The Conservation Fund, a Nonprofit Corporation and Affiliates

Combined Financial Report
December 31, 2021

Contents

Independent Auditor's Report

Board of Directors
The Conservation Fund, a Nonprofit Corporation

Report on the Audit of the Financial Statements

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022, except for the reference to the schedule of findings and questioned costs and the note to the schedule of findings and questioned costs for which the date is May 16, 2023, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fund's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
April 22, 2022, except for the reference to the
Date of the *Governmental Auditing Standards* report above as to which the date is May 16, 2023.

The Conservation Fund, a Nonprofit Corporation and Affiliates

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

	2021	2020
Assets		
Cash and cash equivalents	$ 84,269	$ 98,063
Restricted cash and cash equivalents	97,104	102,158
Investments	53,414	30,032
Receivables	6,779	5,601
Notes receivable, net	73,716	76,670
Promises to give, net	6,078	4,131
Other assets	5,907	9,075
Property and equipment, net	2,163	2,255
Conservation land	693,226	687,333
Total assets	$ 1,022,656	$ 1,015,318
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 12,297	$ 17,137
Line of credit	282	150
Deferred revenue and refundable advances	109,967	112,214
Amounts due to other nonprofit organizations and government agencies	39,197	63,078
Secured borrowings, participations	10,823	8,533
Bonds and notes payable, net	325,407	307,567
Total liabilities	497,973	508,679
Commitments and contingencies (Note 9 and 10)		
Net assets:		
Without donor restrictions:		
The Fund	262,618	250,891
Noncontrolling interest in White Pine Forest, LLC	5,766	5,596
	268,384	256,487
With donor restrictions	256,299	250,152
Total net assets	524,683	506,639
Total liabilities and net assets	$ 1,022,656	$ 1,015,318

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

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

	2021			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	2020 Total
Real estate activities:				
Support and revenue:				
Contributions and grants	**$ 14,054**	**$ 41,991**	**$ 56,045**	$ 59,058
Land contributed for conservation	**10,033**	**-**	**10,033**	7,526
Contract income	**10,976**	**-**	**10,976**	13,412
Investment and other program income	**13,604**	**-**	**13,604**	43,478
Sales of conservation land to others	**142,308**	**-**	**142,308**	106,442
Net assets released from restrictions	**36,153**	**(36,153)**	**-**	-
	227,128	**5,838**	**232,966**	229,916
Non-real estate activities:				
Support and revenue:				
Contributions and grants	**7,386**	**19,519**	**26,905**	18,152
Contract income	**4,206**	**-**	**4,206**	4,502
Investment and other program income	**14,725**	**-**	**14,725**	16,637
Net assets released from restrictions	**19,210**	**(19,210)**	**-**	-
	45,527	**309**	**45,836**	39,291
Total support and revenue	**272,655**	**6,147**	**278,802**	269,207
Expenses:				
Program services:				
Real estate programs	**234,001**	**-**	**234,001**	236,855
Non-real estate programs	**19,041**	**-**	**19,041**	20,069
Total program services	**253,042**	**-**	**253,042**	256,924
Supporting services:				
Management and general	**5,342**	**-**	**5,342**	6,421
Fundraising	**3,173**	**-**	**3,173**	3,514
Total supporting services	**8,515**	**-**	**8,515**	9,935
Total expenses	**261,557**	**-**	**261,557**	266,859
Change in net assets	**11,098**	**6,147**	**17,245**	2,348
Net assets, beginning of year	**256,487**	**250,152**	**506,639**	498,623
Impact of adoption ASC 326	**743**	**-**	**743**	-
Capital contribution by noncontrolling interest	**56**	**-**	**56**	5,668
Net assets, end of year	**$ 268,384**	**$ 256,299**	**$ 524,683**	$ 506,639

