

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Financial Report
December 31, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
The Conservation Fund, a Nonprofit Corporation

Report on the Financial Statements

We have audited the accompanying combined financial statements of The Conservation Fund, a Nonprofit Corporation and Affiliates (the Fund), which comprise the combined statements of financial position as of December 31, 2020 and 2019, the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Conservation Fund, a Nonprofit Corporation and Affiliates as of December 31, 2020 and 2019, 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.

RSM US LLP

McLean, Virginia
April 15, 2021

The Conservation Fund, a Nonprofit Corporation and Affiliates

**Combined Statements of Financial Position
December 31, 2020 and 2019
(In Thousands)**

	2020	2019
Assets		
Cash and cash equivalents	\$ 98,063	\$ 109,616
Restricted cash and cash equivalents	102,158	125,437
Investments	30,032	64,326
Receivables	5,601	7,486
Notes receivable, net	76,670	71,450
Promises to give, net	4,131	3,391
Other assets	9,075	2,332
Property and equipment, net	2,255	2,299
Conservation land	687,333	638,257
	<u>687,333</u>	<u>638,257</u>
Total assets	\$ 1,015,318	\$ 1,024,594
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,137	\$ 12,046
Line of credit	150	500
Deferred revenue and refundable advances	112,214	159,605
Amounts due to other nonprofit organizations and government agencies	63,078	57,853
Secured borrowings, participations	8,533	2,815
Bonds and notes payable, net	307,567	293,152
	<u>307,567</u>	<u>293,152</u>
Total liabilities	508,679	525,971
Commitments and contingencies (Note 9 and 10)		
Net assets:		
Without donor restrictions:		
The Fund	250,891	249,226
Noncontrolling interest in White Pine Forest, LLC	5,596	-
	<u>256,487</u>	<u>249,226</u>
With donor restrictions	250,152	249,397
Total net assets	506,639	498,623
	<u>506,639</u>	<u>498,623</u>
Total liabilities and net assets	\$ 1,015,318	\$ 1,024,594
	<u>\$ 1,015,318</u>	<u>\$ 1,024,594</u>

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

**Combined Statement of Activities
Year Ended December 31, 2020
(In Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
Real estate activities:			
Support and revenue			
Contributions and grants	\$ 28,229	\$ 30,829	\$ 59,058
Land contributed for conservation	7,526	-	7,526
Contract income	13,309	-	13,309
Investment and other program income	43,581	-	43,581
Sales of conservation land to others	106,442	-	106,442
Net assets released from restrictions	31,270	(31,270)	-
	<u>230,357</u>	<u>(441)</u>	<u>229,916</u>
Non-real estate activities:			
Support and revenue			
Contributions and grants	6,358	11,794	18,152
Contract income	4,502	-	4,502
Investment and other program income	16,637	-	16,637
Net assets released from restrictions	10,598	(10,598)	-
	<u>38,095</u>	<u>1,196</u>	<u>39,291</u>
Total support and revenue	<u>268,452</u>	<u>755</u>	<u>269,207</u>
Expenses:			
Program services:			
Real estate programs	236,855	-	236,855
Non-real estate programs	20,069	-	20,069
Total program services	<u>256,924</u>	<u>-</u>	<u>256,924</u>
Supporting services:			
Management and general	6,421	-	6,421
Fundraising	3,514	-	3,514
Total supporting services	<u>9,935</u>	<u>-</u>	<u>9,935</u>
Total expenses	<u>266,859</u>	<u>-</u>	<u>266,859</u>
Change in net assets	<u>1,593</u>	<u>755</u>	<u>2,348</u>
Net assets, beginning of year	<u>249,226</u>	<u>249,397</u>	<u>498,623</u>
Capital contribution by noncontrolling interest	<u>5,668</u>	<u>-</u>	<u>5,668</u>
Net assets, end of year	<u>\$ 256,487</u>	<u>\$ 250,152</u>	<u>\$ 506,639</u>

