The Conservation Foundation

Financial Statements, Supplementary Information and Independent Auditor's Report For the Year Ended June 30, 2012

Wolf & Company LLP
Certified Public Accountants

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Wolf & Company
Oakbrook Terrace ▲ Chicago

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
The Conservation Foundation
Naperville, Illinois

We have audited the accompanying statements of financial position of THE CONSERVATION FOUNDATION (the Foundation) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements referenced above taken as a whole. The schedules of expenses on page 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such 2012 and 2011 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Oakbrook Terrace, Illinois
January 30, 2013

Wolf & Company LLP

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THE CONSERVATION FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012	June 30, 2011
Current assets:		
Cash and cash equivalents	$ 484,071	$ 847,038
Restricted cash	270,842	233,347
Investments	439,472	529,782
Restricted investments	200,000	200,000
Accounts receivable	57,944	88,522
Accrued interest receivable	1,177	554
Pledges receivable	77,978	81,659
Grants receivable	-	45,937
Other assets	2,026	4,627
Prepaid expenses	10,621	6,207
Total current assets	1,544,131	2,037,673
Pledges receivable - noncurrent	89,687	126,235
Land - Preservation Properties	934,900	354,900
Property and equipment, net	558,804	598,523
Land and buildings - permanently restricted	800,837	800,837
Total assets	$ 3,928,359	$ 3,918,168

LIABILITIES AND NET ASSETS

	June 30, 2012	June 30, 2011
Current liabilities:		
Mitigation funds	$ 119,718	$ 126,106
Accounts payable	16,690	39,268
Funds held on behalf of others	151,124	107,241
Rental security deposit	1,000	1,000
Accrued liabilities	66,465	42,934
Total current liabilities	354,997	316,549
Net assets:		
Unrestricted:		
Designated:		
Easement defense	328,297	328,297
McDonald Farm buildings	350,772	374,318
Clow Education Center	229,710	232,154
Undesignated	1,797,047	1,797,483
Temporarily restricted	66,699	68,530
Permanently restricted	800,837	800,837
Total net assets	3,573,362	3,601,619
Total liabilities and net assets	$ 3,928,359	$ 3,918,168

See accompanying notes to financial statements.

THE CONSERVATION FOUNDATION

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2012	2011
Unrestricted net assets:		
Unrestricted revenues and gains:		
Contributions and grants	$ 641,645	$ 830,376
Investment income	8,966	33,551
Benefit dinner - net of expenses of $65,673 and $67,039 for 2012 and 2011, respectively	100,677	104,690
Special events	54,546	46,069
Consulting income	301,467	322,004
Rental income	20,887	19,694
Sales income	37,000	64,782
Miscellaneous	2,089	3,017
Total unrestricted revenues and gains	1,167,277	1,424,183
Net assets released from restrictions	18,183	409,016
Total unrestricted revenues, gains and other support	1,185,460	1,833,199
Expenses:		
Programs services	927,601	1,430,432
Management	74,503	81,422
Campaign	25,215	129,972
Other fundraising	184,567	156,211
Total expenses	1,211,886	1,798,037
Increase (decrease) in unrestricted net assets	(26,426)	35,162
Temporarily restricted net assets:		
Contributions and grants	16,352	400,540
Net assets released from restrictions	(18,183)	(409,016)
Decrease in temporarily restricted net assets	(1,831)	(8,476)
Change in net assets	(28,257)	26,686
Net assets at beginning of year	3,601,619	3,574,933
Net assets at end of year	$ 3,573,362	$ 3,601,619

See accompanying notes to financial statements.

