The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Financial Report
December 31, 2021

Contents

Independent Auditor's Report

Board of Directors
The Conservation Fund, a Nonprofit Corporation

Opinion
We have audited the combined financial statements of The Conservation Fund, a Nonprofit Corporation and Affiliates (the Organization), which comprise the combined statement of financial position as of December 31, 2021, the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the accompanying financial statements are those of The Conservation Fund, a Nonprofit Corporation (parent company) and certain affiliates, Sustainable Conservation, Inc. and White Pine Forest, LLC, and are not those of the primary reporting entity, which include another affiliate, Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital. The combined financial statements of The Conservation Fund, a Nonprofit Corporation (parent company) and all its affiliates have been issued as the general purpose financial statements of the primary reporting entity and should be read in conjunction with these financial statements. Our opinion is not modified with respect to this matter.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information
We have previously audited the Organization's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

McLean, Virginia
April 22, 2022

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)
(In Thousands)

		2021		2020
Assets				
Cash and cash equivalents	**$**	**67,554**	$	88,373
Restricted cash and cash equivalents		**93,839**		99,495
Investments		**53,314**		29,725
Receivables		**6,490**		5,213
Due from an affiliate		**100**		-
Notes receivable, net		**23,580**		31,589
Promises to give, net		**5,030**		3,285
Other assets		**5,622**		8,872
Property and equipment, net		**2,163**		2,255
Conservation land		**693,226**		687,333
Total assets	**$**	**950,918**	$	956,140
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	**$**	**12,082**	$	17,026
Deferred revenue and refundable advances		**108,956**		112,156
Due to an affiliate		**-**		125
Amounts due to other nonprofit organizations and government agencies		**39,134**		62,984
Bonds and notes payable, net		**290,071**		276,507
Total liabilities		**450,243**		468,798
Commitments and contingencies (Notes 9 and 10)				
Net assets:				
Without donor restrictions:				
The Organization		**247,382**		239,257
Noncontrolling interest in White Pine Forest, LLC		**5,766**		5,596
		253,148		244,853
With donor restrictions		**247,527**		242,489
Total net assets		**500,675**		487,342
Total liabilities and net assets	**$**	**950,918**	$	956,140

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Activities
Year Ended December 31, 2021
(With Comparative Totals for 2020)
(In Thousands)

	2021			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2020 Total
Real estate activities:				
Support and revenue				
Contributions and grants	**$ 14,055**	**$ 41,991**	**$ 56,046**	$ 59,059
Land contributed for conservation	**10,033**	**-**	**10,033**	7,526
Contract income	**13,766**	**-**	**13,766**	13,412
Investment and other program income	**10,814**	**-**	**10,814**	43,479
Sales of conservation land to others	**142,308**	**-**	**142,308**	106,442
Net assets released from restrictions	**36,153**	**(36,153)**	**-**	-
	227,129	**5,838**	**232,967**	229,918
Non-real estate activities:				
Support and revenue				
Contributions and grants	**7,284**	**14,346**	**21,630**	14,382
Contract income	**4,206**	**-**	**4,206**	4,502
Investment and other program income	**13,763**	**-**	**13,763**	15,289
Net assets released from restrictions	**15,146**	**(15,146)**	**-**	-
	40,399	**(800)**	**39,599**	34,173
Total support and revenue	**267,528**	**5,038**	**272,566**	264,091
Expenses:				
Program services:				
Real estate programs	**234,001**	**-**	**234,001**	236,855
Non-real estate programs	**16,940**	**-**	**16,940**	18,123
Total program services	**250,941**	**-**	**250,941**	254,978
Supporting services:				
Management and general	**5,180**	**-**	**5,180**	6,308
Fundraising	**3,168**	**-**	**3,168**	3,512
Total supporting services	**8,348**	**-**	**8,348**	9,820
Total expenses	**259,289**	**-**	**259,289**	264,798
Change in net assets	**8,239**	**5,038**	**13,277**	(707)
Net assets, beginning of year	**244,853**	**242,489**	**487,342**	482,381
Capital contribution by noncontrolling interest	**56**	**-**	**56**	5,668
Net assets, end of year	**$ 253,148**	**$ 247,527**	**$ 500,675**	$ 487,342