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Activities Year Ended December 31, 2019 (In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Real estate activities:			
Support and revenue			
Contributions and grants	\$ 10,517	\$ 25,034	\$ 35,551
Land contributed for conservation	3,074	-	3,074
Contract income	4,809	-	4,809
Investment and other program income	19,441	-	19,441
Sales of conservation land to others	118,621	-	118,621
Net assets released from restrictions	31,267	(31,267)	-
	<u>187,729</u>	<u>(6,233)</u>	<u>181,496</u>
Non-real estate activities:			
Support and revenue			
Contributions and grants	7,380	13,138	20,518
Contract income	8,711	-	8,711
Investment and other program income	16,752	24	16,776
Net assets released from restrictions	9,377	(9,377)	-
	<u>42,220</u>	<u>3,785</u>	<u>46,005</u>
Total support and revenue	<u>229,949</u>	<u>(2,448)</u>	<u>227,501</u>
Expenses:			
Program services:			
Real estate programs	188,941	-	188,941
Non-real estate programs	24,242	-	24,242
Total program services	<u>213,183</u>	<u>-</u>	<u>213,183</u>
Supporting services:			
Management and general	5,315	-	5,315
Fundraising	3,614	-	3,614
Total supporting services	<u>8,929</u>	<u>-</u>	<u>8,929</u>
Total expenses	<u>222,112</u>	<u>-</u>	<u>222,112</u>
Change in net assets	<u>7,837</u>	<u>(2,448)</u>	<u>5,389</u>
Net assets, beginning of year	<u>241,389</u>	<u>251,845</u>	<u>493,234</u>
Net assets, end of year	<u>\$ 249,226</u>	<u>\$ 249,397</u>	<u>\$ 498,623</u>

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Functional Expenses
 Year Ended December 31, 2020
 (In Thousands)

	Program Services			Supporting Services		
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Total
Personnel and fringe benefits	\$ 14,521	\$ 7,090	\$ 21,611	\$ 4,084	\$ 2,270	\$ 27,965
Contractual services	14,624	1,052	15,676	531	177	16,384
Grants	19,324	6,932	26,256	14	-	26,270
Postage, printing and photo	159	58	217	36	87	340
Equipment, supplies and depreciation	604	390	994	264	159	1,417
Occupancy	1,064	488	1,552	204	119	1,875
Insurance	374	160	534	94	44	672
Taxes	1,886	-	1,886	-	-	1,886
Travel	192	72	264	51	21	336
Interest	9,076	1,021	10,097	-	-	10,097
Accelerated notes payable discount	162	-	162	-	-	162
Conservation land carrying costs	3,333	78	3,411	37	22	3,470
Other	7,015	2,728	9,743	1,106	615	11,464
Book value of conservation land donated	38,088	-	38,088	-	-	38,088
Provision for conservation easements	13,537	-	13,537	-	-	13,537
Book value of conservation land sold	112,896	-	112,896	-	-	112,896
Total expenses	\$ 236,855	\$ 20,069	\$ 256,924	\$ 6,421	\$ 3,514	\$ 266,859

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statement of Functional Expenses

Year Ended December 31, 2019

(In Thousands)

	Program Services			Supporting Services		
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Total
Personnel and fringe benefits	\$ 14,303	\$ 6,515	\$ 20,818	\$ 3,157	\$ 2,184	\$ 26,159
Contractual services	6,908	2,347	9,255	1,356	734	11,345
Grants	17,433	11,110	28,543	-	-	28,543
Postage, printing and photo	266	124	390	54	97	541
Equipment, supplies and depreciation	610	415	1,025	163	129	1,317
Occupancy	1,247	542	1,789	180	133	2,102
Insurance	363	142	505	67	37	609
Taxes	1,886	2	1,888	-	-	1,888
Travel	916	430	1,346	154	125	1,625
Interest	5,022	811	5,833	-	-	5,833
Accelerated notes payable discount	1,206	-	1,206	-	-	1,206
Conservation land carrying costs	4,125	112	4,237	40	29	4,306
Other	1,135	1,692	2,827	144	146	3,117
Book value of conservation land donated	12,103	-	12,103	-	-	12,103
Provision for conservation easements	4,311	-	4,311	-	-	4,311
Book value of conservation land sold	117,107	-	117,107	-	-	117,107
Total expenses	\$ 188,941	\$ 24,242	\$ 213,183	\$ 5,315	\$ 3,614	\$ 222,112

