash provided by (used in) demonstration projects:	
Proceeds from disposition of demonstration projects held for conservation	90,453
Acquisition of demonstration projects held for conservation	(140,286)
Cash flows used in operating activities	<u>(47,822)</u>

**Cash flows from investing activities:**

Cash restricted for long-term debt repayment	3,603
Purchases of property and equipment	(1,306)
Purchases of investments	(42,386)
Issuance of notes receivable	(45,454)
Repayments of principal on notes receivable	22,962
Net decrease in amounts due other nonprofit organizations and government agencies and amounts held for others	50,809
Cash flows used in investing activities	<u>(11,772)</u>

**Cash flows from financing activities:**

Contributions restricted to revolving funds	4,536
Proceeds from long-term debt	35,659
Repayment of long-term debt	(12,497)
Cash flows provided by financing activities	<u>27,698</u>

Net change in cash and cash equivalents	(31,896)
Cash and cash equivalents, beginning of year	149,091
Cash and cash equivalents, end of year	<u>\$ 117,195</u>

# THE CONSERVATION FUND, A NONPROFIT CORPORATION

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### Note 1—Summary of significant accounting policies

*Nature of Operations and Principles of Combination* – These combined financial statements present the combined assets, liabilities, net assets, and activities of The Conservation Fund (“TCF”), Sustainable Conservation, Inc. (“SCI”), and Natural Capital Investment Fund, Inc. (“NCIF”) (hereafter collectively referred to as the “Fund”). TCF’s and SCI’s mission is to create partnerships with the private sector, other nonprofit organizations, and public agencies to protect America’s outdoor heritage. 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* – The combined financial statements of the Fund have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). The Fund presents information regarding its financial position and activities according to three classes of net assets described as follows:

*Unrestricted* – All resources over which the governing board has discretionary control. The governing board of the Fund may elect to designate such resources for specific purposes. This designation may be removed at the Board’s discretion.

*Temporarily Restricted* – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose of the program or through the passage of time.

*Permanently Restricted* – 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. In the event that a note receivable funded by permanently restricted contributions becomes uncollectible, NCIF writes-off the uncollectible amount against the permanently restricted net assets via a transfer to unrestricted net assets.

*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.

*Classifications of Net Assets* – The Fund’s net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted.

*Contributed Services* – Contributed services using specialized skills that would have been required to be purchased if not provided by donation are recognized under GAAP.

*Cash and Cash Equivalents* – The Fund considers all highly liquid debt investments purchased with maturities of three months or less to be cash equivalents.



# THE CONSERVATION FUND, A NONPROFIT CORPORATION

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### Note 1—Summary of significant accounting policies (continued)

*Cash – Restricted* – In order to secure its obligations in existing loan agreements, NCIF is required to maintain a certain bank account and balance, wherein the proceeds of the loan shall be held in a separate custodial account established at a mutually acceptable financial institution. The borrower agreed to deposit in NCIF's account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the borrower, and all interest, dividends, or other earnings. The amounts deposited in the account shall not be comingled with any other funds.

Total cash included in the statement of financial position includes the following:

Cash and cash equivalents	\$ 117,195
Cash - restricted	1,619
Cash held for collateral	<u>62</u>
	<u>\$ 118,876</u>

(In Thousands)

*Notes Receivable and Allowance for Possible Losses* – The Fund has two categories of notes receivable:

*Conservation Loans* – The Conservation Fund provides loans to various land trusts and other entities for use in the acquisition of conservation lands and easements.

*Natural Capital Investment Fund Loans* – Natural Capital Investment Fund provides capital to small and emerging natural resource-based businesses.

Notes receivable are carried at unpaid principal balances less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower's ability to repay, and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. An allowance of \$1,336,000 or 5.2% as of December 31, 2017 has been recorded for loans made by NCIF. TCF has recorded an allowance of \$4,083,000 or 5% as of December 31, 2017, for conservation loans.

*Receivables and Promises to Give* – Unconditional promises to give are recognized as revenue or gains in the period acknowledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Receivables and promises to give due in less than one year are reported at their outstanding balance. Receivables and promises to give due beyond one year are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written-off when deemed uncollectible. Recoveries of promises to give previously written-off are recorded when received. There was no allowance for doubtful promises at December 31, 2017.