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Functional Expenses
Year Ended December 31, 2021
(With Comparative Totals for 2020)
(In Thousands)

	2021						
	Program Services			Supporting Services			
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Total	2020 Total
Personnel and fringe benefits	$ 15,794	$ 6,700	$ 22,494	$ 3,698	$ 2,243	$ 28,435	$ 27,965
Contractual services	11,361	1,281	12,642	790	391	13,823	15,841
Grants	12,070	7,305	19,375	1	-	19,376	26,520
Postage, printing and photo	207	53	260	30	102	392	340
Equipment, supplies and depreciation	709	299	1,008	276	196	1,480	1,321
Occupancy	1,991	382	2,373	184	115	2,672	1,797
Insurance	348	140	488	66	42	596	654
Taxes	3,080	-	3,080	-	-	3,080	1,886
Travel	278	65	343	58	27	428	324
Interest	9,369	-	9,369	-	-	9,369	9,076
Accelerated notes payable discount	654	-	654	-	-	654	162
Acquisition costs	3,976	65	4,041	30	19	4,090	3,470
Other	10,622	650	11,272	47	33	11,352	10,921
Book value of conservation land donated	9,023	-	9,023	-	-	9,023	38,088
Provision for conservation easements	14,149	-	14,149	-	-	14,149	13,537
Book value of conservation land sold	140,370	-	140,370	-	-	140,370	112,896
Total expenses	$ 234,001	$ 16,940	$ 250,941	$ 5,180	$ 3,168	$ 259,289	$ 264,798

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Cash Flows
Year Ended December 31, 2021
(With Comparative Totals for 2020)
(In Thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 13,277	$ (707)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	229	212
Amortization of debt issuance costs	74	74
Provision for losses on notes receivable and bad debt write-offs	(422)	(93)
Debt forgiveness	(3,888)	-
Contributions from implied interest discount, net	(2,869)	(650)
Donated conservation land to Organization	(10,033)	(7,526)
Donated conservation land from Organization	892	1,032
Losses on disposition of land, easements and others	14,149	13,537
Impairment on land held for resale	8,421	-
Accelerated notes payable discount	654	162
Deferred rent	(67)	(53)
Net realized and unrealized gains on investments	(1,353)	(832)
(Increase) decrease in operating activities:		
Receivables	(1,277)	2,349
Due from an affiliate	(100)	
Promises to give	(1,745)	(99)
Other assets	3,250	(6,743)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(4,877)	5,210
Deferred revenue and refundable advances	(3,200)	(47,449)
Due to an affiliate	(125)	125
Amounts due to other nonprofit organizations and government agencies	(23,850)	5,275
Additional cash provided by (used in) conservation land projects:		
Proceeds from disposition of conservation land held	142,396	106,458
Acquisition of conservation land projects	(161,718)	(162,577)
Net cash used in operating activities	(32,182)	(92,295)
Cash flows from investing activities:		
Purchases of property and equipment	(137)	(168)
Purchases of investments	(24,195)	(7,486)
Proceeds from sale of investments	1,959	42,618
Issuance of notes receivable	(4,816)	(10,632)
Repayments of principal on notes receivable	13,247	12,501
Net cash (used in) provided by investing activities	(13,942)	36,833
Cash flows from financing activities:		
Capital contribution received - noncontrolling interest	56	5,668
Proceeds from long-term debt	71,504	33,896
Repayment of long-term debt	(51,911)	(19,992)
Net cash provided by financing activities	19,649	19,572
Net decrease in cash and cash equivalents	(26,475)	(35,890)
Cash and cash equivalents, and restricted cash:		
Beginning	187,868	223,758
Ending	$ 161,393	$ 187,868

