FINANCIAL STATEMENTS

potomac conservancy

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

THE POTOMAC CONSERVANCY, INC.

CONTENTS

CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Potomac Conservancy, Inc.
Silver Spring, Maryland

We have audited the accompanying financial statements of The Potomac Conservancy, Inc. (the Conservancy), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gelman Rozenberg & Freedman

March 3, 2020

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 365,809	$ 291,759
Investments	182,460	172,329
Grants receivable	15,720	98,684
Prepaid expenses	21,554	11,742
Total current assets	585,543	574,514
PROPERTY AND EQUIPMENT		
Equipment	56,198	39,302
Leasehold improvements	9,298	9,298
	65,496	48,600
Less: Accumulated depreciation and amortization	(45,012)	(40,363)
Net property and equipment	20,484	8,237
OTHER ASSETS		
Land and easements	265,985	265,985
Security deposits	6,149	6,149
Total other assets	272,134	272,134
TOTAL ASSETS	**$ 878,161**	**$ 854,885**

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Note payable	$ -	$ 111,918
Line of credit	-	55,000
Accounts payable and accrued liabilities	41,339	119,605
Interest payable	-	2,899
Deferred rent liability	3,024	10,233
Total current liabilities	44,363	299,655
NONCURRENT LIABILITIES		
Deferred rent liability, net of current portion	-	3,024
Total liabilities	44,363	302,679
NET ASSETS		
Without donor restrictions:		
Undesignated	252,457	(102,870)
Board-designated Reserve Fund	63,785	63,657
Board-designated Stewardship Fund	191,867	191,482
Total without donor restrictions	508,109	152,269
With donor restrictions	325,689	399,937
Total net assets	833,798	552,206
TOTAL LIABILITIES AND NET ASSETS	**$ 878,161**	**$ 854,885**

See accompanying notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants and contributions	$ 1,315,922	$ 202,634	$ 1,518,556
Investment income, net	10,679	-	10,679
In-kind contributions	1,000	-	1,000
Other income	-	-	-
Net assets released from donor restrictions	276,882	(276,882)	-
Total support and revenue	1,604,483	(74,248)	1,530,235
EXPENSES			
Program Services:			
Land Protection	214,710	-	214,710
Public Policy	191,359	-	191,359
Community Conservation	304,356	-	304,356
Communications	158,379	-	158,379
Total program services	868,804	-	868,804
Supporting Services:			
Management and General	146,019	-	146,019
Fundraising	233,820	-	233,820
Total supporting services	379,839	-	379,839
Total expenses	1,248,643	-	1,248,643
Changes in net assets before other item	355,840	(74,248)	281,592
OTHER ITEM			
Loss on the sale of land	-	-	-
Changes in net assets	355,840	(74,248)	281,592
Net assets at beginning of year	152,269	399,937	552,206
NET ASSETS AT END OF YEAR	**$ 508,109**	**$ 325,689**	**$ 833,798**

2018		
Without Donor Restrictions	**With Donor Restrictions**	**Total**
$ 2,301,442	$ 427,624	$ 2,729,066
7,864	-	7,864
1,440	-	1,440
625	-	625
421,213	(421,213)	-
2,732,584	6,411	2,738,995
306,177	-	306,177
177,168	-	177,168
524,850	-	524,850
179,426	-	179,426
1,187,621	-	1,187,621
107,764	-	107,764
243,921	-	243,921
351,685	-	351,685
1,539,306	-	1,539,306
1,193,278	6,411	1,199,689
1,899,306	-	1,899,306
(706,028)	6,411	(699,617)
858,297	393,526	1,251,823
$ 152,269	**$ 399,937**	**$ 552,206**