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Statements of Cash Flows Years Ended December 31, 2020 and 2019 (In Thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 2,348	\$ 5,389
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	212	241
Amortization of debt issuance costs	74	19
Amortization of deferred loan costs	(237)	-
Provision for losses on notes receivable and bad debt write-offs	338	(1,012)
Contributions restricted for long-term purposes	(853)	(272)
Contributions from implied interest discount, net	(625)	(3,689)
Donated conservation land to Organization	(7,526)	(3,074)
Donated conservation land from Organization	1,032	8,221
Losses on disposition of land, easements and others	13,537	4,311
Conversion of notes payable to unrestricted contribution	(150)	-
Accelerated notes payable discount	162	1,206
Deferred rent	(53)	(24)
Net realized and unrealized gains on investments	(832)	(1,386)
(Increase) decrease in operating activities:		
Receivables	1,885	(1,445)
Promises to give	(740)	(2,973)
Other assets	(6,743)	(1,935)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	5,144	2,543
Deferred revenue and refundable advances	(47,391)	99
Amounts due to other nonprofit organizations and government agencies	5,225	5,580
Additional cash provided by (used in) conservation land projects:		
Proceeds from disposition of conservation land held	106,458	118,741
Acquisition of conservation land projects	(162,577)	(214,570)
Net cash used in operating activities	(91,312)	(84,030)
Cash flows from investing activities:		
Purchases of property and equipment	(168)	(38)
Purchases of investments	(7,492)	(77,386)
Proceeds from sale of investments	42,618	86,082
Issuance of notes receivable	(25,834)	(21,263)
Repayments of principal on notes receivable	20,513	35,468
Net cash provided by investing activities	29,637	22,863
Cash flows from financing activities:		
Capital contribution received - noncontrolling interest	5,668	-
Proceeds from long-term debt	37,791	203,230
Repayment of long-term debt	(23,179)	(51,550)
Debt issuance costs	(8)	(862)
Advances on secured borrowings, participations	6,091	833
Repayments on secured borrowings, participations	(373)	(216)
Contributions restricted for long-term purposes	853	272
Net cash provided by financing activities	26,843	151,707
Net (decrease) increase in cash and cash equivalents	(34,832)	90,540
Cash and cash equivalents, and restricted cash:		
Beginning	235,053	144,513
Ending	\$ 200,221	\$ 235,053
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 6,542	\$ 3,173

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: The Conservation Fund, a Nonprofit Corporation (TCF), Sustainable Conservation Inc. (SCI), and Natural Capital Investment Fund, Inc. (NCIFund) (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.

In May 2020, TCF formed White Pine Forest, LLC (WPF) to engage in the business of acquiring, owning and conserving certain real estate. TCF initially acquired 100% of the membership interests in WPF. In June 2020, TCF sold a 25% membership interest to an unrelated nonprofit entity, and retained a 75% membership interest in WPF. TCF retains control through its majority ownership and also serves as managing member; therefore, combined financial statements have been prepared for the entities in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 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 include NCIFund's lending and strategic initiatives programs.

Lending program: NCIFund 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. NCIFund provides microloans in amounts from \$1 to \$50 and business loans sized from \$50 to \$750. NCIFund 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.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

NCIFund's business clients are predominantly located in economically distressed rural communities and 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.

NCIFund 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 NCIFund specializes in financing TBL companies, it recognizes that economically and environmentally healthy communities require a diverse range of businesses and services, so NCIFund expanded its work.

Strategic initiatives program: NCIFund'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 NCIFund's stated mission. These initiatives frequently combine NCIFund'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 NCIFund 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, NCIFund and WPF. 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.

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 NCIFund 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, NCIFund writes off the uncollectible amount (loss) against the net assets.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

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.

In order to secure its obligations in existing loan agreements, NCIFund is required to maintain certain bank accounts and balances, wherein the proceeds of the loans shall be held in separate custodial accounts established at a mutually acceptable financial institution. This requirement includes two federal programs, two financial institution lenders and one private lender.

Additionally, in order to meet certain private lenders' requirements for loans receivable, NCIFund records cash equivalents as collateral. The cash equivalents are held at cost and have short-term maturities.

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 consist of amounts in institutional money market funds and total \$15,965 and \$1,652 at December 31, 2020 and 2019, respectively. 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 statements of financial position. Interest, dividends and net gains or losses on investments are reported in the 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 and \$645 at December 31, 2020 and 2019, respectively.