(Continued)

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Cash Flows (Continued)
Year Ended December 31, 2021
(With Comparative Totals for 2020)
(In Thousands)

	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 5,575**	$ 5,547
Supplemental schedule of noncash financing activities:		
Forgiveness of debt	**$ 3,888**	$ -

See notes to combined financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Conservation Fund, a Nonprofit Corporation (TCF), Sustainable Conservation Inc. (SCI) and White Pine Forest, LLC (WPF) (hereafter collectively referred to as the Organization) are dedicated to protecting land throughout the United States (U.S.), not just for the sake of its environmental value, but also for its value to the economy and the community.

The Organization's mission statement is as follows: The Organization, working with public, private and nonprofit partners, protects America's legacy of land and water resources through land acquisition, sustainable community and economic development and leadership training, emphasizing the integration of economic and environmental goals.

The Organization's activities include the following two program areas:

Real estate activities: One of two focus areas for the organization, this program area raises and deploys capital for conservation transactions, ensuring the permanent conservation of land across the United States. It encompasses all real estate activity in four business areas:

- Conservation Acquisitions—interim ownership of conservation properties
- Working Forest Fund—interim ownership and operation of key forests
- Conservation Loans—bridge loans for land trusts and others to acquire conservation land and complete other projects
- Mitigation Solutions—land-related projects to mitigate for impacts on natural resources

The activities of SCI and WPF also fall entirely within this programmatic category.

Non-real estate activities: This program area focuses on technical assistance, community support and economic development. It supports green infrastructure planning, community-based conservation programs, conservation leadership training and network building.

A summary of the Organization's significant accounting policies follows:

Principles of combination: The accompanying combined financial statements include all of the accounts of TCF, SCI and WPF. All intercompany accounts and transactions have been eliminated in the combined financial statements.

Basis of presentation: These combined financial statements are not intended to be the general purpose financial statements of TCF and have been prepared in conformity with accounting principles that would otherwise be considered a departure from generally accepted accounting principles in the United States (U.S. GAAP) because certain affiliated organizations are not combined. An affiliate of TCF whose financial activities are not included in these combined financial statements of TCF is Natural Capital Investment Fund, Inc. d/b/a Partner Community Capital (PCAP) (see Note 14).

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The accompanying combined financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this topic, the Organization is required to report information regarding its financial position and activities under two classes of net assets:

Net assets without donor restrictions: Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.

Net assets with donor restrictions: Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the restriction was restricted has been fulfilled or both. Net assets with donor restrictions also include contributions to its revolving funds with donor-imposed stipulations. These net assets are used to finance conservation projects.

Cash and cash equivalents: The Organization classifies cash and all short-term, highly liquid debt instruments to be cash equivalents, including money market funds with original maturities of 90 days or less.

Cash and cash equivalents—restricted: Restricted cash and cash equivalents consist of funds held for mitigation projects, which the Organization is contractually obligated to deploy into approved projects, which offset impacts to natural resources caused by the construction and operation of energy and infrastructure projects.

Financial risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents and short-term investments. All cash, cash equivalents and short-term investments are held with high credit quality financial institutions. The Organization has not experienced any losses in such accounts. Management believes there is no significant concentration of credit risk.

Cash and cash equivalents consist of amounts in institutional money market funds, which total $4,438 at December 31, 2021. The Organization maintains its cash in various operating bank deposit accounts which, at times, may exceed federally insured limits. The interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Organization invests in a professionally managed portfolio that primarily contains various fixed income securities, including a collective investment trust fund, municipal bonds, corporate bonds, asset-backed securities, mutual funds and a small allocation to common stock. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the combined financial statements.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: The Organization's investments with readily determinable fair values are reflected at their fair values in the combined statements of financial position. Interest, dividends and net gains or losses on investments are reported in the combined statements of activities as increases or decreases in net assets without donor restrictions. Interest on funds held for mitigation contracts is deferred until recognized under terms of the contract.