*Investments* – The Fund's investments are reported at their fair values in the combined statement of financial position. Interest, dividends, and net gains or losses on investments are reported in the combined statement of activities and changes in net assets as increases or decreases in unrestricted net assets.

# THE CONSERVATION FUND, A NONPROFIT CORPORATION

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### Note 1—Summary of significant accounting policies (continued)

*Fair Value Measurements* – The Fund’s significant financial instruments are cash, short-term investments, promises to give, grants and accounts receivable, notes receivable, and notes payable. For these financial instruments, carrying values approximate fair value.

Fair value standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access. Investments in this category include money market funds, U.S. Treasury bills, mutual funds, and a charitable gift annuity, for which the Fund is the trustee and the underlying investments are publicly traded securities.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and 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 term, the Level 2 input must be observable for substantially the full term of the financial instrument. Investments in this category include collective trust funds, government bonds, municipal bonds, and corporate bonds.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category include investments in privately held entities and real estate investments for which there are no quoted prices in active markets.

The Fund uses the practical expedient for some of its investments, which permits the use of Net Asset Value (“NAV”) without adjustment under certain circumstances.

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

*Property and Equipment* – Property and equipment are recorded at cost. The Fund capitalizes all property and equipment purchased with a cost of \$25,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property 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, 2017, was \$168,000.

# THE CONSERVATION FUND, A NONPROFIT CORPORATION

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### **Note 1—Summary of significant accounting policies (continued)**

*Demonstration Projects* – Demonstration projects consist principally of real estate, conservation easements, 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 and expensed as incurred. 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 “Sales of Demonstration Projects to Others;” the book value of the land and transaction costs incurred with the transfer are shown as program service expenses. Conservation easements represent rights to restrict the use, access and development of certain properties. Gifts of conservation easements are recognized as revenue and program expenses in equal amounts upon acquisition based on the appraised value of the easement. Purchased easements are recognized as a program expense upon acquisition also based on the appraised value of the easement. The estimated value of easements is not reported on the combined statement of financial position.

*Notes Payable* – Under certain circumstances, the Fund uses debt to supplement the cost of the acquisition of conservation lands and easements. Most debt is in the form of notes payable from foundations and various government agencies. The Fund records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes.

*Split Interest Arrangements / Charitable Gift Annuity* – The Fund has a program to receive contributions under charitable gift annuities. The agreements call for annual disbursements of a specified amount to the donor until the donor’s death, after which time the Fund may use the investments for the revolving fund, a permanent restriction, or as otherwise specified by the donor. The donated trust asset investments are recorded at current fair value.

The Fund utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under this arrangement. The Fund determined the discount rate to be used in the month the split interest arrangement was entered into with the donor. The determined rate was approximately 3%. The present value of the actuarially determined liability resulting from the gift is recorded at the date of gift and adjusted annually thereafter.

*Income Taxes* – The Conservation Fund is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and is a publicly-supported organization under Section 509(a)(1). SCI and NCIF are nonprofit corporations exempt from income taxes under Section 501(c)(3) and are supporting organizations to TCF under Section 509(a)(3) of the IRC. Income which is not related to exempt purposes, less applicable donations, is subject to federal and state income taxes. TCF, SCI, and NCIF had no net unrelated business income for the years ended December 31, 2017.

*Accounting for Uncertainty in Income Taxes* – The Fund accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. The Fund has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Fund has determined that such tax position does not result in an uncertainty requiring recognition. The Fund is not currently under examination by any taxing jurisdiction. The Fund’s federal and state tax returns are generally open for examination for three years following the date filed.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 1—Summary of significant accounting policies (continued)**

*Revenue Recognition for Earned Income (Restated)* – Revenue from federal awards is recognized at the time expenses allowable under the award are incurred. Revenue from contracts is recognized as the service is completed. Mitigation fees of \$132,065,000 received but not yet earned are recorded as deferred revenue in the statement of financial position as of December 31, 2017.

*Expenses* – Direct costs associated with specific programs and the book value of demonstration projects sold to others are recorded as program expenses.