NCIFund holds investments in the U.S. Endowment Fuel Project. NCIFund provided two investments totaling \$100, which are held at cost, to finance fuel stations in logging communities in South Carolina for the members of a certain cooperative. NCIFund earns minimal revenues on fuel sold.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

NCIFund has a certificate of deposit with a financial institution in the amounts of \$206 and \$200 as of December 31, 2020 and 2019, respectively, as a requirement to hold during the duration of the \$500 line of credit (see Note 9) financing provided.

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, 2020 and 2019.

Notes receivable and allowance for possible losses: TCF provides loans to various land trusts and other entities for the acquisition of conservation lands and easements and completion of other projects. NCIFund makes small business loans to customers. These loans are made in West Virginia, North Carolina and the Appalachian and rural areas of Maryland, Ohio, Kentucky, Tennessee, Virginia and South Carolina. The ability of NCIFund's debtors to honor their contracts is dependent upon general economic conditions in the respective area.

Notes receivable are carried at unpaid principal balances less an allowance for loan losses and deferred loan origination fees. Interest income on loans is accrued on the principal outstanding at the loans' stated interest rate unless the loan is in default. Direct origination fees, net of direct costs, are deferred and amortized using the effective interest method over the respective lives of the related loan and are recorded as an adjustment to fee income on loans. Fees relating to expired commitments are recognized as non-interest income. If a commitment is exercised during the commitment period, the fee at the time of exercise is recognized over the life of the loan as an adjustment of yield.

NCIFund small business loans are considered past due if the required principal and interest payments have not been received 30 days from the date such payments were due. If it otherwise appears doubtful that the loan will be repaid or if the cash flow of the business can only support a principal payment, management may place the loan on nonaccrual status. Generally, loans on non-accrual status are 90 days or more past due and are moving toward foreclosure/liquidation. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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 Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

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 \$4,487 and \$4,149 as of December 31, 2020 and 2019, respectively, for conservation and small business loans.

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that NCIFund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the original loan agreement and the loan has a high probability of moving into foreclosure/liquidation. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan or lease and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is generally measured on a case-by-case basis using the fair value of the collateral, if the loan is collateral dependent, the present value of expected future cash flows discounted at the loans effective interest rate or the loan's observable market price.

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 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 statements 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 statements 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.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

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. The Fund had no impairments of long-lived assets during the years ended December 31, 2020 and 2019.

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 \$63,078 and \$57,853 at December 31, 2020 and 2019, respectively.

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 managing member 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.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from NCIFund, (2) the transferee obtains the right to pledge or exchange the transferred assets and no condition both constrains the transferee from taking advantage of that right and provides more than a trivial benefit for the transferor and (3) the transferor does not maintain effective control over the transferred assets through either: (a) an agreement that both entitles and obligates the transferor to repurchase or redeem the assets before maturity or (b) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

NCIFund sells participation loans to third parties that do not meet the criteria to be accounted for as sales as NCIFund has not surrendered control of the participation loans sold. As a result the participation loans are accounted for as secured borrowings, whereby NCIFund records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to NCIFund for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold accounted for as secured borrowings is \$8,533 and \$2,815 as of December 31, 2020 and 2019, respectively.

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.

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.

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 \$112,214 and \$159,605 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statements of financial position as of December 31, 2020 and 2019, respectively.

NCIFund's primary revenues come 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 NCIFund 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 statements 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 NCIFund are nonprofit 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 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. In addition, TCF, SCI and NCIFund 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 NCIFund had net no unrelated business income for the years ended December 31, 2020 and 2019.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

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 2017.

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 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.

Adopted accounting pronouncement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Fund adopted this ASU during 2020. There was no material impact to the combined financial statements as a result of adoption.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This ASU makes clarifying amendments to certain financial instrument standards. This guidance contains several effective dates. The Fund adopted the amendments related to ASC 825 effective for annual reporting periods beginning after December 15, 2019, with no significant impact to the combined financial statements.

