

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2021 AND 2020**

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

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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Gelman Rosenberg & Freedman". The signature is written in a cursive, flowing style.

February 11, 2022

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THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2021 AND 2020

		ASSETS	
		<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	1,872,223	\$ 1,066,122
Investments		221,020	198,114
Accounts receivable		5,938	1,581
Grants receivable		25,923	17,640
Prepaid expenses		<u>11,708</u>	<u>12,502</u>
Total current assets		<u>2,136,812</u>	<u>1,295,959</u>
PROPERTY AND EQUIPMENT			
Equipment		48,545	73,957
Leasehold improvements		<u>5,306</u>	<u>14,604</u>
		53,851	88,561
Less: Accumulated depreciation and amortization		<u>(26,562)</u>	<u>(52,827)</u>
Net property and equipment		<u>27,289</u>	<u>35,734</u>
OTHER ASSETS			
Land and easements		265,985	265,985
Security deposits		<u>4,759</u>	<u>4,759</u>
Total other assets		<u>270,744</u>	<u>270,744</u>
TOTAL ASSETS	\$	<u>2,434,845</u>	\$ <u>1,602,437</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	267,537	\$ 65,907
Deferred rent liability		<u>2,910</u>	<u>1,513</u>
Total current liabilities		<u>270,447</u>	<u>67,420</u>
NONCURRENT LIABILITIES			
Deferred rent liability, net of current portion		<u>20,112</u>	<u>23,022</u>
Total liabilities		<u>290,559</u>	<u>90,442</u>
NET ASSETS			
Without donor restrictions:			
Undesignated		522,985	403,039
Board-designated Reserve Fund		604,000	164,003
Board-designated Stewardship Fund		<u>32,034</u>	<u>172,109</u>
Total without donor restrictions		1,159,019	739,151
With donor restrictions		<u>985,267</u>	<u>772,844</u>
Total net assets		<u>2,144,286</u>	<u>1,511,995</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,434,845</u>	\$ <u>1,602,437</u>

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>		
	<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.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,290,984	\$ 989,438	\$ 2,280,422
Investment income, net	16,319	-	16,319
Other revenue	1,228	-	1,228
Net assets released from donor restrictions	<u>542,283</u>	<u>(542,283)</u>	<u>-</u>
Total support and revenue	<u>1,850,814</u>	<u>447,155</u>	<u>2,297,969</u>
EXPENSES			
Program Services:			
Land Protection	510,071	-	510,071
Public Policy	158,887	-	158,887
Community Conservation	301,967	-	301,967
Communications	<u>214,908</u>	<u>-</u>	<u>214,908</u>
Total program services	<u>1,185,833</u>	<u>-</u>	<u>1,185,833</u>
Supporting Services:			
Management and General	197,273	-	197,273
Fundraising	<u>236,666</u>	<u>-</u>	<u>236,666</u>
Total supporting services	<u>433,939</u>	<u>-</u>	<u>433,939</u>
Total expenses	<u>1,619,772</u>	<u>-</u>	<u>1,619,772</u>
Changes in net assets	231,042	447,155	678,197
Net assets at beginning of year	<u>508,109</u>	<u>325,689</u>	<u>833,798</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 739,151</u></u>	<u><u>\$ 772,844</u></u>	<u><u>\$ 1,511,995</u></u>

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.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	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	\$ 97,533	\$ 116,941	\$ 210,309	\$ 152,623	\$ 577,406	\$ 68,014	\$ 86,717	\$ 154,731	\$ 732,137
Occupancy	12,294	9,414	16,600	12,323	50,631	25,792	7,098	32,890	83,521
Professional fees	37,621	21,229	55,412	22,669	136,931	77,410	68,198	145,608	282,539
Land restoration	343,000	-	-	-	343,000	-	-	-	343,000
Insurance	6,034	2,208	3,893	2,890	15,025	1,478	1,665	3,143	18,168
Depreciation and amortization	1,025	1,235	2,178	1,617	6,055	829	931	1,760	7,815
In-kind contributions	-	-	-	-	-	-	1,000	1,000	1,000
Printing and production	9	3,576	2,623	16,237	22,445	3,014	50,935	53,949	76,394
Dues, subscriptions and publications	1,750	500	128	88	2,466	138	-	138	2,604
Telecommunications	4,719	1,453	2,618	1,895	10,685	1,093	1,092	2,185	12,870
Travel and related expenses	2,292	338	2,470	450	5,550	914	5,693	6,607	12,157
Bank charges and other fees	25	-	-	-	25	7,954	-	7,954	7,979
Program materials and supplies	417	-	1,218	-	1,635	187	2,259	2,446	4,081
Equipment and rental	1,191	1,324	2,650	1,734	6,899	1,597	999	2,596	9,495
Licenses and fees	1,296	-	-	-	1,296	7,250	-	7,250	8,546
Supplies	635	669	1,592	1,096	3,992	651	2,345	2,996	6,988
Special events	-	-	-	158	158	925	7,734	8,659	8,817
Staff training and education	230	-	276	1,128	1,634	-	-	-	1,634
Interest	-	-	-	-	-	27	-	27	27
TOTAL	\$ 510,071	\$ 158,887	\$ 301,967	\$ 214,908	\$ 1,185,833	\$ 197,273	\$ 236,666	\$ 433,939	\$ 1,619,772

See accompanying notes to financial statements.