*Subsequent Events* – The Fund has evaluated subsequent events through June 7, 2018, which is the date the combined financial statements were available to be issued.

**Note 2—Short-term and long-term investments; fair value measurements**

Short-term investments consist of U.S. Treasury notes, government agency debt instruments, a collective investment trust fund, municipal bonds, and corporate bonds totaling \$61,771,000 as of December 31, 2017. Long-term investments consisted of a charitable gift annuity totaling \$289,000 as of December 31, 2017 and a U.S. Endowment Fuel Project investment totaling \$100,000 as of December 31, 2017. Investment income from cash, cash equivalents, short-term investments, and long-term investments totaled \$1,066,000 in 2017 and consisted primarily of interest income.

Investments in collective investment trust funds consist primarily of fixed income funds. The investment objective of the funds is to invest primarily in investment grade credit securities and mortgage-backed securities. The funds may invest in government securities to protect principal in adverse credit environments. The funds' securities are selected through an active investment and risk management approach. The fair values of these investments have been estimated using the net asset value per share of the investments. Redemption for this fund is available on a monthly basis with 72-hour required notice. The funds do not have unfunded commitments.

The following table sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Money market funds	\$ 5,877	\$ -	\$ -	\$ 5,877
Equity mutual funds	1,058	-	-	1,058
U.S. Treasury bills and notes	-	36,693	-	36,693
U.S. Government agency notes	-	923	-	923
Collective investment trust funds	-	12,149	-	12,149
Corporate bonds	-	2,071	-	2,071
Fixed income mutual funds	-	625	-	625
Municipal bonds	-	2,664	-	2,664
U.S. Endowment Fuel Project (NCIF)	-	-	100	100
	<u>\$ 6,935</u>	<u>\$ 55,125</u>	<u>\$ 100</u>	<u>\$ 62,160</u>

(In Thousands)

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 3—Promises to give**

Unconditional promises to give at December 31, 2017 are as follows:

Receivable in less than one year	\$ 620
Receivable in one to five years	611
Discount of 3% to state at net present value	<u>(3)</u>
	<u>\$ 1,228</u>

(In Thousands)

In addition to the unconditional promises, the Fund also has conditional promises to give totaling \$1,767,000 at December 31, 2017, which are conditioned on the Fund raising matching funds for projects and for its revolving funds.

**Note 4—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, 2017, TCF had 54 notes receivable outstanding totaling \$76,656,000 and NCIF had 249 notes receivable outstanding totaling \$29,128,000. The notes have various interest rates and maturity dates, with the latest note maturing in 2040.

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Conservation loans	\$ 22,922	\$ 53,589	\$ 76,511
Natural Capital Investment Fund loans	5,498	22,434	27,932
Allowance for possible losses	<u>(334)</u>	<u>(5,180)</u>	<u>(5,514)</u>
Carrying value	<u>\$ 28,086</u>	<u>\$ 70,843</u>	<u>\$ 98,929</u>

(In Thousands)

For the year ended December 31, 2017, interest income from these notes was \$3,131,000.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 5—Demonstration projects, notes payable, and lines of credit (restated)**

	<b>Original Amount Borrowed</b>	<b>Balance Remaining</b>
(A) Loans, demonstration projects	\$ 145,639	\$ 106,138
(B) New Forest Fund IV, LLC	13,393	13,393
(C) Operating capital loans	12,552	11,573
(D) Intermediary re-lending program	<u>2,386</u>	<u>2,331</u>
	173,970	133,435
Less current maturities		(8,034)
Amounts representing implied interest		<u>(19,008)</u>
Total		<u>\$ 106,393</u>

(In Thousands)

A) TCF has seven notes payable to foundations totaling \$29,814,000. TCF has eight other notes payable associated with demonstration projects. The principal due on these notes totaled \$76,324,000. The notes are unsecured, except one which is secured by a deed of trust, with stated interest rates between 0% and 2.3%. Maturity dates range from 2018 to 2029.