Recent accounting pronouncements: 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 balance sheet 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 Fund is currently evaluating the impact of its pending adoption of the new standard on its combined financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial instruments. The existing incurred loss model will be replaced with a current expected credit loss (CECL) model for both originated and acquired financial instruments carried at amortized cost and off-balance sheet credit exposures, including loans, loan commitments, held-to-maturity debt securities, financial guarantees, net investment in leases and most receivables. Recognized amortized cost financial assets will be presented at the net amount expected to be collected through an allowance for credit losses. Expected credit losses on off-balance-sheet credit exposures will be recognized through a liability.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

Unlike current guidance, which requires certain favorable changes in expected cash flows to be accreted into interest income, both favorable and unfavorable changes in expected credit losses (and, therefore, the allowance) will be recognized through credit loss expense as they occur. With the exception of purchased financial assets with a more than insignificant amount of credit deterioration since origination, for which the initial allowance will be added to the purchase price of the assets, the initial allowance on financial assets subject to the scope (whether originated or acquired) will be recognized through credit loss expense. Expanded disclosures will also be required. The ASU is effective for fiscal years beginning after December 15, 2022. The Fund is currently evaluating the impact of adopting this new guidance on its combined financial statements.

In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*. This ASU clarifies and corrects unintended application of narrow aspects of the lease accounting guidance. For entities that early-adopted Topic 842, the amendments are effective upon issuance of ASU 2018-10, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements for ASU 2018-10 are the same as the effective date and transition requirements in Topic 842 (for annual reporting periods beginning after December 15, 2021, for the Fund). The Fund is currently evaluating the impact of the pending adoption of the new standard on the combined financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. This ASU was issued to clarify and improve areas of guidance related to recently issued financial instrument standards on credit losses, hedging, recognition and measurement. The amendments related to ASC 326 are effective for annual reporting periods beginning after December 15, 2022, and the amendments related to ASC 815 are effective for annual reporting periods beginning after December 15, 2020, for the Fund. The Fund is currently evaluating the effect that this guidance will have on its combined financial statements.

In May 2019, the FASB issued ASU 2019-05, *Credit Losses (Topic 326): Targeted Transition Relief*. This ASU provides entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments – Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. For entities that have not yet adopted the credit losses standard, the ASU is effective when they implement the credit losses standard. The Fund is currently evaluating the effect that this guidance will have on its combined financial statements.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. This ASU provides narrow-scope improvements to Topic 326. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. As such, the ASU is effective for annual reporting periods beginning after December 15, 2022 for the Fund.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*. This ASU addresses various financial instruments topics. The amendments related to Issues 1, 2, 3, 4 and 5 within the ASU are conforming amendments and effective for annual reporting periods beginning after December 15, 2019 for the Fund and have no significant impact to the Fund's combined financial statements. For entities that have not yet adopted ASU 2016-13, the effective dates for the amendments related to Issues 6 and 7 within ASU 2020-03 are the same as the effective dates in ASU 2016-13. As such, the amendments related to Issues 6 and 7 are effective for annual reporting periods beginning after December 15, 2022 for the Fund.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

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

In September 2020, the FASB issued 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 Fund beginning on January 1, 2022. The Fund is currently evaluating the impact of this new guidance on its combined financial statements.

Subsequent events: Management has evaluated subsequent events through April 15, 2021, 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 Fund at December 31, 2020 and 2019, consist of the following:

	2020	2019
Cash	\$ 184,256	\$ 233,401
Money market funds	15,965	1,652
	<u>\$ 200,221</u>	<u>\$ 235,053</u>
Unrestricted cash and cash equivalents	\$ 98,063	\$ 109,616
Restricted cash and cash equivalents	102,158	125,437
	<u>\$ 200,221</u>	<u>\$ 235,053</u>

Restricted cash balances at December 31, 2020 and 2019, are held for the following purposes:

	2020	2019
Cash held for mitigation projects	\$ 99,495	\$ 122,887
Cash required to be segregated by lender	668	916
Revolving loan funds	1,816	1,350
Cash equivalents held as collateral	32	42
Cash held for loan loss reserves	147	242
	<u>\$ 102,158</u>	<u>\$ 125,437</u>

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 3. Investments

Investments consisted of the following at December 31, 2020 and 2019:

	2020	2019
Collective investment trust funds	\$ 14,316	\$ 13,196
Mutual funds	8,378	43,526
Municipal bonds	2,725	2,165
Corporate bonds	2,721	3,833
Asset-backed securities	750	658
Investment in partnership	525	645
International fixed income	229	-
Certificate of deposit - restricted	207	201
U.S. Endowment Fuel Project	100	100
Government bonds	56	-
Common stock	25	2
	<u>\$ 30,032</u>	<u>\$ 64,326</u>

For the years ended December 31, 2020 and 2019, investment income from cash, cash equivalents and investments totaled approximately \$2,094 and \$4,106, respectively, and consisted primarily of interest and dividend income.