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

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

	2021						
	Program Services			Supporting Services			
	Real Estate Programs	Non-Real Estate Programs	Total Program Services	Management and General	Fundraising	Total	2020 Total
Personnel and fringe benefits	$ 15,794	$ 6,700	$ 22,494	$ 3,698	$ 2,243	$ 28,435	$ 27,965
Contractual services	11,361	1,883	13,244	874	391	14,509	16,384
Grants	12,070	7,305	19,375	1	-	19,376	26,270
Postage, printing and photo	207	53	260	30	102	392	340
Equipment, supplies and depreciation	709	494	1,203	289	198	1,690	1,417
Occupancy	1,991	453	2,444	189	116	2,749	1,875
Insurance	348	140	488	97	42	627	672
Taxes	3,080	-	3,080	-	-	3,080	1,886
Travel	278	80	358	59	27	444	336
Interest	9,369	1,160	10,529	-	-	10,529	10,097
Accelerated notes payable discount	654	-	654	-	-	654	162
Conservation land carrying costs	3,976	65	4,041	30	19	4,090	3,470
Other	10,622	708	11,330	75	35	11,440	11,464
Book value of conservation land donated	9,023	-	9,023	-	-	9,023	38,088
Provision for conservation easements	14,149	-	14,149	-	-	14,149	13,537
Book value of conservation land sold	140,370	-	140,370	-	-	140,370	112,896
Total expenses	$ 234,001	$ 19,041	$ 253,042	$ 5,342	$ 3,173	$ 261,557	$ 266,859

See notes to combined financial statements.

The Conservation Fund, a Nonprofit Corporation and Affiliates

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

	2021	2020
Cash flows from operating activities:		
Change in net assets	**$ 17,245**	$ 2,348
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	**229**	212
Amortization of debt issuance costs	**125**	74
Amortization of deferred loan costs	**64**	(237)
Provision for losses on notes receivable and bad debt write-offs	**(727)**	338
Debt forgiveness	**(3,888)**	-
Contributions restricted for long-term purposes	**(1,263)**	(853)
Contributions from implied interest discount, net	**(2,864)**	(625)
Donated conservation land to Organization	**(10,033)**	(7,526)
Donated conservation land from Organization	**892**	1,032
Losses on disposition of land, easements and others	**14,149**	13,537
Impairment on land held for resale	**8,421**	-
Conversion of notes payable to unrestricted contribution	**-**	(150)
Accelerated notes payable discount	**654**	162
Deferred rent	**(67)**	(53)
Net realized and unrealized gains on investments	**(1,353)**	(832)
(Increase) decrease in operating activities:		
Receivables	**(1,178)**	1,885
Promises to give	**(1,947)**	(740)
Other assets	**3,168**	(6,743)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	**(4,773)**	5,144
Deferred revenue and refundable advances	**(2,247)**	(47,391)
Amounts due to other nonprofit organizations and government agencies	**(23,881)**	5,225
Additional cash provided by (used in) conservation land projects:		
Proceeds from disposition of conservation land held	**142,396**	106,458
Acquisition of conservation land projects	**(161,718)**	(162,577)
Net cash used in operating activities	**(28,596)**	(91,312)
Cash flows from investing activities:		
Purchases of property and equipment	**(137)**	(168)
Purchases of investments	**(24,195)**	(7,492)
Proceeds from sale of investments	**2,166**	42,618
Issuance of notes receivable	**(23,036)**	(25,834)
Repayments of principal on notes receivable	**26,302**	20,513
Proceeds from sale of loans receivable	**1,094**	-
Net cash (used in) provided by investing activities	**(17,806)**	29,637
Cash flows from financing activities:		
Capital contribution received—noncontrolling interest	**56**	5,668
Proceeds from long-term debt	**78,050**	37,791
Repayment of long-term debt	**(54,058)**	(23,179)
Debt issuance costs	**(47)**	(8)
Advances on secured borrowings, participations	**2,951**	6,091
Repayments on secured borrowings, participations	**(661)**	(373)
Contributions restricted for long-term purposes	**1,263**	853
Net cash provided by financing activities	**27,554**	26,843
Net decrease in cash and cash equivalents	**(18,848)**	(34,832)

(Continued)

The Conservation Fund, a Nonprofit Corporation and Affiliates

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

	2021	2020
Cash and cash equivalents, and restricted cash:		
Beginning	**$ 200,221**	$ 235,053
Ending	**$ 181,373**	$ 200,221
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 6,705**	$ 6,542
Supplemental disclosure of noncash financing activities:		
Forgiveness of debt	**$ 3,888**	$ -

See notes to combined financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

