

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
SEPTEMBER 30, 2020 AND 2019**

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, 2020 and 2019, 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.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • WWW.GRFCPA.COM

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

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, 2020 and 2019, 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 Rosenberg & Friedman

February 25, 2021

THE POTOMAC CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,066,122	\$ 365,809
Investments	198,114	182,460
Grants receivable	19,221	15,720
Prepaid expenses	<u>12,502</u>	<u>21,554</u>
Total current assets	<u>1,295,959</u>	<u>585,543</u>
PROPERTY AND EQUIPMENT		
Equipment	73,957	56,198
Leasehold improvements	<u>14,604</u>	<u>9,298</u>
	88,561	65,496
Less: Accumulated depreciation and amortization	<u>(52,827)</u>	<u>(45,012)</u>
Net property and equipment	<u>35,734</u>	<u>20,484</u>
OTHER ASSETS		
Land and easements	265,985	265,985
Security deposits	<u>4,759</u>	<u>6,149</u>
Total other assets	<u>270,744</u>	<u>272,134</u>
TOTAL ASSETS	<u>\$ 1,602,437</u>	<u>\$ 878,161</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 65,907	\$ 41,339
Deferred rent liability	<u>1,513</u>	<u>3,024</u>
Total current liabilities	<u>67,420</u>	<u>44,363</u>
NONCURRENT LIABILITIES		
Deferred rent liability, net of current portion	<u>23,022</u>	<u>-</u>
Total liabilities	<u>90,442</u>	<u>44,363</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	403,039	252,457
Board-designated Reserve Fund	164,003	63,785
Board-designated Stewardship Fund	<u>172,109</u>	<u>191,867</u>
Total without donor restrictions	739,151	508,109
With donor restrictions	<u>772,844</u>	<u>325,689</u>
Total net assets	<u>1,511,995</u>	<u>833,798</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,602,437</u>	<u>\$ 878,161</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, 2020 AND 2019

	<u>2020</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants and contributions	\$ 1,290,984	\$ 989,438	\$ 2,280,422
Investment income, net	16,319	-	16,319
In-kind contributions	1,000	-	1,000
Other revenue	228	-	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>\$ 739,151</u>	<u>\$ 772,844</u>	<u>\$ 1,511,995</u>

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,315,922	\$ 202,634	\$ 1,518,556
10,679	-	10,679
1,000	-	1,000
-	-	-
<u>276,882</u>	<u>(276,882)</u>	<u>-</u>
<u>1,604,483</u>	<u>(74,248)</u>	<u>1,530,235</u>
214,710	-	214,710
191,359	-	191,359
304,356	-	304,356
<u>158,379</u>	<u>-</u>	<u>158,379</u>
<u>868,804</u>	<u>-</u>	<u>868,804</u>
146,019	-	146,019
<u>233,820</u>	<u>-</u>	<u>233,820</u>
<u>379,839</u>	<u>-</u>	<u>379,839</u>
<u>1,248,643</u>	<u>-</u>	<u>1,248,643</u>
355,840	(74,248)	281,592
<u>152,269</u>	<u>399,937</u>	<u>552,206</u>
<u>\$ 508,109</u>	<u>\$ 325,689</u>	<u>\$ 833,798</u>

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

	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	\$ 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	55,481	29,192	182,473	4,842	74,737	79,579	262,052
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 - land	-	-	-	-	-	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.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 678,197	\$ 281,592
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,815	4,649
Unrealized gain on investments	(10,130)	(3,355)
Realized (gain) loss on sales of investments	(2,600)	49
Stock donations	(13,175)	-
Proceeds from sale of donated stock	12,939	-
(Increase) decrease in:		
Grants receivable	(3,501)	82,964
Prepaid expenses	9,052	(9,812)
Security deposits	1,390	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	24,568	(78,266)
Interest payable	-	(2,899)
Deferred rent liability	<u>21,511</u>	<u>(10,233)</u>
Net cash provided by operating activities	<u>726,066</u>	<u>264,689</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for leasehold improvements	(5,306)	-
Purchases of equipment	(17,759)	(16,896)
Purchases of investments	<u>(2,688)</u>	<u>(6,825)</u>
Net cash used by investing activities	<u>(25,753)</u>	<u>(23,721)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments to line of credit	-	(55,000)
Net payments to note payable	<u>-</u>	<u>(111,918)</u>
Net cash used by financing activities	<u>-</u>	<u>(166,918)</u>
Net increase in cash and cash equivalents	700,313	74,050
Cash and cash equivalents at beginning of year	<u>365,809</u>	<u>291,759</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,066,122</u>	<u>\$ 365,809</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	<u>\$ -</u>	<u>\$ 3,725</u>

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

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 2019, the Conservancy adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance to better distinguish between conditional and unconditional contributions. The Conservancy adopted the ASU using a modified prospective basis.