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: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation.

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 Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 4. Fair Value Measurements (Continued)

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, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 15,965	\$ -	\$ -	\$ 15,965
Collective investment trust funds	-	14,316	-	14,316
Corporate bonds	-	2,721	-	2,721
Government bonds	-	56	-	56
Municipal bonds	-	2,725	-	2,725
International fixed income	-	229	-	229
Mutual funds	8,378	-	-	8,378
Common stock	25	-	-	25
Asset-backed securities	-	750	-	750
	<u>\$ 24,368</u>	<u>\$ 20,797</u>	<u>\$ -</u>	<u>\$ 45,165</u>

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	\$ 1,652	\$ -	\$ -	\$ 1,652
Collective investment trust funds	-	13,196	-	13,196
Corporate bonds	-	3,833	-	3,833
Municipal bonds	-	2,165	-	2,165
Fixed income mutual funds	43,526	-	-	43,526
Common stock	2	-	-	2
Asset-backed securities	-	658	-	658
	<u>\$ 45,180</u>	<u>\$ 19,852</u>	<u>\$ -</u>	<u>\$ 65,032</u>

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (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, 2020 and 2019:

	2020	2019
Cash and cash equivalents held at fair value	\$ 15,965	\$ 1,652
Investments held at fair value	29,200	63,380
	<u>\$ 45,165</u>	<u>\$ 65,032</u>
Investments held at fair value	\$ 29,200	\$ 63,380
Investments held at cost	832	946
	<u>\$ 30,032</u>	<u>\$ 64,326</u>

Note 5. Promises to Give

Unconditional promises to give at December 31, 2020 and 2019, were \$3,699 and \$3,435, respectively, with \$3,274 and \$2,677 due within one year and \$425 and \$758 due within one to five years, respectively. At December 31, 2020 and 2019, the Fund recorded a discount of \$25 and \$44, respectively, on long-term promises to give.

In addition to the unconditional promises to give, TCF has conditional promises to give totaling \$1,400 and \$3,442 at December 31, 2020 and 2019, respectively, which are conditioned on TCF purchasing certain parcels of land and has not been recorded in the combined financial statement. At December 31, 2020 and 2019, NCIFund also had 12 and 10 conditional promises to give totaling \$4,045 and \$2,063, respectively.

Note 6. Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2020 and 2019, are as follows:

	2020	2019
Buildings and leasehold improvements	\$ 3,788	\$ 3,788
Furniture and equipment	1,103	1,017
Vehicles	246	193
	<u>5,137</u>	<u>4,998</u>
Less accumulated depreciation	(2,882)	(2,699)
	<u>\$ 2,255</u>	<u>\$ 2,299</u>

Depreciation expense for the years ended December 31, 2020 and 2019, was \$212 and \$241, respectively.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 7. Notes Receivable

Notes receivable consists primarily of loans made to various organizations carrying out projects and land acquisition transactions at December 31, 2020 and 2019, as follows:

	2020	2019
Notes receivable	\$ 80,949	\$ 75,628
Allowance for possible losses	(4,487)	(4,149)
Deferred loan fees (costs)	208	(29)
Notes receivable, net	<u>\$ 76,670</u>	<u>\$ 71,450</u>

At December 31, 2020 and 2019, TCF had 27 and 34 notes receivable outstanding totaling \$33,252 and \$35,121, respectively. The notes carry remaining terms of less than one year to four years and carry interest rates of 2.37% to 7.0%.

At December 31, 2020 and 2019, NCIFund had 310 and 239 notes receivable outstanding totaling \$47,697 and \$40,506, respectively. The notes, except three totaling \$52 that are unsecured, are secured by the underlying assets financed, such as real estate, equipment and inventory. The notes carry remaining terms of less than one year to 22 years, and carry interest rates of 0.5% to 8%. The loans are generally payable in monthly or quarterly installments of either interest-only (non-amortizing) or principal and interest (amortizing) over the term of each loan.

