The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Financial Report
December 31, 2019

Contents

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 Affiliate (the Organization), which comprise the combined statement of financial position as of December 31, 2019, the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, the financial statements).

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Affiliate as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

RSM US LLP

McLean, Virginia
April 27, 2020

The Conservation Fund, a Nonprofit Corporation (Parent Only)

Combined Statement of Financial Position
December 31, 2019
(In Thousands)

Assets		
Cash and cash equivalents	$	100,871
Restricted cash and cash equivalents		122,887
Investments		64,025
Receivables		7,562
Notes receivable, net		33,365
Promises to give, net		3,186
Other assets		2,129
Property and equipment, net		2,299
Conservation land		638,257
Total assets	$	974,581
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$	11,869
Deferred revenue and refundable advances		159,605
Amounts due to other nonprofit organizations and government agencies		57,709
Bonds and notes payable, net		263,017
Total liabilities		492,200
Commitments and contingencies (Notes 9 and 10)		
Net assets:		
Without donor restrictions		238,844
With donor restrictions		243,537
Total net assets		482,381
Total liabilities and net assets	$	974,581

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

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)	-
	187,729	(6,233)	181,496
Non-real estate activities:			
Support and revenue			
Contributions and grants	7,335	11,456	18,791
Contract income	8,711	-	8,711
Investment and other program income	15,930	-	15,930
Net assets released from restrictions	7,242	(7,242)	-
	39,218	4,214	43,432
Total support and revenue	226,947	(2,019)	224,928
Expenses:			
Program services:			
Real estate programs	188,941	-	188,941
Non-real estate programs	21,713	-	21,713
Total program services	210,654	-	210,654
Supporting services:			
Management and general	5,232	-	5,232
Fundraising	3,613	-	3,613
Total supporting services	8,845	-	8,845
Total expenses	219,499	-	219,499
Change in net assets	7,448	(2,019)	5,429
Net assets, beginning of year	231,396	245,556	476,952
Net assets, end of year	$ 238,844	$ 243,537	$ 482,381

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

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	6,909	1,954	8,863	1,281	734	10,878
Grants	17,433	11,110	28,543	-	-	28,543
Postage, printing and photo	266	124	390	54	97	541
Equipment, supplies and depreciation	610	314	924	158	129	1,211
Occupancy	1,247	500	1,747	178	133	2,058
Insurance	363	142	505	50	37	592
Taxes	1,885	2	1,887	1	-	1,888
Travel	916	372	1,288	151	124	1,563
Interest	5,022	-	5,022	-	-	5,022
Accelerated notes payable discount	1,206	-	1,206	-	-	1,206
Acquisition costs	4,125	113	4,238	40	29	4,307
Other	1,135	567	1,702	162	146	2,010
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	$ 21,713	$ 210,654	$ 5,232	$ 3,613	$ 219,499

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation (Parent Only)

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

Cash flows from operating activities:		
Change in net assets	$	5,429
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation		241
Amortization of debt issuance costs		19
Provision for losses on notes receivable and bad debt write-offs		(1,216)
Contributions from implied interest discount, net		(3,727)
Donated conservation land to Organization		(3,074)
Donated conservation land from Organization		8,221
Losses on disposition of land, easements and others		4,311
Accelerated notes payable discount		1,206
Deferred rent		(24)
Net realized and unrealized gains on investments		(1,386)
(Increase) decrease in operating activities:		
Receivables		(2)
Promises to give		(3,083)
Other assets		(1,935)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses		2,523
Deferred revenue and refundable advances		99
Amounts due to other nonprofit organizations and government agencies		5,449
Additional cash provided by (used in) conservation land projects:		
Proceeds from disposition of conservation land held		118,741
Acquisition of conservation land projects		(214,570)
Net cash used in operating activities		(82,778)
Cash flows from investing activities:		
Purchases of property and equipment		(38)
Purchases of investments		(77,185)
Proceeds from sale of investments		86,082
Issuance of notes receivable		(11,260)
Repayments of principal on notes receivable		35,588
Net cash provided by investing activities		33,187
Cash flows from financing activities:		
Proceeds from long-term debt		192,968
Repayment of long-term debt		(51,094)
Debt issuance costs		(754)
Net cash provided by financing activities		141,120
Net increase in cash and cash equivalents		91,529
Cash and cash equivalents, and restricted cash:		
Beginning of year		132,229
End of year	$	223,758
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	2,338

See notes to combined financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

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

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

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

Real estate activities: One of two focus areas for the organization, this program area raises and deploys capital for conservation transactions, ensuring the permanent conservation of land across the 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.