THE CONSERVATION FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2012	2011
Cash flows from operating activities:		
Change in net assets	$ (28,257)	$ 26,686
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	43,829	44,043
Unrealized gains on investments	-	(22,194)
Realized gains on investments	151	(53)
Noncash donations	-	(3,826)
Land donation received	(225,000)	-
Loss on disposal of assets	-	1,899
Change in:		
Accounts receivable	30,578	(54,736)
Accrued interest receivable	(623)	824
Pledges receivable	40,229	(39,634)
Grants receivable	45,937	38,586
Other assets	2,601	1,458
Prepaid expenses	(4,414)	292
Mitigation funds	(6,388)	(184,403)
Accounts payable	(22,578)	(15,326)
Funds held on behalf of others	43,883	89,157
Accrued liabilities	23,531	(1,348)
Net cash used in operating activities	(56,521)	(118,575)
Cash flows from investing activities:		
Purchase of furniture, fixtures and equipment	(4,110)	(88,033)
Purchase of preservation properties	(355,000)	(891,268)
Proceeds from sale of assets	-	731,268
Purchase of investments	(2,296,218)	(1,685,000)
Proceeds from maturity/sale of investments	2,386,377	2,411,547
Net cash provided by (used in) investing activities	(268,951)	478,514
Net increase (decrease) in cash and cash equivalents	(325,472)	359,939
Cash and cash equivalents at beginning of year	1,080,385	720,446
Cash and cash equivalents at end of year	$ 754,913	$ 1,080,385

See accompanying notes to financial statements.

1. Nature of Operations

The mission of The Conservation Foundation (the Foundation) is to preserve and restore natural areas and open space, protect rivers and watersheds, and promote stewardship of our environment. The Foundation's primary sources of revenue are consulting, donations, and grants.

2. Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies of the Foundation.

Cash and Cash Equivalents – The Foundation considers all unrestricted highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

Investments – Investments with readily determinable fair values are reported at their fair values in the statements of financial position. Investment income or loss and unrealized gains or losses are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Contributions Receivable – Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets in the fiscal year in which the restrictions expire. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed Services – Many individuals volunteer their time and perform a variety of tasks that assist the Foundation. The Foundation received approximately 7,300 and 6,900 volunteer hours in the years ended June 30, 2012 and 2011, respectively. The value of such contributed services is not recorded in the financial statements since the services do not require specialized skills and is not required to be recorded.

Property and Equipment – Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as unrestricted unless the donor has restricted the asset to a specific purpose. Absent donor stipulations regarding the length of time of restrictions, the Foundation considers the restrictions to expire when the related assets are put in service as requested by the donor. The Foundation's policy is to capitalize all expenditures for improvements, property and equipment over $1,500.

Property and equipment are depreciated using the straight-line method over their related estimated useful lives which range from 3 to 40 years.

Mitigation Funds – The Foundation holds and administers funds for mitigation purposes on behalf of the U.S. Army Corps of Engineers (ACOE). Such funds are required to be utilized only for specific purposes as directed by ACOE. Accordingly, resources received from ACOE for mitigation purposes are reported as increases in assets and liabilities when received and decreases in assets and liabilities when amounts are expended for specified purposes.

Funds Held on Behalf of Others – The Foundation holds funds on behalf of other organizations under formal Agency Agreements. Those organizations direct the Foundation on the use of said funds. Cash held on their behalf is offset with this corresponding liability.

2. Summary of Significant Accounting Policies (Cont.)

Net Assets – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation.

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.

Concentration of Credit Risk – Occasionally, the Foundation maintains cash balances in excess of the maximum insured by the Federal Deposit Insurance Corporation. The Foundation has not experienced losses on these accounts and management believes it is not exposed to significant risks on such accounts.

Income Taxes – The Foundation is a not-for-profit organization that is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation has also elected application of Section 501(h) which permits the Foundation to conduct limited lobbying.

The Foundation recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. It is no longer subject to federal and state income tax examinations by tax authorities for years before the year ended June 30, 2009.