TCF holds less than a 6% interest as a limited partner in a real estate partnership. In accordance with the FASB ASC for nonmarketable securities, TCF accounts for the investment at cost less any impairment as TCF neither controls nor can exercise significant influence over the investee's operating and financial policies. The initial investment was $1,000 and decreased by distributions received in prior years, for a net cost basis of $525 at December 31, 2021.

TCF holds a 20% membership interest in Lupine Forest LLC (LF). LF is a limited liability company (LLC) formed in August 2021 to engage in the business of acquiring, owning and conserving certain real estate in the states of Oregon and Washington. TCF serves as the manager of LF, subject to the provisions of the LLC agreement. The other member of LF, which holds an 80% membership interest, has substantive rights under the LLC agreement, including the right to approve or disapprove various actions and can remove TCF as the manager without cause. Therefore, in accordance with FASB ASC 958-810-25, TCF has accounted for its investment in LF using the equity method of accounting. During 2021, TCF made an initial investment of $21,736, which has been adjusted for a current year loss of $61 for an ending balance of $21,675 at December 31, 2021.

Condensed financial information of LF as of and for the year ended December 31, 2021, is as follows:

Current assets	$	597
Land		108,135
Total assets	$	108,732
Current liabilities	$	357
Member's equity		108,375
Total liabilities and member's equity	$	108,732
Revenues		1
Expenses		306
Net loss	$	(305)

Receivables and promises to give: Unconditional promises to give are recognized as support in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at their net present realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Organization uses a 3% discount rate. Amortization of the discounts is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Receivables also include allowable costs in excess of amounts collected on federal and state grants. Such recoverable costs are billable and a receivable recorded when the underlying expenditures are recognized. Receivables and promises to give due in less than one year are reported at their outstanding balance.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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 periodic 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, 2021.

Notes receivable and allowance for possible losses: The Organization provides loans to various land trusts and other entities for the acquisition of conservation lands and easements and completion of other projects. 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. The Organization has recorded an allowance of $1,241 or 5% as of December 31, 2021, for conservation loans.

Property and equipment: Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of the donation, less accumulated depreciation. The Organization capitalizes all property and equipment purchased with a cost of $25 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 30 years.

Conservation land: Conservation land consists principally of real estate and conservation easements. Conservation land is real estate with ecological, historical, or cultural values, which the Organization is working with partners to conserve. Conservation land includes purchased and donated properties and conservation easements, which are held for eventual resale or donation to government agencies or other organizations or individuals who will become permanent conservation owners.

Purchased conservation land is recorded at acquisition cost. Conservation land received by donation is recorded at its estimated fair value at the date of the donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated conservation land to a specific purpose. Conservation land donated with explicit restrictions regarding its use is reported as net assets with restrictions. Costs incurred in carrying parcels of real estate, such as taxes and maintenance, are expensed as incurred. Conservation land parcels determined to have no ecological value may be sold to support land conservation efforts. To ensure the Organization's commitment to conservation, real estate with ecological value is held or transferred, including by sale, to appropriate conservation partners. When conservation land is transferred, the proceeds are included as part of total support and revenue and are shown as sales of conservation lands to others on the combined statement of activities; the carrying value of the land and transaction costs incurred with the transfer are shown as program service expenses.

Conservation easements represent restrictions on the use, subdivision and/or development of certain parcels. Gifts of conservation easements are recognized as revenue and program expenses in equal amounts upon acquisition based on the estimated fair value of the easement at the date of the donation of the easement. Purchased easements are recognized as a program expense upon acquisition based on the acquisition cost of the easement. The estimated value of easements is not reported on the combined statement of financial position. The Organization believes that conservation easements play an important role in enabling the Organization to achieve its charitable purpose of land and water conservation through the preservation of the natural values of land.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of long-lived assets: The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell. During the year ended December 31, 2021, the Organization recognized impairment of $8,420 on conservation land held for resale.

