

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2022 AND 2021**

THE POTOMAC CONSERVANCY, INC.

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CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Conservancy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Conservancy's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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 opinion. 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 generally accepted 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, including omissions, 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 generally accepted 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 Conservancy'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 Conservancy'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.



February 6, 2023

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,896,039	\$ 1,872,223
Investments	187,769	221,020
Grants and accounts receivable	421,710	31,861
Prepaid expenses	<u>18,529</u>	<u>11,708</u>
Total current assets	<u>2,524,047</u>	<u>2,136,812</u>
PROPERTY AND EQUIPMENT		
Equipment	48,545	48,545
Leasehold improvements	<u>5,306</u>	<u>5,306</u>
	53,851	53,851
Less: Accumulated depreciation and amortization	<u>(35,465)</u>	<u>(26,562)</u>
Net property and equipment	<u>18,386</u>	<u>27,289</u>
OTHER ASSETS		
Land and easements	265,985	265,985
Grants and accounts receivable, net of current portion and discount	77,024	-
Security deposits	<u>4,759</u>	<u>4,759</u>
Total other assets	<u>347,768</u>	<u>270,744</u>
TOTAL ASSETS	<u>\$ 2,890,201</u>	<u>\$ 2,434,845</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 108,563	\$ 267,537
Deferred rent liability	<u>4,345</u>	<u>2,910</u>
Total current liabilities	<u>112,908</u>	<u>270,447</u>
NONCURRENT LIABILITIES		
Deferred rent liability, net of current portion	<u>15,767</u>	<u>20,112</u>
Total liabilities	<u>128,675</u>	<u>290,559</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	792,407	522,985
Board-designated Reserve Fund	604,000	604,000
Board-designated Stewardship Fund	32,034	32,034
Board-designated Land and Water Conservation Revolving Fund	<u>345,000</u>	<u>-</u>
Total without donor restrictions	1,773,441	1,159,019
With donor restrictions	<u>988,085</u>	<u>985,267</u>
Total net assets	<u>2,761,526</u>	<u>2,144,286</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,890,201</u>	<u>\$ 2,434,845</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,446,601	\$ 995,610	\$ 2,442,211
Investment loss, net	(33,305)	-	(33,305)
In-kind contributions	19,131	-	19,131
Other revenue	500	-	500
Net assets released from donor restrictions	<u>992,792</u>	<u>(992,792)</u>	<u>-</u>
Total support and revenue	<u>2,425,719</u>	<u>2,818</u>	<u>2,428,537</u>
EXPENSES			
Program Services:			
Land Protection	242,831	-	242,831
Public Policy	194,624	-	194,624
Community Conservation	473,545	-	473,545
Communications	<u>315,328</u>	<u>-</u>	<u>315,328</u>
Total program services	<u>1,226,328</u>	<u>-</u>	<u>1,226,328</u>
Supporting Services:			
Management and General	256,492	-	256,492
Fundraising	<u>328,477</u>	<u>-</u>	<u>328,477</u>
Total supporting services	<u>584,969</u>	<u>-</u>	<u>584,969</u>
Total expenses	<u>1,811,297</u>	<u>-</u>	<u>1,811,297</u>
Changes in net assets	614,422	2,818	617,240
Net assets at beginning of year	<u>1,159,019</u>	<u>985,267</u>	<u>2,144,286</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,773,441</u>	<u>\$ 988,085</u>	<u>\$ 2,761,526</u>

THE POTOMAC CONSERVANCY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 2,796,994	\$ 574,500	\$ 3,371,494
Investment income, net	23,188	-	23,188
Other revenue	1,190	-	1,190
Net assets released from donor restrictions	<u>362,077</u>	<u>(362,077)</u>	<u>-</u>
Total support and revenue	<u>3,183,449</u>	<u>212,423</u>	<u>3,395,872</u>
EXPENSES			
Program Services:			
Land Protection	1,704,358	-	1,704,358
Public Policy	174,070	-	174,070
Community Conservation	286,209	-	286,209
Communications	<u>174,761</u>	<u>-</u>	<u>174,761</u>
Total program services	<u>2,339,398</u>	<u>-</u>	<u>2,339,398</u>
Supporting Services:			
Management and General	193,867	-	193,867
Fundraising	<u>230,316</u>	<u>-</u>	<u>230,316</u>
Total supporting services	<u>424,183</u>	<u>-</u>	<u>424,183</u>
Total expenses	<u>2,763,581</u>	<u>-</u>	<u>2,763,581</u>
Changes in net assets	419,868	212,423	632,291
Net assets at beginning of year	<u>739,151</u>	<u>772,844</u>	<u>1,511,995</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,159,019</u>	<u>\$ 985,267</u>	<u>\$ 2,144,286</u>

