Transition Habitat Conservancy

Financial Statements and

Independent Auditor’s Report

For the Period Ended

June 30, 2024

Table of Contents

Ryan Callahan and Associates
140 W Hawthorne St.
Fallbrook, CA 92028
760-723-1213
team@rcnacpa.com
www.rcnacpa.com

Report of Independent Auditors

The Board of Directors
Transition Habitat Conservancy
Pinon Hills, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Transition Habitat Conservancy, which comprise the statement of financial position as of December 31, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position as of December 31, 2024, 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 (GAAS) Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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.

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.

Ryan Callahan and Associates

Fallbrook, CA

September 18, 2025

Transition Habitat Conservancy
Statement of Financial Position
As of December 31, 2024

Assets		
Current Assets		
Cash and cash equivalents	$	842,746
Accounts receivable, net		3,412
Prepaid expenses		25,472
Restricted investments		10,036,034
Property and equipment, net		352,538
Conservation lands		21,589,249
Conservation easements		3,022,363
Total Assets	$	35,871,814
Liabilities and Net Assets		
Accounts payable and accrued expenes	$	113,512
Funds held in escrow		166,833
Deferred revenues		46,640
Total Liabilities		326,985
Net Assets		
Without donor restriction		
Undesignated		542,572
Net property and equipment		352,538
Total net assets without donor restriction		895,110
With donor restrictions		34,649,719
Total net assets		35,544,829
Total liabilities and net assets	$	35,871,814

Transition Habitat Conservancy

Statement of Activities

For the year ended December 31, 2024

Revenue, Support, and Gains	Without Donor Restriction	With Donor Restriction	Total
Grants and contributions	$ 452,488	$ 2,741,906	$ 3,194,394
Memberships	220		220
Fundraising income, net	3,464		3,464
Service fees	242,874		242,874
In-kind labor	182,735		182,735
Return on investments	794,974		794,974
Other	19,902		19,902
Net assets released from restrictions	-	-	-
Total revenue, support, and gains	1,696,657	2,741,906	4,438,563
Expenses			
Program expenses	1,525,229		1,525,229
Land acquisition and conservation			
Supporting services expense			
Management and General	369,465		369,465
Total Expenses	1,894,694	-	1,894,694
Change in net assets	(198,037)	2,741,906	2,543,869
Adjustment to beginning net assets	(120,018)	-	(120,018)
Net assets, beginning of year	1,213,165	31,907,813	33,120,978
Net assets, end of year	$ 895,110	$ 34,649,719	$ 35,544,829

Transition Habitat Conservancy
Statement of Functional Expenses
For the year ended December 31, 2024

	Program Services Land Conservation	Management and General	Total
Administrative	$ 56,274	$ 13,631	$ 69,905
Payroll	428,391	103,772	532,163
Professional Fees	68,601	16,618	85,219
Insurance	9,871	2,391	12,262
Occupancy	13,953	3,380	17,333
Depreciation	22,041	5,339	27,380
Stewardship and acquisition	926,098	224,334	1,150,432
Total expenses by function	$ 1,525,229	$ 369,465	$ 1,894,694

Transition Habitat Conservancy
Statement of Cash Flows
For the year ended December 31, 2024

Cash flows from operating activities	
Change in net assets	$ 2,543,869
Adjustments to reconcile change in net assets to	
from (used for) operating activities	
Depreciation	27,380
Unrealized gains on investments	(794,974)
Gain on sale of equipment	17,000
Non-cash donations of conservation lands and easements	(1,277,239)
Changes in operating assets and liabilities	
Accounts receivable, net	45,548
Prepaid expenses	(25,472)
Accounts payable and accrued expenes	192,804
Deferred revenues	21,433
Net Cash from (used for) Operating Activities	750,349
Cash flows from investing activities	
Purchases of investments	(1,473,972)
Proceeds from sales of investments	313,920
Purchases of property and equipment	(61,122)
Net change in cash from investing activities	(1,221,174)
Net Change in Cash, Cash Equivalents, and Restricted Cash	(470,825)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	1,313,571
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 842,746
Supplemental Disclosure of cash Flow Information	
Cash paid during the year for:	
Interest	$ -

See Notes to Financial Statements

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Transition Habitat Conservancy (the “Organization”) is a nonprofit corporation operating in San Bernardino, Kern 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.

BASIS OF PRESENTATION:

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:

We consider all cash and highly liquid financial instruments, 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 to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

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, 2024 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

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, 2024.

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. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.
>
> *Net Assets with Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed 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 those resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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.

