The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Financial Report
December 31, 2022

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
The Conservation Fund, a Nonprofit Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying combined financial statements of The Conservation Fund, a Nonprofit Corporation and Affiliates (the Fund), which comprise the combined statement of financial position as of December 31, 2022, the related combined statements of activities, functional expenses and cash flows for the year the 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 Fund as of December 31, 2022, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards)*. 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 Fund 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, on January 1, 2022, the Fund adopted new accounting guidance for its leases under Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases. 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 Fund's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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 opinions. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Fund'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 Fund'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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2023, 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 solely 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 the effectiveness of the Fund's 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 Fund's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
May 23, 2023

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Financial Position
December 31, 2022
(In Thousands)

Assets		
Cash and cash equivalents	$	99,070
Restricted cash and cash equivalents		76,900
Investments		47,977
Receivables		4,056
Notes receivable, net		23,557
Promises to give, net		3,577
Other assets		5,077
Property and equipment, net		1,889
Operating lease right of use assets		2,435
Conservation land		654,977
Total assets	$	919,515
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	9,589
Deferred revenue and refundable advances		94,315
Amounts due to other nonprofit organizations and government agencies		22,513
Operating lease liabilities		3,040
Bonds and notes payable, net		286,283
Total liabilities		415,740
Commitments and contingencies (Note 10)		
Net assets:		
Without donor restrictions:		
The Fund		265,215
Noncontrolling interest in White Pine Forest, LLC		5,889
		271,104
With donor restrictions		232,671
Total net assets		503,775
Total liabilities and net assets	$	919,515

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Activities
Year Ended December 31, 2022
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Real estate activities:			
Support and revenue:			
Contributions and grants	$ 8,560	$ 40,903	$ 49,463
Contributed professional services	323	-	323
Land contributed for conservation	9,546	-	9,546
Contract income	16,034	-	16,034
Investment and other program income	12,596	-	12,596
Sales of conservation land to others	203,308	-	203,308
Net assets released from restrictions	39,245	(39,245)	-
	289,612	1,658	291,270
Non-real estate activities:			
Support and revenue:			
Contributions and grants	7,717	6,494	14,211
Contributed professional services	3,134	-	3,134
Contract income	1,547	-	1,547
Investment and other program income	5,818	-	5,818
Net assets released from restrictions	23,008	(23,008)	-
	41,224	(16,514)	24,710
Total support and revenue	330,836	(14,856)	315,980
Expenses:			
Program services:			
Real estate programs	286,227	-	286,227
Non-real estate programs	16,709	-	16,709
Total program services	302,936	-	302,936
Supporting services:			
Management and general	6,419	-	6,419
Fundraising	4,186	-	4,186
Total supporting services	10,605	-	10,605
Total expenses	313,541	-	313,541
Change in net assets before effects of discontinued operations	17,295	(14,856)	2,439
Discontinued operations (Note 1)			
Revenue and support from discontinued operations	1,748	-	1,748
Expenses from discontinued operations	(860)	-	(860)
Loss on disposal of discontinued operations	(15,492)	(8,772)	(24,264)
Net discontinued operations	(14,604)	(8,772)	(23,376)
Change in net assets	2,691	(23,628)	(20,937)
Net assets, beginning of year	268,384	256,299	524,683
Capital contribution by noncontrolling interest	29	-	29
Net assets, end of year	$ 271,104	$ 232,671	$ 503,775

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Functional Expenses
Year Ended December 31, 2022
(In Thousands)