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

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

Basis of accounting: The accompanying combined financial statements of the Organization have been prepared on the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

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

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

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 Organization is required to report information regarding its financial position and activities under two classes of net assets:

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

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

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

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

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

Cash and cash equivalents consist of amounts in institutional money market funds and total $1,652 at December 31, 2019. The Organization maintains its cash in various operating bank deposit accounts, which, at times, may exceed federally insured limits. The interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Organization invests in a professionally managed portfolio that primarily contains various fixed income securities, including a collective investment trust fund, municipal bonds, corporate bonds, asset-backed securities, fixed income mutual funds and a small allocation to equity mutual funds and 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.

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

Investments: The Organization's investments with readily determinable fair values are reflected at their fair values in the 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.

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 of $355 received in prior years, for a net cost basis of $645 at December 31, 2019.

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 discounts are computed using interest rates applicable to the years in which promises are received. 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 when expenditures are incurred. Receivables and promises to give due in less than one year are reported at their outstanding balance. Receivables and promises to give due beyond one year are carried at present value less an estimate made for doubtful promises based on a review of all outstanding promises on a monthly basis. Management determines the allowance for doubtful promises by regularly evaluating individual promises to give and considering the prior history of the donor and proven collectability of past donations. Promises to give are written off when deemed uncollectible. Recoveries of promises to give previously written off are recorded when received. There was no allowance for doubtful promises at December 31, 2019.

Notes receivable and allowance for possible losses: The Organization provides loans to various land trusts and other entities for the acquisition of conservation lands and easements and completion of other projects. Notes receivable are carried at unpaid principal balances less an allowance for loan losses. Management provides for estimates of possible losses through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual loans, the borrower's ability to repay and current economic conditions. The evaluation of the allowance is inherently subjective, and it is reasonably possible that a change in the estimate would occur in the near term, as additional information becomes available. The Organization has recorded an allowance of $1,756 or 5% as of December 31, 2019, for conservation loans.

Property and equipment: Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of the donation, less accumulated depreciation. The Organization capitalizes all property and equipment purchased with a cost of $25 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment consist primarily of a research laboratory facility placed in service in 1999, which is being depreciated over 30 years.

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

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

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

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

Valuation of long-lived assets: The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell. The Organization had no impairments of long-lived assets during the year ended December 31, 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 Organization has with respect to certain real estate parcels it holds. These principally reflect cases where the Organization has entered into cooperative agreements to carry out conservation land projects with other organizations, which will result in the eventual transfer of the land parcels. These arrangements and commitments totaled $57,709 at December 31, 2019.

Bonds and notes payable: Under certain circumstances, the Organization uses debt to supplement the cost of the acquisition of conservation lands and easements. Most debt is in the form of bonds and notes payable from foundations. The Organization records a discount and contribution revenue when note interest rates are considered below-market and amortizes the discount to interest expense over the term of the related notes. Legal and accounting costs, as well as other expenses associated with debt issuance, are being amortized on the effective interest method over the term of the debt acquired. Unamortized debt issuance costs are reported with bonds and notes payable.

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

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

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

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

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 $159,605 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statement of financial position as of December 31, 2019.

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

Income taxes: TCF is a nonprofit corporation generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is a publicly supported organization under Section 509(a)(1). SCI is a nonprofit corporation exempt from income taxes under Section 501(c)(3) and is a wholly owned subsidiary and a supporting organization to TCF under Section 509(a)(3) of the IRC. In addition, TCF and SCI qualify for charitable contribution deductions and have been classified as organizations that are not considered private foundations. Income which is not related to exempt purposes, less applicable donations, is subject to federal and state income taxes. TCF and SCI had no net unrelated business income for the year ended December 31, 2019.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization files income tax returns in the U.S. federal jurisdiction. Generally, the Organization is no longer subject to income tax examinations for the U.S. federal, state or local tax authorities for the years before 2016.

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 materially differ from those estimates.

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

Adopted accounting pronouncements: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Nonprofit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than nonprofits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted.

The adoption of this guidance shifts accounting for revenue recognition for most government grants from an exchange transaction model to the contribution accounting model, resulting in most federal grants being accounted for as donor-restricted conditional contributions. The Organization recognizes grants received and used within the same period as net assets without donor restrictions, consistent with the previous presentation of grants and contributions on the combined statement of activities. As most federal and state grants are awarded on a cost reimbursable basis, contribution revenue is triggered by incurring reimbursable costs and timing of revenue recognition is not materially impacted by this amendment. For transactions where the Organization is a resource provider, expense recognition is deferred for conditional arrangements and immediate for unconditional arrangements. The Organization adopted this ASU during 2019. As a result of adopting this standard, this guidance is applied on a modified prospective basis, meaning there is no cumulative-effect adjustment reflected in the opening balance of net assets. There was no material impact to the combined financial statements as a result of adoption.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. The Organization adopted this ASU during 2019. As a result of adopting this standard using the retrospective application with practical expedients elected, no prior year amounts were reclassified to conform to the presentation requirements. There was no material impact to the combined financial statements as a result of adoption.