(B) SCI has three notes payable in connection with a demonstration project that will use new market tax credits for its funding. These notes total \$13,393,000, and are secured by a deed of trust on land held by the Fund. Interest is charged at 1.36% per annum paid quarterly. Note A in the amount of \$9,574,000 matures in 2019; Note B in the amount of \$3,724,000 matures in 2041, and Note C in the amount of \$95,000 matures in 2020. These notes may not be repaid partially or in full until after the 7th anniversary of the initial disbursements.

(C) NCIF has twenty four notes payable to foundations and other entities totaling \$11,573,000. The notes are unsecured with stated interest rates between 1% and 4% and maturity dates ranging from 2018 to 2028.

(D) NCIF has seven loans under an Intermediary Re-Lending Program totaling \$2,331,000 whereby the funds are used to make loans to qualified businesses. The loans bear interest at rates between 1% and 2% per annum and are repayable over a ten to twenty-five-year period. Annual principal payments on these loans total \$21,000.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 5—Demonstration projects, notes payable, and lines of credit (restated) (continued)**

Future maturities are as follows:

<b><u>Years Ending December 31,</u></b>	
2018	\$ 11,698
2019	27,071
2020	27,146
2021	9,949
2022	6,099
Thereafter	<u>51,471</u>
	133,435
Less amounts representing implied interest	<u>(19,008)</u>
	<u><u>\$ 114,427</u></u>

(In Thousands)

TCF and NCIF combined have 46 below-market interest loans with outstanding balances at December 31, 2017 of \$135,889,000 designated for operations and demonstration projects. Principal on the loans will be due over the fiscal years between 2018 through 2041. When the loan proceeds were advanced, the Fund recorded a loan discount using an arm's length borrowing rate. The loans are reported in the combined statement of financial position net of unamortized discount of \$19,008,000 at December 31, 2017. The discount on the loans is being amortized to interest expense over the lives of the loans.

TCF has a line of credit with SunTrust Bank allowing it to borrow a total of up to \$25,000,000. The line of credit is unsecured, accrues interest at one-month LIBOR plus 2.75%, and is renewable no later than June 30, 2018. The Fund had no outstanding borrowings at December 31, 2017.

NCIF maintains a \$150,000 revolving line of credit with a Bank, to be drawn upon as needed, with a variable rate equal to 0.250 percentage points below The Wall Street Journal Prime Rate, which shall not be more than 7% or less than 3% as of December 31, 2017. Interest is payable quarterly, with all unpaid principal and interest due at maturity. Total outstanding loan balance was \$150,000 at December 31, 2017.

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.

Subsequent to year-end but prior to the issuance of these combined financial statements, TCF executed a \$25,000,000 promissory note for the purchase of a demonstration project. Interest accrues at LIBOR plus 1.75% and is payable quarterly with the principal due and payable in May 2026. The note is secured by the acquired property.

**Note 6—Amounts due other nonprofit organizations and government agencies (restated)**

Amounts due other nonprofit organizations and government agencies are a result of agreements or commitments the Fund has with respect to certain real estate parcels it holds. In certain cases 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, which totaled \$50,863,000 at December 31, 2017.

# THE CONSERVATION FUND, A NONPROFIT CORPORATION

## NOTES TO THE COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2017

---

### Note 7—Commitments

The Fund leases offices under various operating leases. The combined base monthly rent is approximately \$85,500 with provisions for annual additional rent due to increases in operating expenses and lease terms.

The following schedule summarizes the future minimum lease commitments:

#### Years Ending December 31,

2018	\$ 702
2019	676
2020	695
2021	714
2022	734
Thereafter	<u>1,396</u>
	<u>\$ 4,917</u>

(In Thousands)

Total rent expense for 2017 was \$1,291,000.

### Note 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 employees' annual compensation. The contributions to the Fund's pension plan for the year ended December 31, 2017, totaled \$1,412,000.

### Note 9—Concentrations

Financial instruments which potentially subject the Fund to concentrations of credit risk consist of cash, cash equivalents, and short-term investments. Cash equivalents consist of amounts in institutional money market funds and total approximately \$52,403,000 at December 31, 2017. 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. Cash amounts in checking accounts exceeded federal insurance limits by approximately \$65,249,000 at December 31, 2017. All cash, cash equivalents, and short-term investments are held with high credit quality financial institutions. Management believes there is no significant concentration of credit risk.