FUNCTIONAL ALLOCATION OF EXPENSES:

Program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Certain categories of expenses that are attributed to more than one program or supporting function are allocated on a consistently applied, reasonable basis. Occupancy, depreciation, and amortization are allocated on a square footage basis. Salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other expenses are allocated based on estimates of time and effort.

REVENUE AND REVENUE RECOGNITION:

Revenue and support are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-impose restrictions. Expenses are reported as decreases in net assets without donor restrictions. Investment income and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation.

When a donor's restriction is satisfied, either by using the resources in a manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

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.

Contract revenue is recognized when performance obligations are satisfied in an amount equal to the amount of transaction price allocated to that performance obligation.

Contributions are recognized when cash, or other assets, and unconditional promise to give, or notification of beneficial interest is received. Contributions with donor-imposed stipulations are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Beneficiary designation in a donor's will is considered an intention to give and is not recognized until after the death of the donor and the probate court has declared the will valid and fair value of the estate has been determined.

The Organization's current grants are non-exchange transactions. Certain grant revenue may be classified as with donor restrictions and subsequently released from restrictions upon attaining certain performance requirements and/or the incurrence of allowable qualifying expenditures.

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, 2024 was $182,735.

ADVERTISING COSTS:

Advertising costs are expensed as incurred, and approximated $2,310 during the year ended December 31, 2024.

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:

The Organization is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 50l(c)(3). Accordingly, no provision or liability for income taxes has been provided in the financial statements.

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.

LEASES:

The Organization determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term. The Organization does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term.

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:

Cash and cash equivalents	$ 842,746
Investments	$10,036,034
Total financial assets	$10,998,796
Less amounts not available to be used within one year:	$10,036,034
Financial assets available to meet general expenditures over the next twelve months:	$ 842,74

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, 2024

Land and easement improvements	$ 55,000
Buildings and improvements	222,136
Vehicles	177,161
Field Equipment	16,915
Software	17,028
Furniture and equipment	16,363
Less accumulated depreciation	(154,138)
Total net fixed assets	$ 352,538

Depreciation expense totaled $27,380 for the year ended December 31, 2024.

NOTE 5 - CONSERVATION LANDS:

Conservation lands consisted of the following at December 31, 2024:

Completed acquisitions	$ 21,589,249
Acquisitions in progress	-
Total	$ 21,589,249

NOTE 6 - CONSERVATION EASEMENTS:

Conservation easements consisted of the following at December 31, 2024:

Completed acquisitions	$ 3,022,363
Acquisitions in progress	2,073
Total	$ 3,024,436

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS:

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, 2024:

	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	$ 710,834	$ 710,834	$ -	$ -
Equity and bond mutual funds and exchange traded funds	1,451,028	1,451,028	-	-
Multi-strategy alternative mutual funds and exchange traded funds	3,233,428	3,233,428	-	-
Equities	45,757	45,757	-	-
Corporate fixed income	1,109,197	1,109,197	-	-
Government obligations	1,768,662	-	1,768,662	-
Variable annuities	1,717,128	-	1,717,128	-
	$10,036,034	$ 6,550,244	$ 3,485,790	$ -

NOTE 8 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2024:

Subject to specified purpose:	
Restricted investments	$ 2,743,401
Endowment funds	7,292,633
Conservation lands	24,613,685
	$ 34,649,719

NOTE 9 - ENDOWMENT FUNDS:

The Organization’s permanently restricted endowments were established with contributions for the perpetual management of 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.

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ -	$ 6,354,232	$ 6,354,232
Contributions	-	422,634	422,634
Investment income, net of expenses	-	162,901	162,901
Net appreciation	-	352,866	352,866
Endowment net assets, end of year	$ -	$ 7,292,633	$ 7,292,633

NOTE 10 – PRIOR PERIOD ADJUSTMENT

During the preparation of the financial statements for the year ended December 31, 2024, the Company identified errors in its bank reconciliations related to prior periods. The cumulative effect of these errors as of January 1, 2024 is an overstatement of $120,016 and an overstatement of unrestricted net assets of $120,016. To correct these errors, the Company has recorded a prior period adjustment to the opening balances of the affected accounts. The impact of the adjustment on the comparative financial statements is summarized below:

Account	**As Previously Reported**	**Adjustment**	**As Restated**
Cash and cash equivalents	$ 1,432,749	$ (120,016)	$ 1,312,733
Total assets	$ 33,670,667	$ (120,016)	$ 33,550,651
Undesignated net assets	$ 932,020	$ (120,016)	$ 812,004
Total equity	$ 33,120,978	$ (120,016)	$ 33,000,962

NOTE 11 - SUBSEQUENT EVENTS

We have evaluated subsequent events through September 18, 2025, the date the financial statements were available to be issued.