Management uses internally assigned risk ratings as indicators of credit quality. Each note's risk rating is assigned at origination and updated at least annually and more frequently if circumstances warrant a change in risk rating. NCIFund uses a loan grading system that follows its loan policy. In evaluating the credit risk of NCIFund's loan portfolio, management has developed an internal credit risk rating system based on a variety of risk factors that they believe represent leading indicators of credit quality. NCIFund's internal credit risk rating are categorized as one through seven, with the lowest credit risk rating representing the highest quality financing receivables.

Accrued interest receivable amounted to \$874 and \$931 at December 31, 2020 and 2019, and is included in receivables on the combined statements of financial position.

For the years ended December 31, 2020 and 2019, interest income from these notes was \$4,127 and \$3,993, respectively.

Note 8. Bonds and Notes Payable

Bonds and notes payable consist of the following at December 31, 2020 and 2019:

	2020	2019
Bonds and notes	\$ 322,481	\$ 307,668
Amounts representing implied interest	(14,136)	(13,673)
Unamortized debt issuance costs	(778)	(843)
Total	<u>\$ 307,567</u>	<u>\$ 293,152</u>

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (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 \$14,136 and \$13,673 at December 31, 2020 and 2019, respectively.

On September 26, 2019, TCF and SCI issued, as securities exempt from registration under the Securities Act of 1933, \$150,000 of 10-year taxable green bonds (Working Forest Conservation Program), Series 2019, due December 15, 2029, underwritten by an investment-banking firm. 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.

As part of the Coronavirus Aid, Relief, and Economic Security Act, TCF applied and was approved for a forgivable loan through the Small Business Administration Paycheck Protection Program (PPP). Under the PPP, TCF obtained a loan of \$3,843, which is shown with notes payable on the combined statement of financial position, bearing interest at 1%. Originally, TCF was required to make monthly payments of principal and interest starting during November 2020, with any remaining principal and interest due at maturity on April 17, 2022. As part of the PPP Flexibility Act, the monthly principal and interest were further deferred, and a new date has not been assigned. Interest continues to accrue during the additional deferral period. The amount of forgiveness can be up to the full principal amount of the loan and any accrued interest if it is appropriately used for eligible expenses. TCF has accounted for the loan under FASB ASC Topic 470, Debt.

TCF has 19 notes payable to foundations totaling \$120,094, and 7 other notes payable to other lenders totaling \$17,323. 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 2021 to 2029. 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 or other financial covenants in the bond issue or any other material financing document. At December 31, 2020 and 2019, TCF is in compliance with all material debt covenants.

NCIFund has 61 unsecured notes payable to foundations and financial institutions totaling \$27,465, and 11 other notes payable, which are secured, to various government agencies totaling \$3,713. The notes have stated interest rates between 0% and 4.15%. Maturity dates range from 2020 to 2033.

NCIFund is subject to a number of restrictive financial and non-financial covenants in its notes payable agreements, such as minimum net asset requirements, current liquidity ratios, loan performance ratios and other various leverage ratios. Audited financial statements are required to be submitted between 90 and 180 days depending on the lender. NCIFund did not meet the requirement to submit audited financial statements for those within 90 days of year-end; however, it received waivers from those lenders.

Interest expense, including amortization of debt issuance costs, for the years ended December 31, 2020 and 2019, was \$6,455 and \$5,833, respectively, of which \$3,642 and \$2,436 is attributable to the amortization of note payable discount.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (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:		
2021	\$	15,139
2022		32,561
2023		31,643
2024		22,226
2025		9,068
Thereafter		211,844
		<hr/>
		322,481
Less amounts representing implied interest		(14,136)
Less amounts representing unamortized debt issuance costs		(778)
	\$	<hr/> <hr/> 307,567

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 June 30, 2021. Outstanding draws on the line of credit bear interest at a variable rate, which was .79% and 2.36% at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, there were no borrowings against this line of credit agreement.

During 2019, NCIFund maintained a \$500 revolving line of credit with a lending institution, to be drawn upon as needed, with an interest rate of 4% payable quarterly with all unpaid principal and interest due at maturity on June 18, 2020. During 2020, NCIFund decreased the available line of credit to \$150 with a variable rate equal to 0.50 percentage points above The Wall Street Journal Prime Rate, which shall not be more than 9% or less than 4% as of calendar year end, payable monthly with all unpaid principal and interest due at maturity on June 18, 2021. As of December 31, 2020, the interest rate of the revolving line of credit is 4%. The total outstanding balance of the revolving line of credit was \$150 and \$500 at December 31, 2020 and 2019, respectively.