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 632,291	\$ 678,197
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,445	7,815
Unrealized gain on investments	(18,134)	(10,130)
Realized gain on sales of investments	(30)	(2,600)
Stock donations	(10,428)	(13,175)
Proceeds from sale of donated stock	10,238	12,939
(Increase) decrease in:		
Accounts receivable	(4,357)	(1,581)
Grants receivable	(8,283)	(1,920)
Prepaid expenses	794	9,052
Security deposits	-	1,390
Increase (decrease) in:		
Accounts payable and accrued liabilities	201,630	24,568
Deferred rent liability	(1,513)	21,511
Net cash provided by operating activities	<u>810,653</u>	<u>726,066</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for leasehold improvements	-	(5,306)
Purchases of equipment	-	(17,759)
Purchases of investments	(4,552)	(2,688)
Net cash used by investing activities	<u>(4,552)</u>	<u>(25,753)</u>
Net increase in cash and cash equivalents	806,101	700,313
Cash and cash equivalents at beginning of year	<u>1,066,122</u>	<u>365,809</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,872,223</u>	<u>\$ 1,066,122</u>

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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 pronouncements adopted -

During 2021, the Conservancy adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the Conservancy recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Conservancy has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

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, 2021 AND 2020**

**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 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 account 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 \$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, 2021 and 2020 totaled \$8,445 and \$7,815, 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, 2021 and 2020, 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.

Grants and contributions -

The majority of the Conservancy's activities are supported by contributions from individuals, corporations, foundations and Federal awards.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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

Grants and contributions (continued) -

These awards are for various activities performed by the Conservancy. 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 transactions are 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. Contributions and grants 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. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

In-kind contributions -

The Conservancy periodically 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.

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.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

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

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.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Conservancy's operations. The overall potential impact is unknown at this time.

New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* 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 ASU 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 should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

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. Early adoption is still permitted. 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 ASUs at the required implementation date and management is currently in the process of evaluating the adoption methods and the impact of the new standards on its accompanying financial statements.

2. INVESTMENTS

Investments consisted of the following at September 30, 2021 and 2020:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 158,744	\$ 221,020	\$ 153,972	\$ 198,114

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

2. INVESTMENTS (Continued)

Included in investment income are the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 5,241	\$ 3,626
Unrealized gain on investments	18,134	10,130
Realized gain on sales of investments	30	2,600
Investment management fees	<u>(217)</u>	<u>(37)</u>
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	<u>\$ 23,188</u>	<u>\$ 16,319</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, 2021 and 2020. 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 table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2021:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

2. INVESTMENTS (Continued)

The table below summarizes, by level within the fair value hierarchy, the Conservancy's investments as of September 30, 2020:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Balanced fund	\$ 37,001	\$ -	\$ -	\$ 37,001
Growth and income fund	29,031	-	-	29,031
Bond fund	102,332	-	-	102,332
Equity income fund	<u>29,750</u>	<u>-</u>	<u>-</u>	<u>29,750</u>
TOTAL	<u>\$ 198,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,114</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, 2021 and 2020, respectively.

4. BOARD-DESIGNATED NET ASSETS

As of September 30, 2021 and 2020, net assets have been designated by the Board of Directors for the following purposes:

	<u>2021</u>	<u>2020</u>
Reserve Fund	\$ 604,000	\$ 164,003
Stewardship Fund	<u>32,034</u>	<u>172,109</u>
TOTAL BOARD-DESIGNATED NET ASSETS	<u>\$ 636,034</u>	<u>\$ 336,112</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Stewardship Fund	\$ 318,372	\$ 153,372
Community Conservation	106,715	44,271
Communications	33,363	34,948
Land Protection	498,285	465,253
Public Policy	24,032	75,000
Time Restricted	<u>4,500</u>	<u>-</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 985,267</u>	<u>\$ 772,844</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

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:

	2021	2020
Community Conservation	\$ 36,089	\$ 46,782
Communications	2,189	1,180
Land Protection	243,223	433,313
Public Policy	80,576	61,008
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 362,077	\$ 542,283

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:

	2021	2020
Cash and cash equivalents	\$ 1,872,223	\$ 1,066,122
Investments	221,020	198,114
Grants receivable	25,923	17,640
Accounts receivable	5,938	1,581
Subtotal financial assets available within one year	2,125,104	1,283,457
Less: Donor restricted funds	(985,267)	(772,844)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 1,139,837	\$ 510,613

The Conservancy has a policy to structure its financial assets to be available and liquid as its obligations become due. As of September 30, 2021 and 2020, the Conservancy had financial assets equal to approximately five months and four months of operating expenses, respectively. Occasionally, the Board designates a portion of any operating surplus to its liquidity reserve, which was \$604,000 and \$164,003 as of September 30, 2021 and 2020, respectively (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. 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. As of September 30, 2021 and 2020, the total deferred rent liability aggregated \$23,022 and \$24,535, respectively.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020

8. LEASE COMMITMENTS (Continued)

The Conservancy has entered into one year leases for the Winchester office, commencing February 1, 2015. During October 2021, a new lease was entered into, commencing October 1, 2021 and ending September 30, 2022, at a rent of \$375 per month.

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

Year Ending September 30,

2022	\$	56,679
2023		53,614
2024		55,088
2025		56,603
2026		<u>19,037</u>
	\$	<u>241,021</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2021 and 2020, totaled \$58,365 and \$83,521, respectively.

9. 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, 2021 and 2020, totaled \$15,122 and \$15,721, respectively.

10. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through February 11, 2022, the date the financial statements were issued.