### Note 10—Fundraising and management and general summary

Fundraising expense as a percentage of total support (3 year average)	<u>1.2%</u>
Management and general expense as a percentage of total support (3 year average)	<u>1.4%</u>



**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 10—Fundraising and management and general summary (continued)**

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

**Note 11—Temporarily and permanently restricted net assets (restated)**

Temporarily restricted net assets are available for the following purposes and periods:

Amounts restricted to various operating programs	\$ 67,128
Amounts restricted for various real estate acquisitions or projects	<u>79,386</u>
Total temporarily restricted net assets	<u><u>\$ 146,514</u></u>

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	\$ 3,496
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any loans required to be repaid	<u>103,966</u>
Total permanently restricted net assets	<u><u>\$ 107,462</u></u>

(In Thousands)

**Note 12—Board-designated endowment funds**

On December 11, 2012, the Fund established the Conservation Easement Stewardship Program and its Board of Directors designated \$1,000,000 from its unrestricted net assets. The program addresses all aspects of conservation easement management. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law* – The Board of Directors of the Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (“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 Fund classifies as permanently restricted net assets (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 made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (consisting of earnings on the permanently restricted amounts) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with its spending policy and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the 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 Fund, and (7) the Fund’s investment policies.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 12—Board-designated endowment funds (continued)**

*Investment Return Objectives, Risk Parameters, and Strategies* – The Fund has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. The Fund expects its endowment assets, over time, to provide both growth and income. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy* – The Fund is developing a policy of appropriating for distribution a certain percentage of its endowment fund's average fair value over time. In establishing this policy, the Fund will consider the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Fund expects the current spending policy to allow its endowment funds to grow over time, which is consistent with the Fund's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

*Funds with Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Fund to retain as a fund of perpetual duration. As of December 31, 2017, there were no funds with deficiencies.

The changes in endowment funds for the year ended December 31, 2017, are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Net assets, December 31, 2016	\$ 1,118	\$ -	\$ -
Net interest and dividends	142	-	-
Change in fair market value	164	-	-
Realized gains	-	-	-
Transfer to unrestricted from temporarily restricted	-	-	-
Net assets, December 31, 2017	<u>\$ 1,424</u>	<u>\$ -</u>	<u>\$ -</u>

(In Thousands)

**Note 13—Functional allocation of expenses (restated)**

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

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

---

**Note 13—Functional allocation of expenses (restated (continued))**

Program Services:	
Core operations	\$ 2,482
Operating programs	546
Demonstration projects	113,313
Book value of demonstration projects sold to others	158,165
Total Program Services	<u>\$ 274,506</u>

(In Thousands)

**Note 14—Cash flow disclosures**

The following is a summary of supplemental cash flow information:

Cash paid:	
Interest	<u>\$ 957</u>

(In Thousands)

**Note 15—Change in accounting principle**

In 2017, the Fund changed its method of reporting the value of conservation easements. In prior years, the Fund capitalized conservation easements, whether purchased or donated, at the appraised value of the easement at acquisition and carried the easements at that appraised value on the combined statement of financial position until disposition. Donated easements were recognized as revenue at the appraised value on the combined statement of activities.

As a result of the change in accounting principle, the Fund no longer reports value of easements on the combined statement of financial position. Gifts of conservation easements are now recognized as revenue and program expenses in equal amounts upon acquisition based on the appraised value of the easement. Purchased easements are recognized as a program expense upon acquisition also based on the appraised value of the easement.

The Fund believes that this presentation provides a more accurate representation on the statement of financial position of its total assets and the consideration the Fund would receive upon transfer of the conservation easements to third parties. The Fund continues to believe that conservation easements play an important role in enabling the Fund to achieve its charitable purpose of land and water conservation through the preservation of the natural values of land.

The impact of the change in accounting policy resulted in a reduction to the beginning net assets and demonstration projects in the amount of \$39,076,000. If applied retrospectively, demonstration projects, which were reported at \$516,804,000 as of December 31, 2016, would have been reduced by \$39,076,000 resulting in an adjusted balance of \$477,728,000. The change in net assets for the year ended December 31, 2016, which was reported at a negative \$2,103,000, would have been reduced by \$3,443,000 resulting in an adjusted change in net assets of negative \$5,546,000.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

*DECEMBER 31, 2017*

---

**Note 16—Correction of errors**

The Fund identified and corrected errors reported in previous periods and the current period, resulting from the failure to record conveyances of land to other entities and recognizing revenue before the related performance obligations were met.