Note 10. Commitments and Contingencies

Operating leases: The Fund leases offices under various operating leases. Under terms of the respective lease agreements, The Fund has received rent abatements. The rent abatements received and escalating annual rent increases, in addition 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 statements of financial position with accrued expenses.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 10. Commitments and Contingencies (Continued)

The following schedule summarizes the future minimum lease commitments:

Years ending December 31:		
2021	\$	1,050
2022		1,025
2023		1,023
2024		909
2025		239
Thereafter		350
	\$	<u>4,596</u>

Total rent expense for the years ended December 31, 2020 and 2019 was \$1,301 and \$1,240, respectively.

Federal awards and contract programs: TCF and NCIFund participate in a number of federal grant and contract programs which are subject to financial and compliance audits. Accordingly, TCF and NCIFund'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 2020 has created substantial volatility in financial markets and the economy, including the geographic areas in which the Fund operates. While the Fund 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.

Off-balance-sheet risk: NCIFund is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the combined statement of activities.

NCIFund's exposure to credit loss is represented by the contractual amount of these commitments. NCIFund follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2020 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
Loan commitments approved but not disbursed	\$ 2,827	\$ 4,423

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by NCIFund, is based on management's credit evaluation of the customer.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 10. Commitments and Contingencies (Continued)

Unfunded commitments under commercial lines of credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and ultimately may not be drawn upon to the total extent to which NCIFund is committed.

Note 11. 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 years ended December 31, 2020 and 2019, totaled \$1,506 and \$1,544, respectively.

Note 12. 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, 2020 and 2019, donor restricted net assets consisted of the following:

	2020	2019
Restricted for specific purpose:		
Amounts restricted for various real estate acquisitions, projects or operating programs	\$ 137,647	\$ 138,902
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	104,842	104,635
Loan capital	515	185
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices	2,190	1,570
	<u>245,194</u>	<u>245,292</u>
Perpetual in nature:		
Restricted for specific purpose:		
Loan capital revolving fund		
Represents net assets dedicated to providing temporary financing to qualified businesses	4,958	4,105
Total net assets with donor restrictions	<u>\$ 250,152</u>	<u>\$ 249,397</u>

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.

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 14. 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 maximize the return on investment of its funds not required for annual operations. The Fund's financial assets available within one year of December 31, 2020 and 2019 for general expenditures are as follows:

	2020	2019
Cash and cash equivalents	\$ 98,063	\$ 109,616
Restricted cash and cash equivalents	102,158	125,437
Investments	30,032	64,326
Promises to give	4,131	3,391
Receivables	5,601	7,486
Other assets	203	203
Notes receivable, net	76,670	71,450
Total financial assets available	<u>316,858</u>	<u>381,909</u>
Less those not available for general expenditure within one year due to:		
Contractual or imposed restrictions:		
Restricted cash and cash equivalents	(102,158)	(125,437)
Board-designated net assets	(1,000)	(1,000)
Donor-restricted funds	(80,659)	(78,652)
Notes receivable, due after one year, net	(60,941)	(59,543)
Notes receivable due in next year restricted for federal relending program	(432)	(177)
Other assets	(203)	(203)
Long-term investment – restricted	(206)	(202)
Long-term investment (U.S. Endowment Fuel Project)	(100)	(100)
Outstanding loan commitments, not disbursed	(2,827)	(4,423)
	<u>(248,526)</u>	<u>(269,737)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 68,332</u>	<u>\$ 112,172</u>

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).

The Conservation Fund, a Nonprofit Corporation and Affiliates

Notes to Combined Financial Statements (In Thousands)

Note 15. 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, 2019	\$ 249,226	\$ -	\$ 249,226
Capital contribution by noncontrolling interest	-	5,668	5,668
Change in net assets without donor restrictions	1,665	(72)	1,593
Balance, December 31, 2020	<u>\$ 250,891</u>	<u>\$ 5,596</u>	<u>\$ 256,487</u>

Note 16. Subsequent Event

Subsequent to year-end, TCF and NCIFund, TCF's affiliate that is certified as a Community Development Financial Institution (CDFI), have agreed to pursue a legal and financial separation of NCIFund 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. TCF and NCIFund do not believe this pending requirement can be met as their relationship is currently structured.