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Program Services					Supporting Services			
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and related benefits	$ 108,201	$ 115,602	$ 191,828	$ 90,606	$ 506,237	$ 101,756	$ 66,663	$ 168,419	$ 674,656
Occupancy	12,901	18,294	20,993	16,148	68,336	8,531	8,074	16,605	84,941
Professional fees	57,840	39,960	35,649	29,192	162,641	4,842	74,737	79,579	242,220
Grant subcontracting fees	-	-	19,832	-	19,832	-	-	-	19,832
Insurance	7,706	1,756	1,612	1,550	12,624	1,424	517	1,941	14,565
Depreciation and amortization	978	1,053	967	930	3,928	489	232	721	4,649
In-kind contributions	-	-	-	-	-	1,000	-	1,000	1,000
Printing and production	4,453	3,945	289	12,988	21,675	789	45,467	46,256	67,931
Dues, subscriptions and publications	2,684	842	-	2	3,528	592	-	592	4,120
Telecommunications	4,996	1,382	2,548	1,587	10,513	1,084	793	1,877	12,390
Travel and related expenses	3,662	3,480	8,579	273	15,994	6,566	566	7,132	23,126
Bank charges and other fees	-	-	-	-	-	10,597	-	10,597	10,597
Program materials and supplies	1,526	11	4,134	-	5,671	-	-	-	5,671
Equipment and rental	7,218	1,395	5,915	1,641	16,169	1,615	821	2,436	18,605
Licenses and fees	126	-	-	-	126	1,285	-	1,285	1,411
Supplies	1,965	2,118	1,945	1,870	7,898	2,698	1,870	4,568	12,466
Special events	-	1,246	8,445	-	9,691	617	34,080	34,697	44,388
Staff training and education	454	275	1,620	1,592	3,941	-	-	-	3,941
Interest	-	-	-	-	-	835	-	835	835
Other	-	-	-	-	-	1,299	-	1,299	1,299
TOTAL	**$ 214,710**	**$ 191,359**	**$ 304,356**	**$ 158,379**	**$ 868,804**	**$ 146,019**	**$ 233,820**	**$ 379,839**	**$ 1,248,643**

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Services					Supporting Services			
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries and related benefits	$ 152,040	$ 103,198	$ 140,950	$ 108,605	$ 504,793	$ 67,842	$ 107,270	$ 175,112	$ 679,905
Occupancy	12,972	17,269	19,891	15,860	65,992	8,499	7,809	16,308	82,300
Professional fees	73,720	35,594	33,880	28,257	171,451	3,387	56,034	59,421	230,872
Grant subcontracting fees	-	-	295,511	-	295,511	-	-	-	295,511
Insurance	7,961	1,900	1,751	1,745	13,357	1,461	573	2,034	15,391
Depreciation and amortization	827	846	780	777	3,230	406	192	598	3,828
In-kind contributions	1,440	-	-	-	1,440	-	-	-	1,440
Printing and production	1,363	7,924	7,626	19,549	36,462	380	39,754	40,134	76,596
Dues, subscriptions and publications	1,082	1,216	-	-	2,298	200	20	220	2,518
Telecommunications	5,046	1,298	2,077	1,447	9,868	867	727	1,594	11,462
Travel and related expenses	3,096	4,731	9,362	219	17,408	3,323	677	4,000	21,408
Bank charges and other fees	-	-	-	-	-	9,312	-	9,312	9,312
Program materials and supplies	1,047	151	8,693	-	9,891	-	-	-	9,891
Equipment and rental	4,793	1,073	1,077	1,431	8,374	3,056	705	3,761	12,135
Licenses and fees	11	112	-	-	123	5,643	-	5,643	5,766
Supplies	1,634	1,513	1,541	1,536	6,224	2,348	1,513	3,861	10,085
Special events	-	47	85	-	132	-	28,647	28,647	28,779
Staff training and education	-	268	1,626	-	1,894	77	-	77	1,971
Interest	39,145	28	-	-	39,173	54	-	54	39,227
Other	-	-	-	-	-	909	-	909	909
TOTAL	**$ 306,177**	**$ 177,168**	**$ 524,850**	**$ 179,426**	**$ 1,187,621**	**$ 107,764**	**$ 243,921**	**$ 351,685**	**$ 1,539,306**

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 281,592	$ (699,617)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,649	3,828
Unrealized gain on investments	(3,355)	(3,178)
Realized loss on sales of investments	49	-
Loss on sale of land	-	1,899,306
Decrease (increase) in:		
Grants receivable	82,964	52,745
Pledges receivable	-	108,582
Prepaid expenses	(9,812)	15
Decrease in:		
Accounts payable and accrued liabilities	(78,266)	(65,483)
Interest payable	(2,899)	(151,714)
Deferred revenue	-	(16,630)
Deferred rent liability	(10,233)	(7,788)
Net cash provided by operating activities	264,689	1,120,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	(16,896)	-
Purchases of investments	(6,825)	(3,988)
Proceeds from sale of land	-	948,651
Net cash (used) provided by investing activities	(23,721)	944,663
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments to) proceeds from line of credit	(55,000)	5,000
Net payments to note payable	(111,918)	(2,058,082)
Net cash used by financing activities	(166,918)	(2,053,082)
Net increase in cash and cash equivalents	74,050	11,647
Cash and cash equivalents at beginning of year	291,759	280,112
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 365,809**	**$ 291,759**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 3,725**	**$ 188,881**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Potomac Conservancy, Inc. (the Conservancy) is a non-profit organization, incorporated in the State of Maryland and located in Silver Spring. The Conservancy safeguards the lands and waters of the Potomac River and its tributaries and connects people to this national treasure. The Conservancy is supported primarily by contributions from individuals, corporations, foundations and Federal grants and contracts.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entitie*s. The ASU was adopted during the year ended September 30, 2019 and applied retrospectively.