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

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

During 2021, TCF and PCAP, a certified Community Development Financial Institution (CDFI) that provides financing for and technical assistance to natural resource-based businesses, agreed to pursue a legal and financial separation of PCAP from TCF. This decision has been made due to proposed changes in the U.S. Treasury Department's regulations for CDFIs that will require certain of their affiliates to have as their primary mission promoting community development, so that the CDFI can remain eligible for funds from the U.S. Treasury Department's CDFI Fund and other funders. TCF and PCAP do not believe this pending requirement can be met as their relationship is currently structured. The full separation is expected to be completed during 2022.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, PCAP 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. For the Intermediary Relending Program (IRP) which includes the Rural Microentrepreneur Assistance Program (RMAP), PCAP agrees to deposit in a custodial account on the closing date the full amount of the proceeds of the loan and thereafter, principal or proceeds received by the ultimate recipient and all interest, dividends or other earnings. The amounts deposited in the account shall not be commingled with any other funds. In addition, IRP, RMAP, and the Small Business Administration (SBA) require cash to be restricted for loan loss reserves.

Additionally, in order to meet certain private lenders' requirements for loans receivable, PCAP 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 fund, which total $19,300 at December 31, 2021. 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.

(In Thousands)

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

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

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

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

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

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

PCAP holds investments in the U.S. Endowment Fuel Project. PCAP 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. PCAP earns minimal revenues on fuel sold.

PCAP held a certificate of deposit with a financial institution in the amounts of $206 as of December 31, 2021, as a requirement to hold during the duration of the $500 line of credit (see Note 9) financing provided. The certificate of deposit was redeemed during the year ended December 31, 2021, when the $500 line of credit was paid in full.

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.

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

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, 2021.

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. PCAP 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 PCAP's debtors to honor their contracts is dependent upon general economic conditions in the respective area.

Notes receivable are stated at the principal amount outstanding, net of allowance for 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 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.

PCAP 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 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 $3,017 as of December 31, 2021, for conservation and small business loans.

Impaired loans: Prior to the adoption of FASB ASC 326 on January 1, 2021, the impaired loan allowance was determined pursuant to ASC 310-10-35. A loan is considered impaired when, based on current information and events, it is probable that PCAP 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.

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

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 statement of activities; the carrying value of the land and transaction costs incurred with the transfer are shown as program service expenses.

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

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

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

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 $39,197 at December 31, 2021.

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

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

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 PCAP, (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 outstanding balance of sales is $1,094 as of December 31, 2021.

PCAP sells participation loans to third parties that do not meet the criteria to be accounted for as sales as PCAP has not surrendered control of the participation loans sold. As a result the participation loans are accounted for as secured borrowings, whereby PCAP records cash received from the transferee and records a liability to repay the cash to the transferee. The transferees have no recourse to PCAP for failure of the underlying borrowers to pay amounts contractually due. The outstanding balance of participation loans sold accounted for as secured borrowings is $10,823 as of December 31, 2021.

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

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 $109,967 received but not yet earned are recorded as deferred revenue and refundable advances in the combined statement of financial position as of December 31, 2021.

PCAP'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 PCAP operations. Interest income on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding.

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

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

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 2018.

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

Adopted accounting pronouncement: On January 1, 2021, PCAP adopted Accounting Standards Update (ASU) 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables and held-to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. The total impact of adoption of ASC 326 was an increase in net assets without donor restriction of $743.

PCAP adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized costs and off-balance-sheet (OBS) credit exposures.

Results for reporting periods beginning after January 1, 2021 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP.

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

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

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

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

Note 2. Cash and Cash Equivalents

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

Cash	$	162,073
Money market funds		19,300
	$	181,373
Unrestricted cash and cash equivalents	$	84,269
Restricted cash and cash equivalents		97,104
	$	181,373

Restricted cash balances at December 31, 2021, are held for the following purposes:

Cash held for mitigation projects	$	93,839
Cash required to be segregated by lender		1,273
Revolving loan funds		1,817
Cash equivalents held as collateral		23
Cash held for loan loss reserves		152
	$	97,104

(In Thousands)

Note 3. Investments

Investments consisted of the following at December 31, 2021:

Investment in Lupine Forest LLC	$	21,675
Collective investment trust funds		14,166
Mutual funds		10,276
Corporate bonds		3,276
Municipal bonds		2,664
Investment in partnership (held at cost)		525
Asset-backed securities		438
International fixed income		270
U.S. Endowment Fuel Project		100
Common stock		24
	$	53,414

For the year ended December 31, 2021, investment income from cash, cash equivalents and investments totaled approximately $1,872, 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: Quoted market prices (unadjusted) in active markets for identical assets or liabilities.

