

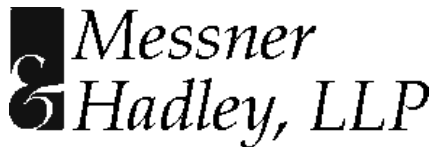
Financial Statements
December 31, 2021

Transition Habitat Conservancy

Transition Habitat Conservancy

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Certified Public Accountants

Paul S. Messner, CPA
Cindra J. Hadley, CPA
James M. Quinn, CPA, CFE

Independent Auditors' Report

The Board of Directors
Transition Habitat Conservancy
Pinon Hills, California

Opinion

We have audited the accompanying financial statement of Transition Habitat Conservancy, which comprise the statement of financial position as of December 31, 2021, and the related statement of activities, functional expenses and cash flows for the year 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 Transition Habitat Conservancy as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Transition Habitat Conservancy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management 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.

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 Transition Habitat Conservancy's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 auditors' 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 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.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement 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 Transition Habitat 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 Transition Habitat 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.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Apple Valley, California
April 20, 2022

Transition Habitat Conservancy
Statement of Financial Position
December 31, 2021

Assets	
Cash and cash equivalents	\$ 923,792
Restricted cash	147,816
Accounts receivable, net	48,960
Restricted investments	5,634,738
Property and equipment, net	297,861
Conservation lands	15,413,040
Conservation easements	<u>1,749,948</u>
Total assets	<u>\$ 24,216,155</u>
Liabilities and Net Assets	
Accounts payable and accrued expenses	\$ 6,175
Taxes payable	4,190
Funds held in escrow	8,000
Deferred revenues	<u>83,595</u>
Total liabilities	<u>101,960</u>
Net Assets	
Without donor restrictions	
Undesignated	870,792
Net property and equipment	<u>297,861</u>
Total without donor restrictions	<u>1,168,653</u>
With donor restrictions	<u>22,945,542</u>
Total net assets	<u>24,114,195</u>
Total liabilities and net assets	<u>\$ 24,216,155</u>

Transition Habitat Conservancy
Statement of Activities
Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Grants and contributions	\$ 422,547	\$ 137,920	\$ 560,467
SBA Grant-Paycheck protection program	68,805		68,805
Memberships	3,290	-	3,290
Fundraising income	25,163	-	25,163
Service fees	-	63,761	63,761
In-kind labor	93,379	-	93,379
Return on investments		365,332	365,332
Other	1,199	9,379	10,578
Net assets released from restrictions	363,384	(363,384)	-
Total revenue, support, and gains	977,767	213,008	1,190,775
Expenses			
Program services expense			
Land acquisition and conservation	582,539	-	582,539
Supporting services expense			
Management and General	125,095	-	125,095
Total expenses	707,634	-	707,634
Change in Net Assets	270,133	213,008	483,141
Net Assets, Beginning of Year	898,520	22,732,534	23,631,054
Net Assets, End of Year	\$ 1,168,653	\$ 22,945,542	\$ 24,114,195

Transition Habitat Conservancy
Statement of Functional Expenses
Year Ended December 31, 2021

	Program Services Land Conservation	Management and General	Total
Administrative	\$ 11,772	\$ 2,943	\$ 14,715
Payroll	320,455	106,818	427,273
Professional Fees	19,707	4,927	24,634
Insurance	13,526	3,382	16,908
Occupany	20,702	5,176	25,878
Depreciation	7,394	1,849	9,243
Stewardship and acquisition	188,983	-	188,983
 Total expenses by function	 \$ 582,539	 \$ 125,095	 \$ 707,634

Transition Habitat Conservancy
Statement of Cash Flows
Year Ended December 31, 2021

Cash flows from Operating Activities	
Change in net assets	\$ 483,141
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation	9,243
Realized and unrealized (gain) loss on investments	(365,332)
Changes in operating assets and liabilities	
Accounts receivable, net	(26,498)
Accounts payable and accrued expenses	(483)
Deferred revenues	78,626
Taxes payable	231
Net Cash from (used for) Operating Activities	<u>\$ 178,928</u>
 Cash Flows from Investing Activities	
Purchases of investments	(1,762,540)
Proceeds from sales of investments	1,922,524
Purchases of property and equipment	(6,556)
Purchases of conservation lands and easements	(123,890)
Net Cash used for Investing Activities	<u>29,538</u>
 Net Change in Cash, Cash Equivalents, and Restricted Cash	208,466
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>863,142</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 1,071,608</u>
 Supplemental Disclosure of cash Flow Information	
Cash paid during the year for interest	<u>\$ -</u>