Amounts due to other nonprofit organizations and government agencies: Amounts due to other nonprofit organizations and government agencies are a result of agreements or commitments the Organization has with respect to certain real estate parcels it holds. These principally reflect cases where the Organization has entered into cooperative agreements to carry out conservation land projects with other organizations, which will result in the eventual transfer of the land parcels. These arrangements and commitments totaled $39,134 at December 31, 2021.

Bonds and notes payable: Under certain circumstances, the Organization uses debt to supplement the cost of the acquisition of conservation lands and easements. Most debt is in the form of bonds and notes payable from foundations. The Organization 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. Legal and accounting costs, as well as other expenses associated with debt issuance, are being amortized on the effective interest method over the term of the debt acquired. Unamortized debt issuance costs are reported with bonds and notes payable.

Noncontrolling interest in combined subsidiary: The noncontrolling interest represents the equity interest in WPF, which began operations during the year ended December 31, 2020. WPF is a limited liability company, in which TCF has a 75% membership interest, and an unrelated nonprofit entity holds the remaining 25% membership interest. TCF combines WPF financial statements as TCF is presumed to control the entity as the majority member and manager of WPF. A separate capital account is maintained for each member. The value of such account at any time shall be the sum of that member's contributions to capital and the share of the profits of WPF allocated to the account less all distributions made from the account and the share of the losses of WPF allocated to the capital account. All items of income, gain, loss and deductions are allocated to the members' capital accounts pro rata based on the membership agreement.

Revenue recognition: The Organization receives funding for its programs and acquisition of conservation land from federal and state grants, and from corporations and foundations, in the form of land acquisition or operating grants. Support and revenue from federal and state awards is recognized at the time expenses allowable under the award are incurred, since such awards can be terminated by the grantor, or refunding can be required under certain circumstances coupled with other performance and/or control barriers. For this reason, the Organization's federal and state awards are considered conditional, and so, referred to as "conditional grants".

Unconditional contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Donated securities and conservation land and easements are recorded as support at their estimated fair values at the date of the donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as net assets with donor restrictions.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributions and grant support are recognized when the conditions of the contribution or grant are substantially met. Any grant funds received in advance are recorded as refundable advances. Revenue from contracts is recognized as the service is completed. Mitigation capital funds and grant funds of $108,956 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statement of financial position as of December 31, 2021.

Functional expense: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses, such as occupancy costs, travel, insurance and other office expenses that support programs are allocated to the programs based on full-time employee salaries and a percentage of time worked on program-specific duties.

Income taxes: TCF is organized as a state of Maryland nonprofit corporation generally 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 is a state of Maryland nonprofit corporation exempt from income taxes under Section 501(c)(3) and is a supporting organization to TCF under Section 509(a)(3) of the IRC. WPF is a limited liability company incorporated under the laws of the state of Delaware. WPF is subject to federal, state and local tax authorities. TCF and SCI are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service (IRS). In addition, TCF and SCI qualify for charitable contribution deductions and have been classified as organizations that are not considered private foundations. Income, which is not related to exempt purposes, less applicable donations, is subject to federal and state income taxes. Additionally, TCF and SCI had no net unrelated business income for the year ended December 31, 2021, and, therefore, determined it is not required to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the combined financial statements to comply with the provisions of this guidance. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2018.

Use of estimates: The preparation of combined financial statements in conformity with U.S. GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include the allowance for loan losses. Actual results could differ from those estimates.

Recent accounting pronouncements: In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Organization beginning on January 1, 2022. The Organization is currently evaluating the impact of this new guidance on its combined financial statements.

(In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. In November 2019, the FASB issued ASU 2019-10, *Leases (Topic 842) Effective Dates*, which delayed the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities,* further delaying the effective date one additional year, making it effective for annual reporting periods beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of its pending adoption of the new standard on its combined financial statements.