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

Investments in collective investment trust funds consist primarily of fixed income funds. The investment objective of the funds is to invest primarily in investment-grade credit securities and mortgage-backed securities. The funds may invest in government securities to protect principal in adverse credit environments. The funds' securities are selected through an active investment and risk management approach. The fair values of these investments have been estimated using the net asset value per share of the investments. Redemption for this fund is available on a monthly basis with 72-hour required notice. The funds do not have unfunded commitments.

(In Thousands)

Note 4. Fair Value Measurements (Continued)

The following tables sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of December 31, 2021:

	Total	Level 1	Level 2	Level 3
Investments:				
Money market funds	$ 19,300	$ 19,300	$ -	$ -
Collective investment trust funds (a)	14,166	-	-	-
Corporate bonds	3,276	-	3,276	-
Municipal bonds	2,664	-	2,664	-
International fixed income	270	-	270	-
Mutual funds	10,276	10,276	-	-
Common stock	24	24	-	-
Asset-backed securities	438	-	438	-
	$ 50,414	$ 29,600	$ 6,648	$ -

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

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

Cash and cash equivalents held at fair value	$ 19,300
Investments held at fair value	16,948
Investments held at net asset value	14,166
	$ 50,414

Investments held at fair value	$ 16,948
Investments held at net asset value	14,166
Equity method investment (Lupine Forest, LLC)	21,675
Investments held at cost	625
	$ 53,414

Note 5. Promises to Give

Unconditional promises to give at December 31, 2021, were $6,184, with $4,329 due within one year and $1,856 due within one to five years. At December 31, 2021, the Fund recorded a discount of $106, on long-term promises to give.

In addition to the unconditional promises to give, TCF has conditional promises to give totaling $11,982 at December 31, 2021, which are conditioned on TCF purchasing certain parcels of land and has not been recorded in the combined financial statement. At December 31, 2021, PCAP also had 16 conditional promises to give totaling $5,522.

(In Thousands)

Note 6. Property and Equipment

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

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

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

Note 7. Notes Receivable

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

Notes receivable	$	76,733
Allowance for possible losses		(3,017)
Notes receivable, net	$	73,716

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

At December 31, 2021, PCAP had notes receivable outstanding totaling $51,912. The notes are primarily 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. PCAP uses a loan grading system that follows its loan policy. In evaluating the credit risk of PCAP’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. PCAP’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 $502 at December 31, 2021, and is included in receivables on the combined statement of financial position.

For the year ended December 31, 2021, interest income from these notes was $3,829.

(In Thousands)

Note 8. Bonds and Notes Payable

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

Bonds and notes	$	342,453
Amounts representing implied interest		(16,346)
Unamortized debt issuance costs		(700)
Total	$	325,407

U.S. GAAP requires interest expense and contribution revenue to be reported in connection with loans of cash to not-for-profit organizations that are interest free or that have below-market interest rates. The contribution is recognized at the time the loan is made and amortized using the effective interest method. The accretion increases interest expense and notes payable. Implied interest discount was $16,346 at December 31, 2021.

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

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

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

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

PCAP has 80 unsecured notes payable to foundations and financial institutions totaling $28,618, and 10 other notes payable, which are secured to various government agencies totaling $3,531. The notes have stated interest rates between 0% and 4%. Maturity dates range from 2022 to 2050.

PCAP 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. Audit financial statements are required to be submitted between 90 and 180 days depending on the lender.

Interest expense, including amortization of debt issuance costs, for the year ended December 31, 2021, was $6,581, of which $4,498 is attributable to the amortization of note payable discount.