	Program Services			Supporting Services			
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Discontinued Operations PCAP	Total
Personnel and fringe benefits	$ 16,962	$ 5,456	$ 22,418	$ 4,009	$ 2,584	$ -	$ 29,011
Contractual services	8,054	965	9,019	811	484	346	10,660
Grants	30,541	6,422	36,963	-	-	-	36,963
Postage, printing and photo	247	54	301	38	231	-	570
Equipment, supplies and depreciation	1,104	334	1,438	339	218	115	2,110
Occupancy	3,888	313	4,201	197	145	26	4,569
Insurance	460	142	602	89	58	-	749
Real estate taxes	2,359	-	2,359	-	-	-	2,359
Travel	820	191	1,011	160	108	22	1,301
Interest	9,696	-	9,696	-	-	332	10,028
Accelerated notes payable discount	1,349	-	1,349	-	-	-	1,349
Conservation land carrying costs	4,197	93	4,290	58	38	-	4,386
Other	6,088	2,739	8,827	718	320	19	9,884
Book value of conservation land donated	8,506	-	8,506	-	-	-	8,506
Provision for conservation easements	3,820	-	3,820	-	-	-	3,820
Book value of conservation land sold	188,136	-	188,136	-	-	-	188,136
Total expenses	$ 286,227	$ 16,709	$ 302,936	$ 6,419	$ 4,186	$ 860	$ 314,401

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statements of Cash Flows
Year Ended December 31, 2022
(In Thousands)

Cash flows from operating activities:		
Change in net assets from continuing operations	$	2,439
Change in net assets from discontinued operations		(23,376)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Continuing operations:		
Depreciation		250
Amortization of debt issuance costs		74
Provision for losses on notes receivable and bad debt write-offs		(1)
Contributions from implied interest discount, net		721
Donated conservation land to Organization		(9,546)
Donated conservation land from Organization		4,354
Losses on disposition of land, easements and others		3,822
Losses on disposition of property and equipment		24
Accelerated notes payable discount		1,349
Change in operating leases		175
Net realized and unrealized gains on investments		4,796
Loss on disposition of PCAP, net of cash ($18,925)		5,339
(Increase) decrease in operating activities:		
Receivables		2,434
Promises to give		1,453
Other assets		545
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses		(2,063)
Deferred revenue and refundable advances		(14,641)
Amounts due to other nonprofit organizations and government agencies		(16,621)
Additional cash provided by (used in) conservation land projects:		
Proceeds from disposition of conservation land held		203,320
Acquisition of conservation land projects		(163,701)
Net cash provided by continuing operations		24,522
Discontinued operations:		
Provision for losses on notes receivable and bad debt write-offs		1,669
Contributions from implied interest discount, net		1
(Increase) decrease in operating activities:		
Receivables		(9)
Promises to give		234
Other assets		105
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses		857
Deferred revenue and refundable advances		10
Amounts due to other nonprofit organizations and government agencies		65
Net cash used in discontinued operations		(20,444)
Net cash provided by operating activities		4,078
Cash flows from investing activities:		
Continuing operations:		
Purchases of investments		(2,177)
Proceeds from sale of investments		2,718
Issuance of notes receivable		(7,394)
Repayments of principal on notes receivable		7,418
Net cash provided by continuing operations		565
Discontinued operations:		
Issuance of notes receivable		(7,276)
Repayments of principal on notes receivable		2,272
Net cash used in discontinued operations		(5,004)
Net cash used in investing activities		(4,439)

(Continued)

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statements of Cash Flows (Continued)
Year Ended December 31, 2022
(In Thousands)

Cash flows from financing activities:	
Continuing operations:	
Capital contribution received—noncontrolling interest	29
Proceeds from long-term debt	18,923
Repayment of long-term debt	(24,855)
Net cash used in continuing operations	(5,903)
Discontinued operations:	
Proceeds from long-term debt	525
Repayment of long-term debt	(1,121)
Advances on secured borrowings, participations	1,584
Repayments on secured borrowings, participations	(127)
Net cash provided by discontinued operations	861
Net cash used in financing activities	(5,042)
Net decrease in cash and cash equivalents	(5,403)
Cash and cash equivalents, and restricted cash:	
Beginning (a)	$ 181,373
Ending	$ 175,970

(a) Includes cash of discontinued operations of $19,980 at December 31, 2021

Supplemental disclosure of cash flow information:	
Cash paid for interest	$ 6,705

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), White Pine Forest, LLC (WPF), Pelican River Forest, LLC (PRF) and Partner Community Capital (PCAP) (hereafter collectively referred to as the Fund) 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 Fund's mission statement is as follows: The Fund, 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.