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Transition Habitat Conservancy (the Organization) is a nonprofit corporation operating in San Bernardino and Los Angeles Counties, California. The Organization's mission is to manage and restore lands and to enforce any prohibitions of use.

The Organization's primary sources of revenue are government grants, contributions from the public, and fees from businesses requiring environmental mitigation services. These resources are spent restoring and managing land and acquiring conservation land and easements.

Cash, Cash Equivalents, and Restricted Cash

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted for mitigation, acquisition of property, or other long-term purposes are excluded from this definition.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position to the sum of the corresponding amounts within the statement of cash flows:

Cash in checking	\$ 937,600
Cash in savings and money markets	133,773
Cash on hand	<u>235</u>
	<u>\$ 1,071,608</u>
Cash and equivalents	\$ 923,792
Restricted cash and equivalents	<u>147,816</u>
	<u>\$ 1,071,608</u>

Receivables and Deferred Revenue

The Organization charges fees for mitigation and other land management services. Generally, a retainer is received in advance of the performance of services, and charges are billed against the retainer. From time to time, services are performed before a new retainer is received. When the charges for services exceed the retainer, the Organization reports a receivable. When the balance of the retainer exceeds the charges for services, deferred revenue is reported. The Organization does not believe any of the receivables at December 31, 2021 are uncollectible.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of net assets. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized

Note 1 - Principal Activity and Significant Accounting Policies (continued)

Property and Equipment

We record property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2021.

Conservation Lands and Easements

The Organization records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Costs related to the acquisition of land and land interests, such as appraisals, surveys, and initial restoration, are included in the total cost of the land or land interest.

Conservation land is real property with significant ecological value. The Organization's portfolio of conservation land includes land it intends to own and maintain in perpetuity and land it intends to transfer to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that grant the Organization the right to protect and or mitigate the property.

Acquisition Expenses

Costs associated with unsuccessful attempts to acquire land or land interests are expensed as program expenses as soon as the Organization is notified that the acquisition will not be completed.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Note 1 - Principal Activity and Significant Accounting Policies (continued)

Revenue and Revenue Recognition

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08, *Not-For-Profit Entities (Topic 958) Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance helps distinguish if grants and contracts with resource providers are exchange transactions or contributions. Once a transaction is deemed to be a contribution, the ASU also provides guidance to help determine when a contribution is conditional and evaluates the possibility that a condition will not be met is remote. Unconditional contributions are recognized immediately and classified as either net assets with or without donor restrictions, while conditional contributions received are accounted for as a liability until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with or without restrictions. Results for reporting the year ending December 31, 2021 are presented under ASU No. 2018-08.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are 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 statement of activities as net assets released from restrictions.

In-Kind Contributions

Contributions of donated goods and services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market value in the period received. In-kind contributions for the year ended December 31, 2021 was \$93,379.

Advertising Costs

Advertising costs are expensed as incurred, and approximated \$603 during the year ended December 31, 2021.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation, insurance and interest, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, which are allocated on the basis of estimates of time and effort.

Income Taxes

Transition Habitat Conservancy is organized as California nonprofit corporations and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to our exempt purposes. We have determined that we are not subject to unrelated business income tax and have not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Note 1 - Principal Activity and Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us 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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of our mission. Investments are made by diversified investment managers whose performance is monitored by us and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, we and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organizations.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

Financial assets at year end:	
Cash and cash equivalents	1,071,608
Investments	<u>5,634,738</u>
Total financial assets	6,706,346
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>5,782,554</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 923,792</u>

Note 3 - Fair Value Measurements

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, none of which are held for trading purposes approximate carrying values of such components.