(In Thousands)

Note 8. Bonds and Notes Payable (Continued)

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

Years ending December 31:		
2022	$	16,536
2023		31,873
2024		34,261
2025		16,692
2026		22,710
Thereafter		220,381
		342,453
Less amounts representing implied interest		(16,346)
Less amounts representing unamortized debt issuance costs		(700)
	$	325,407

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, 2023. Outstanding draws on the line of credit bear interest at a variable rate, which was 0.75% at December 31, 2021. At December 31, 2021, there were no borrowings against this line of credit agreement.

PCAP maintained a $150 revolving line of credit with a lending institution, to be drawn upon as needed, 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. The revolving line of credit was paid in full during the year ended December 31, 2021.

PCAP maintains a $3,000 revolving capital line of credit with a lending institution, to be drawn upon as needed, with a variable rate equal to the one-month LIBOR plus 270 basis points. Interest is payable monthly, with all unpaid principal and interest due at maturity on April 10, 2024. The line of credit is utilized to finance the short-term portion of Small Business Administration 504 program loans and are repaid to the lending institution under in line with the related loan receivable. The total outstanding balance was $289 at December 31, 2021, and is classified as current on the combined statement of financial position since the corresponding loan receivable matures in 2022.

During 2021, PCAP obtained a $750,000 revolving operating line of credit with a lending institution, to be drawn upon as needed, with a variable rate of the SOFR rate plus 1.5% with a floor 2.5%. Interest is payable monthly, with all unpaid principal and interest due at maturity on October 13, 2022. There was no outstanding balance at December 31, 2021.

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 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.

(In Thousands)

Note 10. Commitments and Contingencies (Continued)

The following schedule summarizes the future minimum lease commitments:

Years ending December 31:		
2022	$	1,393
2023		1,222
2024		1,081
2025		324
2026		253
Thereafter		104
	$	4,377

Total rent expense for the year ended December 31, 2021, was $1,327.

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

Pandemic: The continued global pandemic in 2021 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: PCAP 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. PCAP's exposure to credit loss is represented by the contractual amount of these commitments. PCAP follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

Loan commitments approved but not disbursed	$	4,282

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 PCAP, is based on management's credit evaluation of the customer.

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 PCAP is committed.

(In Thousands)

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 year ended December 31, 2021, totaled $1,800.

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, 2021, donor restricted net assets consisted of the following:

Restricted for specific purpose:		
Amounts restricted for various real estate acquisitions, projects or operating programs	$	140,370
Revolving net assets dedicated to providing temporary financing of land acquisitions in various regions of the country with any revolving fund loans required to be repaid		107,157
Loan capital		216
Provide support for business development to natural resource-based enterprises and provide incentives to businesses to engage in sound environmental practices		2,135
		249,878
Perpetual in nature:		
Restricted for specific purpose:		
Loan capital revolving fund represents net assets dedicated to providing temporary financing to qualified businesses		6,421
Total net assets with donor restrictions	$	256,299

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.

(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 earn a return while preserving capital of its funds not required for annual operations. The Fund's financial assets available within one year of December 31, 2021, for general expenditures are as follows:

Cash and cash equivalents	$ 84,269
Restricted cash and cash equivalents	97,104
Investments	53,414
Promises to give	6,078
Receivables	6,779
Other assets	203
Notes receivable, net	73,716
Total financial assets available	321,563
Less those not available for general expenditure within one year due to:	
Contractual or imposed restrictions:	
Restricted cash and cash equivalents	(97,104)
Board-designated net assets	(1,000)
Donor-restricted funds	(79,030)
Partnership agreement	(21,675)
Notes receivable, due after one year, net	(60,848)
Notes receivable due in next year restricted for federal relending program	(400)
Other assets	(203)
Long-term investment (U.S. Endowment Fuel Project)	(100)
Outstanding loan commitments, not disbursed	(4,282)
	(264,642)
Financial assets available to meet cash needs for general expenditures within one year	$ 56,921

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

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

(In Thousands)

Note 15. Changes in Combined Net Assets Without Donor Restrictions

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

	The Fund	Noncontrolling Interest	Total
Net assets without donor restrictions:			
Balance, December 31, 2020	$ 250,891	$ 5,596	$ 256,487
Impact of adoption ASC 326	743	-	743
Capital contribution by noncontrolling interest	-	56	56
Change in net assets without donor restrictions	10,984	114	11,098
Balance, December 31, 2021	$ 262,618	$ 5,766	$ 268,384