Cash and cash equivalents -

The Conservancy considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. At times during the year, the Conservancy maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends and realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors in the accompanying Statements of Activities and Changes in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. The Conservancy's policy is to liquidate all gifts of investments as soon as possible after the gift.

Grants receivable -

Grants receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment with an acquisition value in excess of $1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally five to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Depreciation and amortization expense for the years ended September 30, 2019 and 2018 totaled $4,649 and $3,828, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Land and easements -

On May 13, 2015, the Conservancy purchased land, and the value assigned to the sales transaction (and in the Conservancy's financial statements) was its fair market value as of that date. Land is not depreciated as it is assumed to have an unlimited useful life. The land was sold during the year ended September 30, 2018.

The Conservancy also holds several perpetual conservation easements, which were received as a donation and valued at $1 per easement. The easements are assigned this nominal value because the easements themselves have no marketable value and the benefits of the easement accrue to the public. The purpose of each easement is to preserve and protect the environment of the properties and to maintain the open-space values and character of the properties.

Income taxes -

The Conservancy is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is only subject to tax on unrelated business income. The Conservancy is not a private foundation.

Uncertain tax positions -

For the years ended September 30, 2019 and 2018, the Conservancy has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.

- **Net Assets With Donor Restrictions -** Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Grants and contributions received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

In-kind contributions -

The Conservancy receives in-kind contributions of professional services, which are recorded at their fair value as of the date of the gift. In addition, volunteers have donated significant amounts of their time to the Conservancy; these in-kind services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Conservancy are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of September 30, 2018 as unrestricted net assets in the amount of $152,269 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of $399,937 are now classified as "net assets with donor restrictions".

Risks and uncertainties -

The Conservancy invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Risks and uncertainties (continued) -

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Conservancy adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Conservancy accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by one year; thus, the effective date is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Conservancy has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Conservancy has not yet decided on a transition method. This ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities beginning after December 15, 2020. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Conservancy plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following at September 30, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	$ 148,448	$ 182,460	$ 141,672	$ 172,329

Included in investment income are the following:

	2019	2018
Interest and dividends	$ 7,420	$ 4,711
Unrealized gain on investments	3,355	3,178
Realized loss on sales of investments	(49)	-
Investment management fees	(47)	(25)
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	$ 10,679	$ 7,864

In accordance with FASB ASC 820, *Fair Value Measurement*, the Conservancy has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Conservancy has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the years ended September 30, 2019 and 2018. Transfers between levels are recorded at the end of the reporting period, if applicable.

Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Conservancy are open-end mutual funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily value and to transact at that price. Mutual funds held by the Conservancy are deemed to be actively traded.

2. INVESTMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2019:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual Funds:				
Balanced fund	$ 30,788	$ -	$ -	$ 30,788
Growth and income fund	29,088	-	-	29,088
Bond fund	93,384	-	-	93,384
Equity income fund	29,200	-	-	29,200
TOTAL	**$ 182,460**	**$ -**	**$ -**	**$ 182,460**

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual Funds:				
Balanced fund	$ 31,645	$ -	$ -	$ 31,645
Growth and income fund	27,450	-	-	27,450
Bond fund	85,440	-	-	85,440
Equity income fund	27,794	-	-	27,794
TOTAL	**$ 172,329**	**$ -**	**$ -**	**$ 172,329**

3. NOTE PAYABLE

On May 13, 2015, the Conservancy entered into a $2,170,000 promissory note payable to The Conservation Fund for the purchase of "White Horse Mountain". The note bears interest of 3.0% per annum; however, principal and interest payments were not due and payable (payments were optional) until the note matured on May 12, 2018. If the promissory note was not satisfied in full on the maturity date, interest at a rate of 10.0% per annum would accrue on the unpaid principal balance until full satisfaction of the note. The note was collateralized by the Conservancy's right, title and interest in all the grants to be used as funding sources for the purchase of the land together with the land itself. On May 14, 2018, the maturity date of the note was extended to August 31, 2018 at an interest rate of 4.37%. On August 28, 2018, the maturity date of the note was again extended to January 15, 2019, at the same interest rate of 4.37%.

On May 11, 2018, the Conservancy transferred ownership of White Horse Mountain to the State of West Virginia, pursuant to an agreement between the parties. The purchase price was $950,000, resulting in a loss of $1,899,306.