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 includes a number of amendments that address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Organization adopted this ASU during 2019, which allows an election to measure certain equity securities at cost, with adjustments for impairment and observable price changes. Impairment of securities accounted for under this election is evaluated through a new one-step model. As a result of adopting this standard, this guidance is applied by means of a no cumulative-effect adjustment reflected in the opening balance of net assets. There was no material impact to the combined financial statements as a result of adoption.

Recent accounting pronouncements: 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. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of ASU 2018-13 is not expected to have a material impact on the Organization’s combined financial statements.

(In Thousands)

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases*.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the combined statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the combined statement of activities. During 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. The new standard is effective for annual reporting periods beginning after December 15, 2020. 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 combined financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on the combined financial statements.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents held by the Organization at December 31, 2019, consist of the following:

Cash	$	222,106
Money market funds		1,652
	$	223,758

Unrestricted cash and cash equivalents	$	100,871
Restricted cash and cash equivalents		122,887
	$	223,758

Restricted cash balances of $122,887 at December 31, 2019, were held for mitigation projects.

Note 3. Investments

Investments consisted of the following at December 31, 2019:

Mutual funds	$	43,526
Collective investment trust funds		13,196
Corporate bonds		3,833
Municipal bonds		2,165
Common stock		2
Investment in partnership		645
Asset-backed securities		658
	$	64,025

For the year ended December 31, 2019, investment income from cash, cash equivalents and investments totaled approximately $4,106 and consisted primarily of interest and dividend income.

Note 4. Fair Value Measurements

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

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

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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 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.

(In Thousands)

Note 4. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 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
Equity mutual funds	1,284	-	-	1,284
Fixed income mutual funds	42,242	-	-	42,242
Common stock	2	-	-	2
Asset-backed securities	-	658	-	658
	$ 45,180	$ 19,852	$ -	$ 65,032

The table below reconciles fair value assets to the combined statement of financial position at December 31, 2019:

Cash and cash equivalents held at fair value	$ 1,652
Investments held at fair value	63,380
	$ 65,032
Investments held at fair value	$ 63,380
Investments held at cost	645
	$ 64,025

Note 5. Promises to Give

Unconditional promises to give at December 31, 2019, were $3,230, with $2,472 due within one year and $758 due within one to five years. At December 31, 2019, the Organization recorded a discount of $44 on long term promises to give.

In addition to the unconditional promises to give, the Organization has conditional promises to give totaling $3,442 at December 31, 2019, which are conditioned on the Organization purchasing certain parcels of land and has not been recorded in the combined financial statement.

(In Thousands)

Note 6. Property and Equipment

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

Buildings and leasehold improvements	$	3,788
Furniture and equipment		1,017
Vehicles		193
		4,998
Less accumulated depreciation		(2,699)
	$	2,299

Depreciation expense for the year ended December 31, 2019, was $241.

Note 7. Notes Receivable

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

Notes receivable	$	35,121
Allowance for possible losses		(1,756)
Notes receivable, net	$	33,365

At December 31, 2019, the Organization had 34 notes receivable outstanding totaling $35,121. The notes carry remaining terms of less than one year to five years and carry interest rates of 0% to 7.0%.

Accrued interest receivable amounted to $714 at December 31, 2019, and is included in receivables on the combined statement of financial position.

For the year ended December 31, 2019, interest income from these notes was $1,356.

Note 8. Bonds and Notes Payable

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

	Original Amount Borrowed		Balance Remaining	
Bond and notes	$	306,291	$	277,356
Amounts representing implied interest				(13,604)
Unamortized debt issuance costs				(735)
Total			$	263,017

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 $13,604 at December 31, 2019.

(In Thousands)

Note 8. Bonds and Notes Payable (Continued)

On September 26, 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. The goal of TCF and SCI is to invest all proceeds into the Working Forest Fund projects to accelerate the scale and speed of their mission impact. Interest accrues from the date of issuance at a rate of 3.474%. Interest is payable June 15 and December 15 of each year, commencing December 15, 2019.