Note 4 - Property and Equipment

Property and equipment consists of the following at December 31, 2021:

Land and improvements	\$ 55,000
Buildings and improvements	222,136
Vehicles	117,749
Furniture and equipment	<u>44,160</u>
	439,045
Less accumulated depreciation	<u>(141,184)</u>
	<u>\$ 297,861</u>

Depreciation expense totaled \$9,243 for the year ended December 31, 2021.

Note 5 - Conservation Lands

Conservation lands consisted of the following at December 31, 2021:

Completed acquisitions	15,413,040
Acquisitions in progress	<u>-</u>
	<u>\$ 15,413,040</u>

Note 6 - Conservation Easements

Conservation easements consisted of the following at December 31, 2021:

Completed acquisitions	1,747,875
Acquisitions in progress	<u>2,073</u>
	<u>\$ 1,749,948</u>

Note 7 - Paycheck Protection Program Loan

In February, 2021, the Organization was granted a second loan from Chase Bank in the amount of \$68,805 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), and as amended by the Paycheck Protection Program Flexibility Act of 2021 (the PPP Flexibility Act), provides for funds to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The proceeds are forgivable as long as the borrower uses the proceeds during the covered period for eligible purposes, including payroll, benefits, rent and utilities, spends a minimum amount of the proceeds for payroll costs, and maintains its payroll levels. The amount of forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period, with certain exceptions. The unforgiven portion of PPP proceeds issued under the CARES Act is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months.

The Organization has accounted for the loan as a conditional contribution and has recognized the loan forgiveness of \$68,805 as a contribution for the year ended December 30, 2021 as management has determined that all conditions for forgiveness were met before year end.

Note 8 - Fair Value Measurements and Disclosures

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost per share as a practical expedient as identified in the following, at December 31, 2021

		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Total	Level 1	Level 2	Level 3
Cash and money market (at cost)	\$ 250,361	\$ 250,361	\$ -	\$ -
Equities	2,891,504	2,891,504	-	-
Fixed Income and preferreds	2,073,517	2,073,517	-	-
Alternative investments	419,356	419,356	-	-
	<u>\$ 5,634,738</u>	<u>\$ 5,634,738</u>	<u>\$ -</u>	<u>\$ -</u>

Note 9 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2021

Subject to expenditure for specified purpose:

Cash and equivalents	\$ 147,816
Restricted investments	458,306
Endowment funds	5,176,432
Conservation lands	<u>17,162,988</u>
	<u>\$ 22,945,542</u>

Note 10 - Endowment Funds

The Organization's permanently restricted endowments were established with contributions for the perpetual management of a conservation lands and easements. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization, in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The Organization has adopted investment and spending policies for endowment assets that attempt to subject the funds to low investment risk and provide the earnings needed for the established purposes. Endowment assets are invested in equities, exchange-traded and closed-end funds, mutual funds, and unit investment trusts.

The endowments for the perpetual management of conservation land and easements were established by contributions subject to restrictions, so they are classified as permanently restricted. A PECAR + Property Cost Analysis Report was developed to establish the expected per-acre cost of providing perpetual management of the conservation easements and the present value of the original endowments based on an expected 3.50% return per annum. In keeping with donors' intents, earnings from endowments will accumulate in the permanent fund for three years. Subsequent earnings will be recorded as temporarily restricted net assets until they are appropriated for spending.

Note 10 - Endowment Funds (continued)

The composition of endowment net assets and the changes in endowment net assets are as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ -	\$ 5,001,727	\$ 5,001,727
Contributions	-	211,060	211,060
Investment income, net of expenses	-	153,571	153,571
Net appreciation	-	173,458	173,458
Amounts appropriated for transfers	-	(363,384)	(363,384)
Endowment net assets, December 31, 2021	<u>\$ -</u>	<u>\$ 5,176,432</u>	<u>\$ 5,176,432</u>

Note 11- Subsequent Events

We have evaluated subsequent events through April 20, 2022, the date the financial statements were available to be issued.

Note 12- Risks and Uncertainties

The recent COVID-19 outbreak has caused economic disruptions through mandated voluntary closings of businesses and organizations throughout the United States. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Organization's donors, employees, investments and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact the Organization's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of the pandemic.