Balances as of December 31, 2016 changed as follows:

- Demonstration projects: land held for general purposes, which was reported at \$477,728,000, has been reduced by \$3,400,000 resulting in a restated balance of \$474,328,000.
- Amounts due other nonprofit organizations and government agencies, which was reported at \$86,000, has been increased by \$480,000, resulting in a restated balance of \$566,000.
- Deferred revenue (long-term), which was reported at \$61,648,000, has been increased by \$12,584,000, resulting in a restated balance of \$74,232,000.
- Unrestricted net assets, which was reported at \$301,644,000, has been reduced by \$46,978,000, resulting in a restated balance of \$254,666,000.
- Temporarily restricted net assets, which was reported at \$148,562,000, has been increased by \$30,514,000, resulting in a restated balance of \$179,076,000.

The change in net assets for the year ended December 31, 2016, was understated by \$399,000 as a result of these errors.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**

DECEMBER 31, 2017

**Note 16—Correction of errors (continued)**

Adjustments were made to the reissued 2017 financial statements as summarized below:

	<b>Balances, as of and for the Year Ended December 31, 2017, as Previously Reported</b>	<b>Effect of Beginning Balance Restatement</b>	<b>Effect of 2017 Adjustments</b>	<b>Balances, as of and for the Year Ended December 31, 2017, as Adjusted</b>
<b>Combined Statement of Financial Position</b>				
Receivables	\$ 4,062	\$ -	\$ (789)	\$ 3,273
Demonstration projects: Land held for general purposes	510,608	(3,400)	(1,486)	505,722
Amounts due other nonprofit organizations and government agencies	50,383	480	-	50,863
Deferred revenue (long-term)	108,204	12,584	2,048	122,836
Unrestricted net assets	296,675	(46,978)	(8,957)	240,740
Temporarily restricted net assets	111,366	30,514	4,634	146,514
<b>Combined Statement of Activities and Changes in Net Assets</b>				
Unrestricted contributions and grants	65,046	-	(2,048)	62,998
Net assets released from restrictions - unrestricted	96,101	-	(4,634)	91,467
Net assets released from restrictions - temporarily restricted	(96,101)	-	4,634	(91,467)
Demonstration projects transferred to others	155,890	-	2,275	158,165
Change in net assets	(37,629)	-	(4,323)	(41,952)
<b>Combined Statement of Cash Flows</b>				
Change in net assets	(37,629)	-	(4,323)	(41,952)
Disposition of demonstration projects, net of proceeds received	73,676	-	1,486	75,162
Change in promises to give and receivables	(7,533)	-	789	(6,744)
Change in accounts payable, accrued expenses and deferred revenue	39,012	-	2,048	41,060

(In Thousands)

## **SUPPLEMENTARY SCHEDULES**

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINING SCHEDULE OF FINANCIAL POSITION (IN THOUSANDS)**

DECEMBER 31, 2017 (Restated)

	<b>The Conservation Fund</b>	<b>Sustainable Conservation, Inc.</b>	<b>Natural Capital Investment Fund, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$ 94,525	\$ 15,055	\$ 7,615	\$ -	\$ 117,195
Short-term investments	61,771	-	-	-	61,771
Receivables	4,575	13	151	(1,466)	3,273
Notes receivable, net of allowance for doubtful accounts	22,922	-	5,164	-	28,086
Promises to give	361	-	259	-	620
Due from an affiliate	148	-	-	(148)	-
Other	165	1	-	-	166
<b>Total Current Assets</b>	<b>184,467</b>	<b>15,069</b>	<b>13,189</b>	<b>(1,614)</b>	<b>211,111</b>
Property and Equipment:					
Buildings, furniture, and equipment	4,095	-	-	-	4,095
Accumulated depreciation	(2,110)	-	-	-	(2,110)
<b>Net Property and Equipment</b>	<b>1,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,985</b>
Other Assets:					
Cash-restricted	-	-	1,681	-	1,681
Notes receivable, net of allowance for doubtful accounts	54,651	95	21,097	(5,000)	70,843
Promises to give	608	-	-	-	608
Long-term investments	289	-	100	-	389
Demonstration projects:					
Land held for general purposes	473,594	32,128	-	-	505,722
Other receivables	8,239	-	16	-	8,255
<b>Total Other Assets</b>	<b>537,381</b>	<b>32,223</b>	<b>22,894</b>	<b>(5,000)</b>	<b>587,498</b>
<b>Total Assets</b>	<b>\$ 723,833</b>	<b>\$ 47,292</b>	<b>\$ 36,083</b>	<b>\$ (6,614)</b>	<b>\$ 800,594</b>