Fair Value Measurements – In May 2011, the Financial Accounting Standards Board issued guidance in Accounting Standards Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 was issued to improve comparability of fair value application, measurements and disclosures between U.S. GAAP reporting and IFRS reporting. ASU No. 2011-04 clarifies fair value definitions and enhances fair value measurement guidance with respect to highest and best use measurements, equity instrument measurements, and measurement of financial instruments that are managed within a portfolio. Additionally, ASU No. 2011-04 expands disclosures for unobservable inputs used in Level 3 fair value measurements. ASU No. 2011-04 is effective for annual periods beginning after December 15, 2011. The Foundation is currently evaluating the impact of ASU No. 2011-04 on its fair value measurements and disclosures and intends on adopting the guidance in 2013.

2. Summary of Significant Accounting Policies (Cont.)

Receivables – Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables from grants, contracts and others. No allowance for bad debts was deemed necessary by management at June 30, 2012 or June 30, 2011. Receivables are written off when management determines they are uncollectible.

3. Land – Preservation Properties

The Foundation owns the following unrestricted land, which is being held on behalf of others for preservation purposes:

	2012	2011
LaSalle County - 23 acres	$ 194,900	$ 194,900
Plainfield Land Donation	225,000	-
Batavia Riverwalk	515,000	160,000
Total	$ 934,900	$ 354,900

4. Property and Equipment

Unrestricted property and equipment consists of the following:

	2012	2011
Buildings and improvements	$ 817,419	$ 813,309
Furniture, fixtures and equipment	65,656	65,656
	883,075	878,965
Less: accumulated depreciation	324,271	280,442
	$ 558,804	$ 598,523

5. Permanently Restricted Net Assets

The Foundation's main office is located on the McDonald Farm, which is owned by the Foundation. The McDonald Farm land is subject to a conservation easement.

The Foundation also owns the Dickson-Murst Farm through an agreement with the Village of Montgomery. The agreement states that the Foundation is not permitted to sell or otherwise dispose of the property, without the consent of the Village of Montgomery.

5. Permanently Restricted Net Assets (Cont.)

Permanently restricted net assets consist of the following:

	2012	2011
McDonald Farm - land	$ 268,837	$ 268,837
Dickson-Murst Farm - land and buildings	532,000	532,000
Total permanently restricted net assets	$ 800,837	$ 800,837

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2012	2011
Restoration projects	$ 12,568	$ 12,998
Reservation Woods project	34,436	34,449
Education grants	2,981	4,389
Dickson-Murst Farm Partners	16,714	16,694
Total temporarily restricted net assets	$ 66,699	$ 68,530

7. Designation of Net Assets

The Foundation's Board of Trustees has designated certain funds to provide for the future monitoring and enforcement of conservation easements. Additionally, the Board has designated as continuing investments the buildings located on the McDonald Farm.

Designated net assets consist of the following:

	2012	2011
Cash and cash equivalents:		
Conservation easement defense funds	$ 328,297	$ 328,297
McDonald Farm buildings	350,772	374,318
Clow Education Center	229,710	232,154
Total designated net assets	$ 908,779	$ 934,769

8. Conservation Easements

The Foundation holds conservation easements placed on properties acceptable to the Foundation. At June 30, 2012 and 2011, 34 such easements were held. No value has been assigned to these easements in the financial statements because the Foundation does not have ownership rights to the underlying property.

9. Investments

Investments with readily determinable fair values are reported at their fair values. Investments as of June 30, 2012 and 2011 are summarized as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ -	$ -	$ 105,557	$ 100,991
Money market funds	297	297	773	773
Certificates of deposit	639,175	639,175	628,018	628,018
	$ 639,472	$ 639,472	$ 734,348	$ 729,782

The following schedule summarizes the investment income (loss) for the years ended June 30:

	2012	2011
Dividend income	$ 3	1,839
Interest income	9,114	9,465
Realized gains (losses)	(151)	53
Unrealized gains	-	22,194
	$ 8,966	$ 33,551

10. Fair Value Measurements

ASC No. 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price), that is the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC No. 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011.