During 2021, TCF and PCAP, a certified Community Development Financial Institution (CDFI) that provides financing for and technical assistance to natural resource-based businesses, agreed to pursue a legal and financial separation of PCAP from TCF for programmatic reasons. The full separation was completed during 2022 with an effective date of March 31, 2022.

The Fund'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 U.S. 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.

The Fund's non-real estate activities also included PCAP's lending and strategic initiatives programs.

Lending program: PCAP is a specialized, niche lender for start-up and early stage small businesses in underserved markets. The primary goal of its loan programs is to create or retain full-time private sector jobs. PCAP provides microloans in amounts from $1 to $50 and business loans sized from $50 to $1,000. PCAP is approved as a United States Department of Agriculture (USDA) Business & Industry Guaranteed Lender, giving it the ability to participate in transactions up to $2,500.

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

PCAP's business clients are predominantly located in economically distressed rural communities that are unable to access capital from traditional sources. Target sectors include, but are not limited to, environmental services, local food system infrastructure, heritage and recreation-based tourism, value-added agriculture, renewable energy, energy efficiency, recycling, water conservation and treatment, secondary forest products, natural medicines, green building, critical community services and technologies that support the sustainable use of natural resources.

PCAP pursues Triple Bottom Line (TBL) small business development as a means to responsibly create wealth in distressed communities. Small and mid-sized businesses can demonstrate the viability of utilizing natural assets responsibly, while offering opportunities in low income communities to build wealth through the creation of living wage jobs with benefits and skill building opportunities. While PCAP specializes in financing TBL companies, it recognizes that economically and environmentally healthy communities require a diverse range of businesses and services, so PCAP expanded its work.

Strategic initiatives program: PCAP's strategic initiatives use targeted funding and partnerships with small business related or sector-specific community partners to devote added resources to particular sectors or constituencies within PCAP's stated mission. These initiatives frequently combine PCAP's loan capital with a) targeted business advisory services and/or b) grant funding from partners in order to ensure borrower success and buy down the cost of critical infrastructure or services for the constituencies PCAP seeks to serve.

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

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

Basis of presentation: The accompanying combined financial statements 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 Fund 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 Fund 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.

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

Some donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor contributions to be used for loan capital are recorded by PCAP in its Loan Capital Revolving Fund as perpetual in nature. The funds are used to provide financing capital to qualifying businesses. The Loan Capital Revolving Fund is replenished as the loan principal is repaid. In the event that a note receivable funded by contributions that are perpetual in nature becomes uncollectible, PCAP writes off the uncollectible amount (loss) against the net assets.

Discontinued operations: The combined financial statements and related notes reflect activities of PCAP as a discontinued operation as TCF completed a legal and financial separation of PCAP for programmatic reasons. Accordingly, unless otherwise specified, the results and disclosures exclude discontinued operations, which consist of the former PCAP affiliate and related activities. Accordingly, the assets, liabilities, operating results and cash flows for all periods presented have been reclassified as discontinued operations.

Cash and cash equivalents: The Fund 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 Fund 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 Fund 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 Fund has not experienced any losses in such accounts. Management believes there is no significant concentration of credit risk.

Cash and cash equivalents include amounts in institutional money market fund, which total $4,911 at December 31, 2022. The Fund 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 Fund has not experienced any losses in such accounts. The Fund believes it is not exposed to any significant financial risk on cash.

The Fund 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.

Investments: The Fund's investments with readily determinable fair values are reflected 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 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.

(In Thousands)

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

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. At December 31, 2022, TCF's interest in LF was $21,436.