See report of independent auditor on supplementary schedules.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINING SCHEDULE OF FINANCIAL POSITION (IN THOUSANDS)**

DECEMBER 31, 2017 (Restated)

	The Conservation Fund	Sustainable Conservation, Inc.	Natural Capital Investment Fund, Inc.	Eliminations	Total
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities:					
Line of credit	\$ -	\$ -	\$ 150	\$ -	\$ 150
Accounts payable	449	92	1,509	(1,466)	584
Accrued expenses	6,536	-	61	-	6,597
Deferred revenue	9,229	-	-	-	9,229
Amounts held for others	-	-	8	-	8
Notes payable, net of discount Due to an affiliate	7,453	-	581	-	8,034
	-	148	-	(148)	-
Total Current Liabilities	<u>23,667</u>	<u>240</u>	<u>2,309</u>	<u>(1,614)</u>	<u>24,602</u>
Other Liabilities:					
Line of credit, related party	-	-	5,000	(5,000)	-
Amounts due other nonprofit organizations and government agencies	50,863	-	-	-	50,863
Deferred revenue	122,497	339	-	-	122,836
Deferred rent	508	-	-	-	508
Amounts held for others	675	1	-	-	676
Notes payable:					
Demonstration projects	79,875	13,393	13,125	-	106,393
Total Other Liabilities	<u>254,418</u>	<u>13,733</u>	<u>18,125</u>	<u>(5,000)</u>	<u>281,276</u>
<b>Total Liabilities</b>	<u>278,085</u>	<u>13,973</u>	<u>20,434</u>	<u>(6,614)</u>	<u>305,878</u>
Net Assets:					
Unrestricted	197,469	33,319	9,952	-	240,740
Temporarily restricted	144,312	-	2,202	-	146,514
Permanently restricted	103,967	-	3,495	-	107,462
<b>Total Net Assets</b>	<u>445,748</u>	<u>33,319</u>	<u>15,649</u>	<u>-</u>	<u>494,716</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 723,833</u>	<u>\$ 47,292</u>	<u>\$ 36,083</u>	<u>\$ (6,614)</u>	<u>\$ 800,594</u>

See report of independent auditor on supplementary schedules.



**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS (IN THOUSANDS)**

*YEAR ENDED DECEMBER 31, 2017 (Restated)*

	<b>The Conservation Fund</b>	<b>Sustainable Conservation, Inc.</b>	<b>Natural Capital Investment Fund, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Support and Revenue Before Sales of Demonstration Projects to Others:					
Contributions and grants	\$ 124,679	\$ -	\$ 1,686	\$ -	\$ 126,365
Contract income	13,017	-	-	(1,466)	11,551
Investment and other program income	5,205	1,117	1,719	-	8,041
Total Support Revenue Before Sales of Demonstration Projects to Others	142,901	1,117	3,405	(1,466)	145,957
Sales of demonstration projects to others	90,397	56	-	-	90,453
Total Support and Revenue	233,298	1,173	3,405	(1,466)	236,410
Expenses:					
Program:					
Book value of demonstration projects transferred to others	158,104	61	-	-	158,165
Other program expenses	114,962	460	2,385	(1,466)	116,341
Total Program	273,066	521	2,385	(1,466)	274,506
Management and general	2,008	-	80	-	2,088
Fundraising	1,765	-	3	-	1,768
Total Expenses	276,839	521	2,468	(1,466)	278,362
Change in net assets	(43,541)	652	937	-	(41,952)
Net assets, beginning of year, as previously reported	544,829	32,667	14,712	-	592,208
Cumulative effect of change in accounting principle	(39,076)	-	-	-	(39,076)
Correction of error	(16,464)	-	-	-	(16,464)
Net assets, beginning of year, as restated	489,289	32,667	14,712	-	536,668
Net assets, end of year	\$ 445,748	\$ 33,319	\$ 15,649	\$ -	\$ 494,716