Prior period information: The combined financial statements include certain prior year summarized comparative information in total but not by net asset class or function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Reclassifications: Certain items in the 2020 information have been reclassified to conform with current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: Management has evaluated subsequent events through April 22, 2022, which is the date the combined financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by the Organization at December 31, 2021, consist of the following:

Cash	$ 156,955
Money market funds	4,438
	$ 161,393
Unrestricted cash and cash equivalents	$ 67,554
Restricted cash and cash equivalents	93,839
	$ 161,393
Cash held for mitigation projects	$ 93,839
	$ 93,839

Restricted cash balances of $93,839 at December 31, 2021, were held for mitigation projects.

(In Thousands)

Note 3. Investments

Investments consisted of the following at December 31, 2021:

Investment in Lupine Forest LLC	$	21,675
Collective investment trust funds		14,166
Mutual funds		10,276
Corporate bonds		3,276
Municipal bonds		2,664
Investment in partnership (held at cost)		525
Asset-backed securities		438
International fixed income		270
Common stock		24
	$	53,314

For the year ended December 31, 2021, investment income, net of fees, from cash, cash equivalents and investments totaled approximately $1,872, and consisted primarily of interest and dividend income.

Note 4. Fair Value Measurements

The Organization follows the Fair Value Measurement Topic of the FASB ASC, which establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements.

The topic requires that assets and liabilities carried at fair value will be classified and disclosed in one of the three following categories.

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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.

Money market funds, mutual funds and common stock are classified as Level 1 instruments as there are quoted market prices in active markets for identical assets.

The asset-backed securities, municipal bonds and corporate bonds receive interest income based on their stated interest rates and are classified as Level 2 instruments, as there are no quoted markets prices in active markets for identical assets. The value is determined using models and other valuation methodologies, which are corroborated by market data.

(In Thousands)

Note 4. Fair Value Measurements (Continued)

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 Organization's investments at fair value as of December 31, 2021:

	Total	Level 1	Level 2	Level 3
Investments:				
Money market funds	$ 4,438	$ 4,438	$ -	$ -
Collective investment trust funds (a)	14,166	-	-	-
Corporate bonds	3,276	-	3,276	-
Municipal bonds	2,664	-	2,664	-
International fixed income	270		270	-
Mutual funds	10,276	10,276	-	-
Common stock	24	24	-	-
Asset-backed securities	438	-	438	-
	$ 35,552	$ 14,738	$ 6,648	$ -

(a) In accordance with the Fair Value Measurement Topic, certain investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient and have not been classified in the fair value hierarchy.

The table below reconciles fair value assets to the combined statement of financial position at December 31, 2021:

Cash and cash equivalents held at fair value	$ 4,438
Investments held at fair value	16,948
Investments held at net asset value	14,166
	$ 21,386
Investments held at fair value	$ 16,948
Investments held at net asset value	14,166
Equity method investment (Lupine Forest, LLC)	21,675
Investments held at cost	525
	$ 53,314

Note 5. Promises to Give

Unconditional promises to give at December 31, 2021, were $5,136, with $3,281 due within one year and $1,855 due within one to five years. At December 31, 2021, the Organization recorded a discount of $106 on long-term promises to give.

(In Thousands)

Note 5. Promises to Give (Continued)

In addition to the unconditional promises to give, the Organization has conditional promises to give totaling $11,982 at December 31, 2021, which are conditioned on the Organization purchasing certain parcels of land and has not been recorded in the combined financial statements.

Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2021, are as follows:

Buildings and leasehold improvements	$ 3,788
Furniture and equipment	1,196
Vehicles	289
	5,273
Less accumulated depreciation	(3,110)
	$ 2,163

Depreciation expense for the year ended December 31, 2021, was $229.

Note 7. Notes Receivable

Notes receivable consists primarily of loans made to various organizations carrying out projects and land acquisition transactions at December 31, 2021, are as follows:

Notes receivable	$ 24,821
Allowance for possible losses	(1,241)
Notes receivable, net	$ 23,580

At December 31, 2021, the Organization had 18 notes receivable outstanding totaling $24,821. The notes carry remaining terms of less than one year to five years and carry interest rates of 2.975% to 7.0%.