The outstanding balance of the note and accrued interest were fully paid during January 2019. As of September 30, 2018, the outstanding principal balance aggregated $111,918. During the years ended September 30, 2019 and 2018, interest expense of $1,395 and $38,205, respectively, has been expensed in the accompanying financial statements. As of September 30, 2018, the accrued interest liability aggregated $2,899.

4. LINE OF CREDIT

The Conservancy has secured a $150,000 line of credit with a local financial institution. The line of credit is secured by all inventory, equipment, receivables, chattel paper, property, investments, money, and other rights of payments and performance. Amounts borrowed under this agreement bear interest based on a variable rate, with a floor of 5.25%. There was no outstanding balance due on the line of credit as of September 30, 2019. As of September 30, 2018, the balance due under the line of credit aggregated $55,000.

5. BOARD-DESIGNATED NET ASSETS

As of September 30, 2019 and 2018, net assets have been designated by the Board of Directors for the following purposes:

	2019	2018
Reserve Fund	$ 63,785	$ 63,657
Stewardship Fund	191,867	191,482
TOTAL BOARD-DESIGNATED NET ASSETS	**$ 255,652**	**$ 255,139**

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2019 and 2018:

	2019	2018
Stewardship Fund	$ 153,372	$ 153,372
Community Conservation	51,053	69,794
Communications	-	1,000
Land Protection	60,256	99,394
Public Policy	61,008	76,377
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 325,689**	**$ 399,937**

7. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	2019	2018
Stewardship Fund	$ -	$ 17,539
Community Conservation	96,375	191,367
Communications	1,000	16,191
Land Protection	92,138	72,329
Public Policy	87,369	113,418
Fundraising	-	10,369
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 276,882**	**$ 421,213**

8. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statements of Financial Position date comprise the following:

	2019	2018
Cash and cash equivalents	$ 365,809	$ 291,759
Investments	182,460	172,329
Grants receivable	15,720	98,684
Subtotal financial assets available within one year	563,989	562,772
Less: Donor restricted funds	(325,689)	(399,937)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	**$ 238,300**	**$ 162,835**

The Conservancy has a policy to structure its financial assets to be available and liquid as its obligations become due. As of September 30, 2019 and 2018, the Conservancy had financial assets equal to approximately two months and one month of operating expenses, respectively. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was $63,785 and $63,657 as of September 30, 2019 and 2018, respectively. In addition, the Conservancy has a line of credit agreement (as further discussed in Note 4) which allows for additional available borrowings up to $150,000.

9. IN-KIND CONTRIBUTIONS

During the years ended September 30, 2019 and 2018, the Conservancy was the beneficiary of donated services, which allowed the Conservancy to provide greater resources toward its various programs. Donated services were estimated at a fair value of $1,000 and $1,440 during the years ended September 30, 2019 and 2018, respectively.

10. LEASE COMMITMENTS

On October 30, 2013, the Conservancy entered into a six year six-month lease for office space commencing on February 1, 2014. Under the terms of the lease, base rent is $6,149 per month, plus a proportionate share of building operating expenses and real estate taxes, increasing by a factor of 3% each year. In addition, the lease provides for five months of free rent.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the accompanying Statements of Financial Position. As of September 30, 2019 and 2018, the total deferred rent liability aggregated $3,024 and $13,257, respectively.

During October 2019, the Conservancy entered into a 72 month lease commencing on February 1, 2020 and terminating January 31, 2026. Under the terms of the lease agreement, initial monthly rent is $4,156, increasing by a factor 2.75% per annum. The lease allows for the first six months of rent to be abated.

10. LEASE COMMITMENTS (Continued)

The Conservancy has entered into one-year leases for the Winchester Office, commencing February 1, 2015. On September 20, 2017, a new lease for a term of one year was entered into at a monthly rent of $350. During the year ended September 30, 2019, the lease for the Winchester office was on a month to month basis. During October 2019, a new lease was entered into, commencing October 1, 2019 and ending September 30, 2020, at a rent of $375 per month.

The following is a schedule of the future minimum payments required under these aforementioned leases:

Year Ended September 30, 2020	**$ 21,385**

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2019 and 2018, totaled $84,941 and $82,300, respectively.

11. RETIREMENT PLAN

The Conservancy provides retirement benefits to its employees through a tax-deferred annuity plan under IRS Section 403(b). All full-time employees with one year of experience are eligible to participate in the Plan. The Conservancy contributes up to 3% of an employee's annual gross wages. Contributions to the Plan for the years ended September 30, 2019 and 2018, totaled $15,147 and $15,554, respectively.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through March 3, 2020, the date the financial statements were issued.