See report of independent auditor on supplementary schedules.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINED SCHEDULE OF FUNCTIONAL EXPENSES (IN THOUSANDS)**

*YEAR ENDED DECEMBER 31, 2017 (Restated)*

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 16,695	\$ 927	\$ 636	\$ 18,258
Acquisition and program costs	3,173	28	101	3,302
Bank and finance charges	123	8	5	136
Change in split interest	(7)	-	-	(7)
Conservation research	165	8	5	178
Construction	90	4	3	97
Contractual services	14,511	359	455	15,325
Contributions and grants	4,767	-	-	4,767
Depreciation	138	18	12	168
Employee benefits	2,811	255	171	3,237
External transfers	8,386	-	-	8,386
Graphics and photography	78	2	2	82
Insurance	520	34	24	578
Interest	5,310	97	79	5,486
Loan loss reserve	71	-	-	71
Loss from notes receivable	29	-	-	29
Miscellaneous	379	6	10	395
Payroll taxes	1,099	50	35	1,184
Postage and shipping	71	3	2	76
Printing	104	5	3	112
Professional fees	782	46	24	852
Provision for loss upon disposition	51,459	-	-	51,459
Public relations and public education	80	4	3	87
Publications	190	8	6	204
Real estate and personal property tax	1,340	8	39	1,387
Rent	1,132	95	64	1,291
Repairs and maintenance	136	5	4	145
Seminars, meetings, and conferences	216	9	6	231
Supplies and equipment	694	35	24	753
Telephone and utilities	372	17	12	401
Travel and subsidiaries	1,427	57	43	1,527
	<u>116,341</u>	<u>2,088</u>	<u>1,768</u>	<u>120,197</u>
Book value of demonstration projects transferred to others	158,165	-	-	158,165
Total Expenses	<u>\$ 274,506</u>	<u>\$ 2,088</u>	<u>\$ 1,768</u>	<u>\$ 278,362</u>

See report of independent auditor on supplementary schedules.

**THE CONSERVATION FUND, A NONPROFIT CORPORATION**  
**COMBINED SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY ACTIVITY**  
**(IN THOUSANDS)**

YEAR ENDED DECEMBER 31, 2017 (Restated)

	<b>Operating Activities*</b>	<b>2017 Real Estate Activities**</b>	<b>Total</b>
<b>Support and Revenue:</b>			
Contributions and grants	\$ 29,253	\$ 97,112	\$ 126,365
Contract income	4,576	6,975	11,551
Investment and other program income	5,402	2,639	8,041
Sales of demonstration projects	-	90,453	90,453
Total Support and Revenue	<u>39,231</u>	<u>197,179</u>	<u>236,410</u>
<b>Expenses:</b>			
Book value of demonstration projects transferred to others	-	158,165	158,165
Other program expenses	116,341	-	116,341
Management and general	2,088	-	2,088
Fundraising	1,768	-	1,768
Total Expenses	<u>120,197</u>	<u>158,165</u>	<u>278,362</u>
Change in net assets for the year before transfers	(80,966)	39,014	(41,952)
Transfers	9,411	(9,411)	-
Change in net assets for the year	<u>\$ (71,555)</u>	<u>\$ 29,603</u>	<u>\$ (41,952)</u>

\* Operating activity support and revenue consist of general support, contract and program income, and investment income; expenses consist of all expenses not directly related to acquiring, holding, and selling land.

\*\* Real estate activity support and revenue consist of gifts of land and contributions directly related to land acquisition efforts and the sale of demonstration projects to others; expenses in the real estate activities column consist of the book value of demonstration projects sold to others and expenses directly related to acquiring, holding and selling land.