Additionally, the Organization has 18 notes payable to foundations totaling $111,323 and four other notes payable to other lenders totaling $16,033. 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 2020 to 2029. All of the Organization’s notes payable were incurred to fund specific land acquisitions or loans to conservation partners, and the intended maturities generally align with management’s expectation of when the Organization expects to be repaid on those transactions.

Interest expense, including amortization of debt issuance costs, for the year ended December 31, 2019, was $5,022, of which $2,404 is attributable to the amortization of note payable discount.

The Organization did not have any ratio-based or other financial covenants in the bond issue or any other material financing document. At December 31, 2019, the Organization is in compliance with all material debt covenants.

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

Years ending December 31:		
2020	$	15,274
2021		12,373
2022		22,845
2023		21,355
2024		12,470
Thereafter		193,039
		277,356
Less amounts representing implied interest		(13,604)
Less amounts representing unamortized debt issuance costs		(735)
	$	263,017

Note 9. Line of Credit

The Organization has a revolving line of credit agreement with a financial institution for up to $35,000 to fund short-term working capital needs. The line of credit expires April 30, 2021. Outstanding draws on the line of credit bear interest at a variable rate, which was 2.36% at December 31, 2019. At December 31, 2019, the Organization had no borrowings against this line of credit agreement.

(In Thousands)

Note 10. Commitments and Contingencies

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

The following schedule summarizes the future minimum lease commitments:

Years ending December 31:		
2020	$	1,037
2021		992
2022		984
2023		981
2024		875
Thereafter		589
	$	5,458

Total rent expense for the year ended December 31, 2019, was $1,195.

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

Note 11. Retirement Plan

TCF has a tax-deferred 403(b) retirement plan covering substantially all of its employees. Employer contributions are discretionary and based upon the eligible employees' annual salary. The contributions to the TCF's retirement plan for the year ended December 31, 2019, totaled $1,544.

Note 12. Net Assets with Donor Restrictions

Net assets with donor restrictions are those net assets whose use by the Organization is limited by the donors for a special purpose or restricted to be used in a later period. At December 31, 2019, donor restricted net assets consisted of the following:

Amounts restricted for various real estate acquisitions, projects or operating programs	$	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		104,635
Total net assets with donor restrictions	$	243,537

(In Thousands)

Note 13. Board-Designated Net Assets

TCF has established the Conservation Easement Stewardship and Enforcement Fund and its Board of Directors designated $1,000 from its net assets without donor restrictions. The program addresses all aspects of conservation easement management.

Note 14. Related Party Transactions

NCIFund is a certified community development financial institution that provides financing for and technical assistance to natural resource-based businesses. NCIFund, a supporting organization to TCF, has entered into a management services agreement with TCF. Under the terms of the agreement, TCF provides certain staffing and administrative services to NCIFund. The management fee under the agreement was $1,918 for the year ended December 31, 2019, and $439 is payable by NCIFund as of December 31, 2019, and is included in receivables on the combined statement of financial position. The agreement is for one year and is renewable for successive one-year terms unless either party provides written notice not to renew.

TCF provided a $5,000 note payable to NCIFund to help finance its short-term capital needs. Interest is payable quarterly on outstanding balances at an interest rate of 2%. Interest income on this note payable was $72 for the year ended December 31, 2019. The full outstanding balance on this note was paid during 2019 and this facility was closed at December 31, 2019.

TCF also provided an additional $2,000 revolving line of credit to NCIFund for additional financing. Interest is payable quarterly on outstanding balances at an interest rate of 2.5%. There were no draws on this line during 2019. This line was closed during 2019 and there was no outstanding balance from the line at December 31, 2019.

Note 15. Liquidity and Availability of Financial Resources

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. The Organization’s financial assets available within one year of December 31, 2019, for general expenditures are as follows:

Cash and cash equivalents	$ 100,871
Restricted cash and cash equivalents	122,887
Investments	64,025
Promises to give	3,186
Receivables	7,562
Notes receivable, net	33,365
Total financial assets available	331,896
Less those not available for general expenditure within one year due to:	
Contractural or imposed restrictions:	
Restricted cash and cash equivalents	(122,887)
Board-designated net assets	(1,000)
Donor-restricted funds	(72,793)
Notes receivable, due after one year, net	(26,260)
	(222,940)
Financial assets available to meet cash needs for general expenditures within one year	$ 108,956

Note 15. Liquidity and Availability of Financial Resources (Continued)

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

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

Note 16. Subsequent Events

Management has evaluated subsequent events through April 27, 2020, which is the date the combined financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for businesses affected by the coronavirus pandemic.

It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. The extent of the impact of COVID-19 on the Organization's operations and financial performance are uncertain and cannot be predicted. Management is continually monitoring the impact of COVID-19.