10. Fair Value Measurements (Cont.)

Investment securities are recorded at fair value on a recurring basis. Certificates of deposit are valued at cost, which approximates fair value. Fair value measurement is based upon quoted prices for identical or similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include mutual funds that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include money market mutual funds and certificates of deposit. Where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair values of assets and liabilities measured on a recurring basis are as follows:

		Fair Value Measurement at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Asset/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012:				
Money market funds	$ 297	$ -	$ 297	$ -
Certificates of deposit	639,175	-	639,175	-
	$ 639,472	$ -	$ 639,472	$ -
June 30, 2011:				
Money market funds	$ 773	$ -	$ 773	$ -
Mutual funds	100,991	100,991	-	-
Certificates of deposit	628,018	-	628,018	-
	$ 729,782	$ 100,991	$ 628,791	$ -

11. Line of Credit

As of June 30, 2012, the Foundation maintained a revolving line of credit with Northern Trust Bank that allows the Foundation a $200,000 line of credit to support working capital needs, at an interest rate of the Interest Rate Index (Bank's prime rate) less 1%. This line of credit is required to be fully secured by an account held at Northern Trust Bank; accordingly, the balance of this account was $200,000 at June 30, 2012 and June 30, 2011. This line-of-credit agreement provides for monthly payments of interest only with the principal due April 15, 2015. At June 30, 2012 and June 30, 2011, there was no balance outstanding.

12. Pledges Receivable

Pledges are adjusted to present value using a rate of 2% and are receivable in the following periods:

Year Ending June 30	2012 Amount	2011 Amount
2012	$ -	$ 83,292
2013	79,542	78,292
2014	69,542	53,125
2015	23,950	900
2016	300	100
	173,334	215,709
Less: discounts to net present value	5,669	7,815
	$ 167,665	$ 207,894

13. Operating Lease

The Foundation has entered into lease agreements with unrelated parties through December 2015 and April 2013. Rental revenue under these agreements was $15,138 and $14,525 for the years ended June 30, 2012 and 2011, respectively.

Future rental income under the lease agreements is as follows:

Year Ending June 30	Amount
2013	$ 15,750
2014	7,350
2015	7,350
	$ 30,450

14. Related Party Transactions

During the years ended June 30, 2012 and 2011, the Foundation was involved in the following related party transactions. The Foundation purchased insurance totaling $14,861 and $14,758, respectively, from Gee-Schussler Insurance, of which a Board member is a principal. The Foundation received services totaling $2,000 and $0, respectively, from Christopher B. Burke Engineering and Thompson Surveying, both of which a Board member is a principal. The Foundation also holds funds in accounts and has a corporate credit card account at Wheaton Bank & Trust, of which a Board member is President.

The DuPage River Salt Creek Workgroup (the Workgroup) is an independent 501(c)4 organization whose mission is to protect and improve the water quality of the DuPage River and the Salt Creek. The Foundation provides a 1.6 full-time equivalent in staffing to the Workgroup and the Workgroup reimburses all related expenses to the Foundation. In addition to staffing, one member of the Foundation's staff also sits on the Board of the Workgroup.

15. Subsequent Events

The Foundation had a land transaction in partnership with the Batavia Park District. On October 22, 2010, the Foundation purchased land for $160,000 in a buy-and-hold transaction. On October 24, 2012, the Foundation sold the parcel to the Batavia Park District for $160,000.

The Foundation terminated it's line of credit with Northern Trust Bank on October 31, 2012. The line was replaced with an unsecured line of credit for $200,000 with Wheaton Bank and Trust, at a floating rate equal to prime, maturing on August 22, 2013.

The Foundation has evaluated subsequent events through January 30, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE CONSERVATION FOUNDATION

SCHEDULES OF EXPENSES

	For the Year Ended June 30,			
	2012		2011	
	Expense	Percentage of Total	Total Expense	Percentage of Total
Program services	$ 927,601	76.54 %	$ 1,430,432	79.56 %
Management	74,503	6.15	81,422	4.53
Campaign	25,215	2.08	129,972	7.23
Other fundraising	184,567	15.23	156,211	8.69
Total expenses	$ 1,211,886	100.00 %	$ 1,798,037	100.00 %

See independent auditor's report.