Condensed financial information of LF as of and for the year ended December 31, 2022, is as follows:

Current assets	$	1,437
Land		106,081
Total assets	$	107,518
Current liabilities	$	340
Member's equity		107,178
Total liabilities and member's equity	$	107,518
Revenues	$	5,231
Expenses		6,547
Net loss	$	(1,316)

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 Fund 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. 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, 2022.

Notes receivable and allowance for possible losses: The Fund 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 Fund has recorded an allowance of $1,240 or 5% as of December 31, 2022, for conservation loans.

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

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 Fund 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 Fund 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 donor 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 Fund’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 Fund believes 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.

Valuation of long-lived assets: The Fund 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, 2022, the Fund did not recognize impairment 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 Fund has with respect to certain real estate parcels it holds. These principally reflect cases where the Fund 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 $22,513 at December 31, 2022.

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

Bonds and notes payable: Under certain circumstances, the Fund uses debt to supplement the cost of the acquisition of conservation lands and easements and for financing for natural resource-based businesses. Most debt is in the form of bonds and notes payable from foundations, financial institutions 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. 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. Items of income, gain, loss and deductions are allocated to the members' capital accounts pro rata based on the membership agreement.

Revenue recognition: The Fund 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 Fund'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. Donor-restricted support that are initially conditional contributions are recognized as increases in net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions, when conditions are substantially met.

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.

The Fund records donated professional services at the respective fair values of the services received. The Fund received donated professional services totaling $3,457 during the year ended December 31, 2022, which were utilized for real estate and non-real estate programmatic activities.

The value of donated professional fees is based on current rates for similar services in a similar market. None of the donated professional services are restricted in use. The Fund did not monetize any contributed nonfinancial assets and unless otherwise noted, contributed nonfinancial assets did not have donor restrictions.

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

Contributions and grant support are recognized when 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 $94,315 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statement of financial position as of December 31, 2022.

PCAP's primary revenues came from interest and fees earned on loans originated in connection with the execution of loans to third parties. These revenues are without donor restrictions and are an integral part of the funding of PCAP operations. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

Functional expense: The costs of providing the various programs and other activities have been summarized on a functional basis in the combined 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 and PCAP are organized as state of Maryland nonstock corporations generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and are publicly supported organizations under Section 509(a)(1). SCI is a State of Maryland stock 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 and PRF are limited liability companies incorporated under the laws of the state of Delaware. WPF is subject to federal, state and local tax authorities. PRF is a disregarded entity of TCF for income tax purposes. TCF, SCI and PCAP are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service (IRS). In addition, TCF, SCI and PCAP 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. TCF, SCI and PCAP had net no unrelated business income for the year ended December 31, 2022, 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 Fund's tax positions and concluded that the Fund had taken no uncertain tax positions that require adjustment to the combined financial statements to comply with the provisions of this guidance. The Fund files income tax returns in the U.S. federal jurisdiction. Generally, the Fund is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2019.

Use of estimates: The preparation of combined financial statements in conformity with generally accepted accounting principles in the United States (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 statement, 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.

Adopted accounting pronouncement: 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.

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

ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. The Fund adopted this standard as of December 31, 2022 and noted no material impact on its financial statements.

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the statement of functional expenses. The Fund adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Fund has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Fund's historical accounting treatment under ASC Topic 840, Leases.

The Fund elected the package of practical expedients under the transition guidance within Topic 842, in which the Fund does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Fund has not elected to adopt the hindsight practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Fund determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Fund obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Fund also considers whether its service arrangements include the right to control the use of an asset.

The Fund made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Fund made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

(In Thousands)

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

The Fund has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to the Entity, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Fund's operating leases of $3,104 and $3,894, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact the change in net assets, or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Subsequent events: The Fund has evaluated subsequent events through May 23, 2023, the date on which the combined financial statements were available to be issued.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by the Fund at December 31, 2022, consist of the following:

Cash	$	171,059
Money market funds		4,911
	$	175,970
Unrestricted cash and cash equivalents	$	99,070
Restricted cash and cash equivalents		76,900
	$	175,970

Restricted cash balances of $76,900 at December 31, 2022, were held for mitigation projects.