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Services				Supporting Services				Total Expenses
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 95,780	\$ 114,716	\$ 314,032	\$ 165,943	\$ 690,471	\$ 147,531	\$ 105,233	\$ 252,764	\$ 943,235
Occupancy	17,802	12,327	17,700	12,863	60,692	1,072	1,608	2,680	63,372
Professional fees	97,662	47,799	90,510	92,771	328,742	52,676	111,436	164,112	492,854
Insurance	5,699	1,472	3,954	2,086	13,211	2,146	1,295	3,441	16,652
Depreciation and amortization	898	1,076	2,890	1,525	6,389	1,567	947	2,514	8,903
In-kind contributions	-	-	-	-	-	11,631	7,500	19,131	19,131
Printing and production	348	10,269	26,094	29,773	66,484	2,107	61,403	63,510	129,994
Dues, subscriptions and publications	1,250	500	135	-	1,885	1,145	-	1,145	3,030
Telecommunications	4,213	3,398	2,198	2,198	12,007	532	275	807	12,814
Travel and related expenses	2,425	584	2,070	241	5,320	8,411	1,117	9,528	14,848
Bank charges and other fees	-	-	-	-	-	11,060	-	11,060	11,060
Program materials and supplies	2,564	-	3,746	325	6,635	1,422	1,008	2,430	9,065
Equipment and rental	3,260	1,273	3,385	1,758	9,676	5,947	3,051	8,998	18,674
Licenses and fees	5,840	281	-	1,513	7,634	4,293	-	4,293	11,927
Supplies	90	210	639	243	1,182	156	94	250	1,432
Special events	-	-	5,116	-	5,116	832	32,629	33,461	38,577
Staff training and education	5,000	719	576	1,589	7,884	3,964	881	4,845	12,729
Sponsorships	-	-	500	2,500	3,000	-	-	-	3,000
TOTAL	\$ 242,831	\$ 194,624	\$ 473,545	\$ 315,328	\$ 1,226,328	\$ 256,492	\$ 328,477	\$ 584,969	\$ 1,811,297

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Program Services				Supporting Services				Total Expenses
	Land Protection	Public Policy	Community Conservation	Communications	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related benefits	\$ 97,057	\$ 128,451	\$ 211,085	\$ 121,065	\$ 557,658	\$ 119,535	\$ 84,434	\$ 203,969	\$ 761,627
Occupancy	10,487	7,996	17,053	7,777	43,313	9,343	5,709	15,052	58,365
Professional fees	42,625	19,866	37,508	16,824	116,823	35,457	55,136	90,593	207,416
Land restoration	1,531,262	-	-	-	1,531,262	-	-	-	1,531,262
Insurance	5,707	1,987	3,191	1,933	12,818	3,183	1,419	4,602	17,420
Depreciation and amortization	1,026	1,371	2,201	1,333	5,931	1,536	978	2,514	8,445
Printing and production	179	8,355	3,300	20,833	32,667	1,696	55,785	57,481	90,148
Dues, subscriptions and publications	2,750	500	1,000	75	4,325	1,300	-	1,300	5,625
Telecommunications	4,700	1,746	2,804	1,698	10,948	1,957	1,247	3,204	14,152
Travel and related expenses	955	594	712	37	2,298	418	74	492	2,790
Bank charges and other fees	-	-	-	-	-	8,525	-	8,525	8,525
Program materials and supplies	307	371	1,297	105	2,080	230	3,270	3,500	5,580
Equipment and rental	846	1,223	1,818	1,196	5,083	3,491	1,021	4,512	9,595
Licenses and fees	6,247	204	-	1,476	7,927	6,453	-	6,453	14,380
Supplies	210	284	509	337	1,340	203	202	405	1,745
Special events	-	-	3,182	-	3,182	40	21,041	21,081	24,263
Staff training and education	-	122	49	72	243	500	-	500	743
Sponsorships	-	1,000	500	-	1,500	-	-	-	1,500
TOTAL	\$ 1,704,358	\$ 174,070	\$ 286,209	\$ 174,761	\$ 2,339,398	\$ 193,867	\$ 230,316	\$ 424,183	\$ 2,763,581