Accrued interest receivable amounted to $220 at December 31, 2021, and is included in receivables on the combined statement of financial position.

For the year ended December 31, 2021, interest income from these notes was $939.

Note 8. Bonds and Notes Payable

Bonds and notes payable consist of the following at December 31, 2021:

	Original Amount Borrowed	Balance Remaining
Bond and notes	$ 347,098	$ 306,966
Amounts representing implied interest		(16,307)
Unamortized debt issuance costs		(588)
Total		$ 290,071

(In Thousands)

Note 8. Bonds and Notes Payable (Continued)

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable. Implied interest discount was $16,307 at December 31, 2021.

In 2020, as part of the Coronavirus Aid, Relief and Economic Security Act, TCF obtained a loan of $3,843 through the Small Business Administration Paycheck Protection Program (PPP). TCF accounted for the loan under FASB ASC Topic 470, Debt. In 2021, TCF applied for and was granted full forgiveness, which is shown on the combined statement of activities with investment and other program income, of the principal amount and all accrued interest totaling $3,888.

In 2019, TCF and SCI issued, through a private placement with a financial institution, $150,000 10-year taxable green bonds (Working Forest Conservation Program), Series 2019, due December 15, 2029. Interest accrues from the date of issuance at a rate of 3.474%. Interest is payable June 15 and December 15 of each year, commencing December 15, 2019.

Additionally, the Organization has 23 notes payable to foundations totaling $131,778 and seven other notes payable to other lenders totaling $25,187. The notes are unsecured, except two that are secured by deeds of trust, with stated interest rates between 0% and 2.30%. Maturity dates range from 2022 to 2031. All of the Organization’s notes payable were incurred to fund specific land acquisitions or loans to conservation partners, and the intended maturities generally align with management’s expectation of when the Organization expects to be repaid on those transactions.

Interest expense, including amortization of debt issuance costs, for the year ended December 31, 2021, was $9,368, of which $4,498 is attributable to the amortization of note payable discount.

The Organization did not have any ratio-based financial covenants in the bond issue or any other material financing document.

Aggregate annual principal payments applicable to bonds and notes payable in future fiscal years is as follows:

Years ending December 31:	
2022	$ 14,461
2023	23,056
2024	30,356
2025	11,603
2026	18,070
Thereafter	209,420
	306,966
Less amounts representing implied interest	(16,307)
Less amounts representing unamortized debt issuance costs	(588)
	$ 290,071

(In Thousands)

Note 9. Line of Credit

The Organization has a revolving line of credit agreement with a financial institution for up to $35,000 to fund short-term working capital needs. The line of credit expires June 30, 2023. Outstanding draws on the line of credit bear interest at a variable rate, which was 0.75% at December 31, 2021. At December 31, 2021, the Organization had no borrowings against this line of credit agreement.

Note 10. Commitments and Contingencies

Operating leases: The Organization leases offices under various operating leases. Under terms of the respective lease agreements, the Organization has received rent abatements. The rent abatements received and escalating annual rent increases, in additional to landlord improvement allowances, are being recognized on a straight-line basis over the life of the lease agreements and reflected in the accompanying combined statement of financial position with accrued expenses.

The following schedule summarizes the future minimum lease commitments:

Years ending December 31:		
2022	$	1,324
2023		1,175
2024		1,043
2025		324
2026		253
Thereafter		104
	$	4,223

Total rent expense for the year ended December 31, 2021, was $1,251.

Federal awards and contract programs: TCF participates in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, TCF's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting or contracting agencies cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Pandemic: The continued global pandemic in 2021 has created substantial volatility in financial markets and the economy, including the geographic areas in which the Organization operates. While the Organization has mitigated the financial impact to its business, it is unknown how long these conditions will last. Accordingly, there could be further negative impact to operations, the extent to which will depend on future developments which are highly uncertain and cannot be predicted and, as such, cannot be determined.