Note 3. Investments

Investments consisted of the following at December 31, 2022:

Investment in Lupine Forest LLC	$	21,436
Collective investment trust funds		12,335
Mutual funds		8,478
Corporate bonds		3,503
Municipal bonds		1,838
Asset-backed securities		230
International fixed income		155
Common stock		2
	$	47,977

For the year ended December 31, 2022, investment loss, net of fees, from cash, cash equivalents and investments totaled approximately $4,160, and consisted primarily of interest and dividend income and unrealized losses on investments.

(In Thousands)

Note 4. Fair Value Measurements

The Fund 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 collective investment trust fund, 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.

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 tables sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of December 31, 2022:

	Total	Level 1	Level 2	Level 3
Investments:				
Money market funds	$ 4,911	$ 4,911	$ -	$ -
Collective investment trust funds (a)	12,335	-	-	-
Corporate bonds	3,503	-	3,503	-
Municipal bonds	1,838	-	1,838	-
International fixed income	155	-	155	-
Mutual funds	8,478	8,478	-	-
Common stock	2	2	-	-
Asset-backed securities	230	-	230	-
	$ 31,452	$ 13,391	$ 5,726	$ -

(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.

(In Thousands)

Note 4. Fair Value Measurements (Continued)

The table below reconciles fair value assets to the combined statement of financial position at December 31, 2022:

Cash and cash equivalents held at fair value	$	4,911
Investments held at fair value		14,206
Investments held at net asset value		12,335
	$	31,452

Investments held at fair value	$	14,206
Investments held at net asset value		12,335
Equity method investment (Lupine Forest, LLC)		21,436
	$	47,977

Note 5. Promises to Give

Unconditional promises to give at December 31, 2022, were $3,608, with $3,118 due within one year and $490 due within one to five years. At December 31, 2022, the Fund recorded a discount of $31, on long-term promises to give.

In addition to the unconditional promises to give, TCF has conditional promises to give totaling $25,725 at December 31, 2022, which are conditioned on the Fund purchasing certain parcels of land and has not been recorded in the combined financial statement.

Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2022, are as follows:

Buildings and leasehold improvements	$	3,788
Furniture and equipment		902
Vehicles		256
		4,946
Less accumulated depreciation		(3,057)
	$	1,889

Depreciation expense for the year ended December 31, 2022, was $250.

Note 7. Notes Receivable

Notes receivable consists primarily of loans made to various organizations carrying out projects and land acquisition transactions at December 31, 2022, as follows:

Notes receivable	$	24,797
Allowance for possible losses		(1,240)
Notes receivable, net	$	23,557

At December 31, 2022, TCF had 17 notes receivable outstanding totaling $24,797. The notes carry remaining terms of less than one year to four years, and carry interest rates of 3% to 7.0%.

(In Thousands)

Note 7. Notes Receivable (Continued)

Accrued interest receivable amounted to $165 at December 31, 2022, and is included in receivables on the combined statement of financial position.

For the year ended December 31, 2022, interest income from these notes was $848.

Note 8. Bonds and Notes Payable

Bonds and notes payable consist of the following at December 31, 2022:

	Original Amount Borrowed	Balance Remaining
Bonds and notes	$ 358,021	$ 301,034
Amounts representing implied interest		(14,237)
Unamortized debt issuance costs		(514)
Total		$ 286,283

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 $14,237 at December 31, 2022.

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, TCF has 24 notes payable to foundations totaling $131,778 and five other notes payable to other lenders totaling $25,187. The notes are unsecured, except three that are secured by deeds of trust, with stated interest rates between 0% and 2.30%. Maturity dates range from 2023 to 2031. All of TCF'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 TCF expects to be repaid on those transactions.