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 617,240	\$ 632,291
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,903	8,445
Unrealized loss (gain) on investments	42,217	(18,134)
Realized loss (gain) on sales of investments	114	(30)
Change in discount on long-term receivables	10,976	-
Receipt of contributed securities	(11,863)	(10,428)
Proceeds from sale of contributed securities	11,573	10,238
(Increase) decrease in:		
Grants and accounts receivable	(477,849)	(12,640)
Prepaid expenses	(6,821)	794
(Decrease) increase in:		
Accounts payable and accrued liabilities	(158,974)	201,630
Deferred rent liability	(2,910)	(1,513)
Net cash provided by operating activities	<u>32,606</u>	<u>810,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	<u>(8,790)</u>	<u>(4,552)</u>
Net cash used by investing activities	<u>(8,790)</u>	<u>(4,552)</u>
Net increase in cash and cash equivalents	23,816	806,101
Cash and cash equivalents at beginning of year	<u>1,872,223</u>	<u>1,066,122</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,896,039</u>	<u>\$ 1,872,223</u>

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2022 AND 2021

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 awards.

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 of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are 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.

New accounting pronouncement adopted -

During the year ended September 30, 2022, the Conservancy adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends and realized and unrealized gains and losses are included in investment (loss) 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 and accounts receivable -

Grants and accounts receivable are recorded at their net realizable value, which approximates fair value. Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment with an acquisition value in excess of \$3,000 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, 2022 and 2021 totaled \$8,903 and \$8,445, respectively.

Land and easements -

The Conservancy 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, 2022 and 2021, 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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

Grants and contributions -

The Conservancy receives grants and contributions, including unconditional promises to give, from many sources as well as grants from the U.S. Government, organizations and other entities. Grants and contributions are recognized in the appropriate category of net assets in the period received.

The Conservancy performs an analysis of the individual grant or contribution to determine if the revenue streams follow the contribution rules, or if they should be recorded as an exchange transaction depending upon whether the transaction is deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Grants and contributions qualifying as contributions that are unconditional and have 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 qualifying as conditional contributions contain a right of return and a barrier. Most grants and awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and recognized as contributions when the revenue becomes unconditional.

Funds received in advance of the incurrence of qualifying expenditures are recorded as deferred revenue, unless they are from the United States Government which is then recorded as a refundable advance. The Conservancy did not have any unrecognized conditional awards as of September 30, 2022.

In-kind contributions -

In-kind contributions consist of pro bono legal services and discounts on event food and drink, 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 donated 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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

Functional allocation of expenses (continued) -

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. These reclassifications had no effect on the previously reported changes in net assets.

Investment 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.

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 pronouncement not yet adopted -

ASU 2019-01, *Leases* (Topic 842), changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non-public entities beginning after December 15, 2021. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Conservancy plans to adopt the new ASU at the required implementation date, and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

2. INVESTMENTS

Investments consisted of the following at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Mutual Funds	\$ <u>187,769</u>	\$ <u>221,020</u>

Included in investment (loss) income are the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 9,201	\$ 5,241
Unrealized (loss) gain on investments	(42,217)	18,134
Realized (loss) gain on sales of investments	(114)	30
Investment management fees	<u>(175)</u>	<u>(217)</u>
TOTAL INVESTMENT (LOSS) INCOME, NET OF INVESTMENT EXPENSES	\$ <u>(33,305)</u>	\$ <u>23,188</u>

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, 2022 and 2021. 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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

2. INVESTMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Mutual Funds:				
Balanced fund	\$ 34,692	\$ -	\$ -	\$ 34,692
Growth and income fund	34,565	-	-	34,565
Bond fund	87,998	-	-	87,998
Equity income fund	<u>30,514</u>	<u>-</u>	<u>-</u>	<u>30,514</u>
TOTAL	<u>\$ 187,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,769</u>

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Mutual Funds:				
Balanced fund	\$ 47,724	\$ -	\$ -	\$ 47,724
Growth and income fund	36,374	-	-	36,374
Bond fund	102,620	-	-	102,620
Equity income fund	<u>34,302</u>	<u>-</u>	<u>-</u>	<u>34,302</u>
TOTAL	<u>\$ 221,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 221,020</u>

3. 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 the assets of the Conservancy. Amounts borrowed under this agreement bear interest based on a variable rate, with a floor of 5.25%.