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, 2020 AND 2019**

**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 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, 2020 and 2019 totaled \$7,815 and \$4,649, 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, 2020 and 2019, 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 Conservancy is supported primarily by contributions from individuals, corporations, foundations and Federal awards.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

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

Grants and contributions (continued) -

Grants and contributions are recognized in the appropriate category of net assets in the period received. The Conservancy performs an analysis of the individual contribution and grant 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.

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 that 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.

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.

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*.

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

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

Fair value measurement (continued) -

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 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

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 Statement 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 dates 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, 2020 and 2019:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Mutual Funds	\$ 153,972	\$ 198,114	\$ 148,448	\$ 182,460

THE POTOMAC CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

2. INVESTMENTS (Continued)

Included in investment income are the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 3,626	\$ 7,420
Unrealized gain on investments	10,130	3,355
Realized gain (loss) on sales of investments	2,600	(49)
Investment management fees	<u>(37)</u>	<u>(47)</u>
TOTAL INVESTMENT INCOME, NET OF INVESTMENT EXPENSES	<u>\$ 16,319</u>	<u>\$ 10,679</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, 2020 and 2019. 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, 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>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

2. INVESTMENTS (Continued)

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

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>29,200</u>	<u>-</u>	<u>-</u>	<u>29,200</u>
TOTAL	<u>\$ 182,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,460</u>

3. FUNDING FROM THE PAYCHECK PROTECTION PROGRAM

On April 20, 2020, the Conservancy received loan proceeds in the amount of \$124,540 under the Paycheck Protection Program (PPP). Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note must be used for certain expenditures within a 24 week period to ultimately be forgiven by the Small Business Administration. During the year ended September 30, 2020, the Conservancy expended and tracked the PPP funds for purposes outlined in the CARES Act guidance and believes they have met all conditions set forth for full forgiveness. Accordingly, under guidance found in FASB ASC 958-605, the Conservancy has recognized the PPP funding as a conditional grant by which all conditions have been met. The Conservancy has deemed the forgiveness by the SBA to be highly probable, an administrative task only, and not a barrier to recognition. \$124,540 of grant income is included in Grants and contributions on the accompanying Statements of Activities and Changes in Net Assets.

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, 2020 and 2019, respectively.

5. BOARD-DESIGNATED NET ASSETS

As of September 30, 2020 and 2019, net assets have been designated by the Board of Directors for the following purposes:

	<u>2020</u>	<u>2019</u>
Reserve Fund	\$ 164,003	\$ 63,785
Stewardship Fund	<u>172,109</u>	<u>191,867</u>
TOTAL BOARD-DESIGNATED NET ASSETS	<u>\$ 336,112</u>	<u>\$ 255,652</u>

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at September 30, 2020 and 2019:

	2020	2019
Stewardship Fund	\$ 153,372	\$ 153,372
Community Conservation	44,271	51,053
Communications	34,948	-
Land Protection	465,253	60,256
Public Policy	75,000	61,008
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	\$ 772,844	\$ 325,689

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:

	2020	2019
Community Conservation	\$ 46,782	\$ 96,375
Communications	1,180	1,000
Land Protection	433,313	92,138
Public Policy	61,008	87,369
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 542,283	\$ 276,882

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:

	2020	2019
Cash and cash equivalents	\$ 1,066,122	\$ 365,809
Investments	198,114	182,460
Grants receivable	19,221	15,720
Subtotal financial assets available within one year	1,283,457	563,989
Less: Donor restricted funds	(772,844)	(325,689)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 510,613	\$ 238,300

The Conservancy has a policy to structure its financial assets to be available and liquid as its obligations become due. As of September 30, 2020 and 2019, the Conservancy had financial assets equal to approximately three months and two months of operating expenses, respectively. Occasionally, the board designates a portion of any operating surplus to its liquidity reserve, which was \$164,003 and \$63,785 as of September 30, 2020 and 2019, 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.

THE POTOMAC CONSERVANCY, INC.

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

9. 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, 2020 and 2019, the total deferred rent liability aggregated \$24,535 and \$3,024, 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.

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, 2020, the lease for the Winchester office was on a month-to-month basis. During October 2020, a new lease was entered into, commencing October 1, 2020 and ending September 30, 2021, 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,

2021	\$	50,782
2022		52,179
2023		53,614
2024		55,088
2025		56,603
Thereafter		<u>19,037</u>
	\$	<u>287,303</u>

Occupancy expense, including real estate taxes and storage rental, for the years ended September 30, 2020 and 2019, totaled \$83,521 and \$84,941, 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 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, 2020 and 2019, totaled \$15,721 and \$15,147, respectively.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Conservancy has evaluated events and transactions for potential recognition or disclosure through February 25, 2021, the date the financial statements were issued.