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

Interest expense, including amortization of debt issuance costs, for the year ended December 31, 2022, was $10,028, of which $5,535 is attributable to the amortization of note payable discount.

(In Thousands)

Note 8. Bonds and Notes Payable (Continued)

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

Years ending December 31:		
2023	$	20,382
2024		22,235
2025		35,195
2026		23,079
2027		18,175
Thereafter		181,968
		301,034
Less amounts representing implied interest		(14,237)
Less amounts representing unamortized debt issuance costs		(514)
	$	286,283

Note 9. Revolving Lines of Credit

TCF and SCI have 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 February 28, 2025. Outstanding draws on the line of credit bear interest at a variable rate, which was 4.95% at December 31, 2022. At December 31, 2022, there were no borrowings against this line of credit agreement.

Note 10. Commitments and Contingencies

Federal awards and contract programs: TCF and PCAP participate in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, TCF and PCAP'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.

Note 11. Leases

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. Some leases include one or more options to renew, generally at the Organization's sole discretion, with renewal terms that can extend the lease term. In addition, certain leases contain termination options, where the rights to terminate are held by either the Organization, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. The Organization's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. For the year ended December 31, 2022, total operating lease cost was $944.

At December 31, 2022, the weighted-average remaining lease term for operating leases is 2.97 years. At December 31, 2022, the weighted-average discount rate for operating leases is 1.35%.

(In Thousands)

Note 11. Leases (Continued)

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows—payments on operating leases	$	1,130
Right of use assets obtained in exchange for new lease obligations:		
Operating leases	$	3,343

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

Years ending December 31:		
2023	$	1,207
2024		1,106
2025		341
2026		317
2027		139
Total lease payments		3,110
Less imputed interest		(70)
Total present value of the lease liabilities	$	3,040

Note 12. Retirement Plan

The Fund 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 Fund's retirement plan for the year ended December 31, 2022, totaled $1,583.

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions are those net assets whose use by the Fund is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2022, donor restricted net assets consisted of the following:

Restricted for specific purpose:		
Amounts restricted for various real estate acquisitions, projects or operating programs	$	122,615
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		110,056
Total net assets with donor restrictions	$	232,671

(In Thousands)

Note 14. 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 15. Liquidity and Availability of Financial Resources

The Fund 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 Fund's financial assets available within one year of December 31, 2022, for general expenditures are as follows:

Cash and cash equivalents	$ 99,070
Restricted cash and cash equivalents	76,900
Investments	47,977
Promises to give	3,577
Receivables	4,056
Notes receivable, net	23,557
Total financial assets available	255,137
Less those not available for general expenditure within one year due to:	
Contractual or imposed restrictions:	
Restricted cash and cash equivalents	(76,900)
Board-designated net assets	(1,000)
Donor-restricted funds	(65,524)
Partnership agreement	(21,436)
Notes receivable, due after one year, net	(18,255)
	(183,115)
Financial assets available to meet cash needs for general expenditures within one year	$ 72,022

The Fund 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 Fund must maintain sufficient resources to meet those responsibilities.

The Fund 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 Fund invests cash in excess of daily requirements in short-term investments. The Fund 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 Fund could draw on its bank lines of credit (see Note 9).

(In Thousands)

Note 16. Changes in Combined Net Assets Without Donor Restrictions

The schedule of changes in combined net assets without donor restrictions for the year ended December 31, 2022, related to the Fund and noncontrolling interest is as follows:

	The Fund	Noncontrolling Interest	Total
Net assets without donor restrictions:			
Balance, December 31, 2021	$ 262,618	$ 5,766	$ 268,384
Capital contribution by noncontrolling interest	-	29	29
Change in net assets without donor restrictions	2,597	94	2,691
Balance, December 31, 2022	$ 265,215	$ 5,889	$ 271,104