There were no borrowings on the line of credit during the fiscal years ended September 30, 2022 and 2021, respectively.

4. BOARD-DESIGNATED NET ASSETS

As of September 30, 2022 and 2021, net assets have been designated by the Board of Directors for the following purposes:

	<u>2022</u>	<u>2021</u>
Reserve Fund	\$ 604,000	\$ 604,000
Stewardship Fund	32,034	32,034
Land and Water Conservation Revolving Fund	<u>345,000</u>	<u>-</u>
TOTAL BOARD-DESIGNATED NET ASSETS	<u>\$ 981,034</u>	<u>\$ 636,034</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2022 and 2021:

	2022	2021
Stewardship Fund	\$ 318,372	\$ 318,372
Community Conservation	69,543	106,715
Communications	-	33,363
Land Protection	139,070	498,285
Public Policy	47,076	24,032
Time Restricted	414,024	4,500
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 988,085	\$ 985,267

6. 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:

	2022	2021
Community Conservation	\$ 97,758	\$ 36,089
Communications	33,363	2,189
Land Protection	475,215	243,223
Public Policy	41,956	80,576
Passage of Time	344,500	-
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 992,792	\$ 362,077

7. LIQUIDITY AND AVAILABILITY

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

	2022	2021
Cash and cash equivalents	\$ 1,896,039	\$ 1,872,223
Investments	187,769	221,020
Grants and accounts receivable	421,710	31,861
Subtotal financial assets available within one year	2,505,518	2,125,104
Less: Donor restricted funds	(636,085)	(980,767)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 1,869,433	\$ 1,144,337

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

7. LIQUIDITY AND AVAILABILITY (Continued)

The Conservancy has a policy to structure its financial assets to be available and liquid as its obligations become due. As of September 30, 2022 and 2021, the Conservancy had financial assets equal to approximately twelve months and five months of operating expenses, respectively. Occasionally, the Board designates a portion of any operating surplus to its liquidity reserve, which was \$604,000 as of September 30, 2022 and 2021 (as further discussed in Note 4). In addition, the Conservancy has a line of credit agreement (as further discussed in Note 3) which allows for additional available borrowings up to \$150,000.

8. IN-KIND CONTRIBUTIONS

During the year ended September 30, 2022, the Conservancy was the beneficiary of pro bono legal services and discounted food and drink which allowed the Conservancy to provide greater resources toward various programs. There were no donor-imposed restrictions associated with the in-kind contributions during the year ended September 30, 2022. The in-kind contributions were valued based on the fair market value of the pro bono legal services and discounted food and drink. There were no in-kind contributions during the year ended September 30, 2021.

The following donations have been included in revenue and expense for the year ended September 30, 2022:

Pro bono legal services	\$ 11,631
Discounts on event food and drink	<u>7,500</u>
TOTAL	<u>\$ 19,131</u>

The following support services have benefited from these donated services:

Management and General	\$ 11,631
Fundraising	<u>7,500</u>
TOTAL	<u>\$ 19,131</u>

9. LEASE COMMITMENTS

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.

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.

The Conservancy has entered into one year leases for the Winchester office, commencing February 1, 2015. During October 2022, a new lease was entered into, commencing October 1, 2022 and ending September 30, 2023, at a rent of \$375 per month.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

9. LEASE COMMITMENTS (Continued)

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

Year Ending September 30,

2023	\$ 58,114
2024	55,088
2025	56,603
2026	<u>19,037</u>
	<u>\$ 188,842</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2022 and 2021, totaled \$63,372 and \$58,365, respectively. As of September 30, 2022 and 2021, the total deferred rent liability aggregated \$20,112 and \$23,022, respectively.

10. 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 are immediately 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, 2022 and 2021, totaled \$23,294 and \$15,122, respectively.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through February 6, 2023, the date the financial statements were issued.

During December 2022, the Conservancy's Board of Directors approved the transfer of \$150,000 from the undesignated net assets without donor restrictions at September 30, 2022, to the Board-designated reserve fund.