Note 11. Retirement Plan

TCF has a tax-deferred 403(b) retirement plan covering substantially all of its employees. Employer contributions are discretionary and based upon the eligible employees' annual salary. The contributions to the TCF's retirement plan for the year ended December 31, 2021, totaled $1,800.

(In Thousands)

Note 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are those net assets whose use by the Organization is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2021, donor restricted net assets consisted of the following:

Amounts restricted for various real estate acquisitions, projects or operating programs	$	140,370
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any revolving fund loans required to be repaid		107,157
Total net assets with donor restrictions	$	247,527

Note 13. Board-Designated Net Assets

TCF has established the Stewardship and Defense Fund and its Board of Directors designated $1,000 from its net assets without donor restrictions. The program addresses stewardship of conservation easements as well as legal and defense of all conservation real estate.

Note 14. Related Party Transactions

PCAP is a certified Community Development Financial Institution (CDFI) that provides financing for and technical assistance to natural resource-based businesses. PCAP, a supporting organization to TCF, has entered into a management services agreement with TCF.

Under the terms of the agreement, TCF provides certain staffing and administrative services to PCAP. The management fee under the agreement was $2,571 for the year ended December 31, 2021, and $100 is due from PCAP as of December 31, 2021, and is included as a due from an affiliate on the combined statement of financial position. The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

There were no payables due to PCAP as of December 31, 2021.

During 2021, TCF and PCAP agreed to pursue a legal and financial separation of PCAP from TCF. This decision has been made due to proposed changes in the U.S. Treasury Department’s regulations for CDFIs that will require certain of their affiliates to have as their primary mission promoting community development, so that the CDFI can remain eligible for funds from the U.S. Treasury Department’s CDFI Fund and other funders. TCF and PCAP do not believe this pending requirement can be met as their relationship is currently structured. The full separation is expected to be completed during 2022. As part of the separation, the management fee will cease and PCAP will maintain all payroll and information technology services.

(In Thousands)

Note 15. Liquidity and Availability of Financial Resources

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to earn a return while preserving capital of its funds not required for annual operations. The Organization's financial assets available within one year of December 31, 2021, for general expenditures are as follows:

Cash and cash equivalents	$ 67,554
Restricted cash and cash equivalents	93,839
Investments	53,314
Promises to give, net	5,030
Receivables	6,490
Due from an affiliate	100
Notes receivable, net	23,580
Total financial assets available	249,907
Less those not available for general expenditure within one year due to:	
Contractual or imposed restrictions:	
Restricted cash and cash equivalents	(93,839)
Board-designated net assets	(1,000)
Donor-restricted funds	(70,259)
Partnership agreement	(21,675)
Notes receivable, due after one year, net	(17,933)
	(204,706)
Financial assets available to meet cash needs for general expenditures within one year	$ 45,201

The Organization is also supported by restricted programmatic funds that can be used to support programmatic and general expenditures. Because a donor's restriction requires funds to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities.

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments. In addition, as a part of its liquidity management, the Organization invests cash in excess of daily requirements in short-term investments. The Organization assesses its operating budget and cash flow projections monthly to monitor the availability of resources to support operations. In the event of an unanticipated liquidity need, the Organization could draw on its bank line of credit (see Note 9).

Note 16. Changes in Combined Net Assets Without Donor Restrictions

The schedule of changes in combined net assets without donor restrictions related to the Organization and noncontrolling interest is as follows:

	The Organization	Noncontrolling Interest	Total
Net assets without donor restrictions:			
Balance, December 31, 2020	$ 239,257	$ 5,596	$ 244,853
Capital contribution by noncontrolling interest	-	56	56
Change in net assets without donor restrictions	8,125	114	8,239
Balance, December 31, 2021	$ 247,382	$ 5,766	$ 253,148